

# DISCLOSURE REPORT 2019

Disclosure pursuant to Article 431 *et seqq.* CRR  
Including disclosure pursuant to the Remuneration  
Ordinance for Institutions



HAUCK & AUFHÄUSER

PRIVATBANK SEIT 1796

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## LIST OF ABBREVIATIONS

AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Manager Directive
BaFin	Federal Financial Supervisory Authority (BaFin)
BelWertV	Regulation on the Determination of the Mortgage Lending Value (Beleihungswertermittlungsverordnung)
CCP	Central counterparty
CEBS	Committee of European Banking Supervisors
CRO	Chief Risk 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
e.g.	For example
ESMA	European Securities and Markets Authority
GLLP	General loan loss provision
i.e.	That is
InstitutsVergV	Remuneration Ordinance for Institutions
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
purs.	Pursuant to
RExCo	Risk Executive Committee
SLLP	Specific loan loss provision
SolvV	Solvency Regulation (Solvabilitätsverordnung)
VaR	Value at Risk

## 1 INTRODUCTION

With the aim of creating more transparency with regard to the risks incurred by institutions, Regulation (EU) No. 575/2013 (CRR – Capital Requirements Regulation) entered into force on January 1, 2014. This regulation has since become applicable throughout the European Union.

The Disclosure Report of the Hauck & Aufhäuser Group (H&A Group) was prepared in accordance with the provisions of Part 8 of the CRR in conjunction with Section 26a of the Kreditwesengesetz (KWG) [Banking Act].

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.

The quantitative information contained in the Report is generally the same as at the reporting date of December 31, 2019. By way of derogation, information on credit risk adjustments and investments is provided on the basis of the approved annual financial statements.

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.

In accordance with Article 432 of the CRR and in line with the EBA guidelines of August 4, 2017 (EBA/GL/2016/11) on materiality and confidentiality regarding disclosure, the contents of this report are subject to the principle of materiality. Legally protected or confidential information do not form part of this report.

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

The reporting date is December 31, 2019 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.

In consideration of its business model, Hauck & Aufhäuser pursues a business policy focusing on continuity, which is linked to the stable and calculable development of its financial, liquidity and earnings position. For these reasons, annual disclosure is considered sufficient and it dispenses with the need for disclosure during the course of the year.

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/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 Approaches for operational risks;
- 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 and 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 (see also Chapter 6):

- Credit risks
- Market risks
- Liquidity risks
- Operational risks
- Strategic risks
- Concentration risks (implicitly covered by the foregoing risks).

The Management Board bears overall responsibility for risk and capital management within the H&A Group. The Chief Risk 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. It identifies, analyzes, evaluates, monitors and reports risks 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 are

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

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

The separation of functions is assured up to the level of the Management Board through our organizational structure, methods and procedures, and our risk management processes.

The Asset/Liability Committee and the Risk Executive Committee (RExCo) 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 60%, the focus of our economic capital requirement is on credit risk, followed by market risks (19.8%) and operational risks (12.9%).

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.

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, 2019 is 20.29%, while the utilization of the economic risk coverage capital is 64.7%.

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 2019 financial year, the company was managed by the members of the Management Board, Michael Bentlage, Dr. Holger Sepp (as of February 1, 2019), Robert Sprogies (as of September 16, 2019) and Wolfgang Strobel (until September 16, 2019).

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/>.

#### 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, 2019.

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

	Number of managerial roles	Number of supervisory roles
Mr. Michael Bentlage	--	4
Dr. Holger Sepp	--	2
Mr. Robert Sprogies	4	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, the Personnel Committee supports the Supervisory Board 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, 2019, the Management Board of Hauck & Aufhäuser consisted of two members. The regulatory separation into Front Office and Credit Operations is guaranteed.

**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)**

Hauck & Aufhäuser has established a risk committee, the Risk Executive Committee (RExCo), which meets at least on a quarterly basis. Its purpose is to support the Management Board and the Risk Committee in monitoring the risk situation with regard to Hauck & Aufhäuser from an economic and regulatory perspective at the operational level. The RExCo is firmly anchored in the Company's decision-making and information processes and, as a cross-divisional source of information, is designed to guarantee regular sharing of information on all risk-related issues throughout the Bank with the involvement of key officers from the controlling, front office and support units as well as the Management Board, thus ensuring a constant flow of information to the management body.

### 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 Privatbankiers AG (Hauck & Aufhäuser) is to be classified as a superordinated undertaking of the H&A Group.

One credit institution and three financial institutions are fully included in the scope of prudential consolidation. The other material Hauck & Aufhäuser companies in the Group with a capital share of > 10% 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 within the meaning of 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 within the meaning of 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 covered by the scope of prudential consolidation are juxtaposed against 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 are not covered under the scope of prudential consolidation.

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

Corporate form	Name	Regulatory Treatment					Consolidation in accordance with accounting standards, full
		Consolidation in accordance with Article 18 CRR	Exclusion in accordance with Article 19 CRR	Consideration in accordance with Article 470 (2b) and (3) CRR (threshold approach)	CET 1 deduction in accordance with Section 32 Solvability Directive	Risk-weighted investments	
<b>Credit institution</b>	Hauck & Aufhäuser Privatbankiers AG	X	-	-	-	-	X
<b>Financial institution</b>	Hauck & Aufhäuser Fund Platforms S.A.	X	-	-	-	-	X
	Hauck & Aufhäuser Fund Services S.A.	X	-	-	-	-	X
	FidesKapital Gesellschaft für Kapitalbeteiligungen mbH	X	-	-	-	-	X
	Hauck & Aufhäuser Alternative Investment Services S.A.	-	X	X	-	X	X
	Hauck Investment Management (Nanjing) Co., Ltd.	-	X	X	-	X	X
	Hauck & Aufhäuser (Schweiz) AG	-	X	X	-	X	-
	HI-Management S.à r.l.	-	X	X	-	X	-
	Crossroads Capital Management Limited	-	X	X	-	X	-
	DB PWM Private Markets I GP S.à r.l.	-	X	X	-	X	-
	Lending GP S.à r.l.	-	X	X	-	X	-
	PERSEUS Capital S.à r.l.	-	X	X	-	X	-
<b>Insurance undertaking</b>	H&A Pension Trust GmbH	-	X	X	-	X	-
<b>Other corporate</b>	H&A "Green Office Hamburg-Hafencity" GmbH & Co. KG	-	-	-	-	X	-
	H&A Structured Finance GmbH	-	-	-	-	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	-

## 4 OWN FUNDS STRUCTURE AND CAPITAL REQUIREMENTS

### 4.1 OWN FUNDS STRUCTURE (Article 437 CRR)

As at December 31, 2019, the own funds of the H&A Group in accordance with Article 72 of the CRR are € 260.1 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 amount of € 10.6 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

12/31/2019		Amount on the disclosure date assuming approval of the audited financial statements	Regulation (EU) No. 575/2013 article reference
Amounts in € thousand			
<b>Common Equity Tier 1 Capital (CET1): instruments and reserves</b>			
1	Capital instruments and the related share premium accounts	104,330	26 (1), 27, 28, 29
	of which: shares	18,445	EBA list of contents in accordance with Article 26 (3)
	of which: capital reserves	85,885	EBA list of contents in accordance with Article 26 (3)
2	Retained earnings	182,890	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	10,637	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	<b>Common Equity Tier 1 capital (CET1) before regulatory adjustments</b>	<b>297,857</b>	<b>Sum of lines 1 to 5a</b>
<b>Common Equity Tier 1 capital (CET1) regulatory adjustments</b>			
7	Additional value adjustments (negative amount)	-566	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-10,131	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)	-29,182	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)

12/31/2019		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 exposures (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	--	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	--	36 (1) (j)
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-39,879</b>	<b>Sum of rows 7 to 20a, 21, 22, plus rows 25a to 27</b>
29	<b>Common Equity Tier 1 capital (CET1)</b>	<b>257,978</b>	<b>Row 6 minus row 28</b>

12/31/2019		Amount on the disclosure date assuming approval of the audited financial statements	Regulation (EU) No. 575/2013 article reference
Amounts in € thousand			
<b>Additional Tier 1 (AT1) capital: instruments</b>			
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	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	--	<b>Sum of rows 30, 33, and 34</b>
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments and existing or contingent obligations to purchase own instruments (negative amount)	--	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 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 AT1 capital of financial sector entities where the institution does not have a significant investment in those entities (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 AT1 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	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	--	<b>Sum of lines 37 to 42</b>
44	<b>Additional Tier 1 (AT1) capital</b>	--	<b>Row 36 minus row 43</b>
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>257,978</b>	<b>Sum of rows 29 and 44</b>
<b>Tier 2 (T2) capital: instruments and reserves</b>			
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	2,143	62 (c) and (d)
51	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>2,143</b>	

12/31/2019		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	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	--	<b>Sum of rows 52 to 56</b>
58	<b>Tier 2 (T2) capital</b>	<b>2,143</b>	<b>Row 51 minus row 57</b>
59	<b>Total capital (TC = T1 + T2)</b>	<b>260,121</b>	<b>Sum of rows 45 and 5</b>
60	<b>Total risk-weighted assets</b>	<b>1,281,736</b>	
<b>Capital ratios and buffers</b>			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	20.13	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	20.13	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	20.29	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)	7.164	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50	
66	of which: countercyclical buffer requirement	0.164	
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)	12.29	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)	13,950	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70

12/31/2019	Amount on the disclosure date assuming approval of the audited financial statements	Regulation (EU) No. 575/2013 article reference
<b>Amounts in € thousand</b>		
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)	7,167 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)	7,395 36 (1) (c), 38, 48
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	2,143 62
77	Cap on inclusion of credit risk adjustments in T2 under the standardized approach	11,329 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
<b>Capital instruments subject to phase-out arrangements (only applicable between January 1, 2013 and January 1, 2022)</b>		
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	154,569	493	155,062
Net profit	17,867	-39	27,828
Difference in equity capital from currency translation	--	--	--
<b>Balance sheet equity</b>	<b>286,766</b>		
Funds for general banking risks			10,637
<b>Common Equity Tier 1 capital (CET1) before regulatory adjustments</b>			<b>297,857</b>
Value adjustment for prudent valuation			-566
Intangible assets			-10,131
Deferred tax assets arising from loss carryforwards			-29,182
Insignificant investments			--
<b>Regulatory adjustments (CET 1)</b>			<b>-39,879</b>
<b>Common Equity Tier 1 capital (CET1)</b>			<b>257,978</b>
General credit risk adjustment			2,143
<b>Tier 2 (T2) capital</b>			<b>2,143</b>
<b>Regulatory capital</b>			<b>260,121</b>

## 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 (CVA) 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, 2019.

**Table 5: Regulatory capital requirements at institution level**

12/31/2019	Capital requirement
Amounts in € thousand	
<b>Credit risk</b>	
<b>Standardized Approach</b>	<b>72,506</b>
Central governments or central banks	1,769
Regional governments or local authorities	240
Public sector entities	14
Multilateral development banks	--
International organizations	--
Institutions	12,445
Corporate	24,467
Retail business	--
Exposures secured by real estate	1,059
Exposures in default	2,655
Items with particularly high risk	1,054
Covered bonds	8,814
Institutions and corporates with short-term credit assessments	--
Units or shares in undertakings for collective investment (UCI)	13,014
Investments	3,440
Other exposures	3,535
Securitization	--
<b>Exposure to the default fund of a CCP</b>	<b>48</b>
<b>Exposure for settlement/delivery risks</b>	<b>70</b>
Settlement/delivery risks in the banking book	45
Settlement/delivery risks in the trading book	25
<b>Market price risks in the standardized approach</b>	<b>781</b>
Exchange-traded debt instruments (interest-rate risks)	--
Investments (share price risks)	274
Foreign currencies (currency risks)	507
Commodities (commodities risks)	--
<b>Operational risks</b>	<b>25,464</b>
Basic Indicator Approach	25,464
<b>Total risk exposure credit valuation adjustment (CVA)</b>	<b>3,665</b>
Standardized method	3,665
<b>Total</b>	<b>102,534</b>

Our capital ratios as of December 31, 2019 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	258	103	1,282	20.13%
Tier 1 capital	258	103	1,282	20.13%
Total capital	260	103	1,282	20.29%

This means that each of the capital ratios are 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 in accordance with the scope of consolidation and the commercial importance of each individual unit. Here, we use our financial risk scale, which enables us to objectively define the Group level and, hence, the risk-adjusted steering of the H&A Group.

The key factors for calculating the risk-bearing capacity are the risk coverage potential, i.e. the maximum internal capital available for hedging risks, and the risk capital limit, i.e. the internal capital actually used to cover risks. In accordance with our risk policy and in order to limit risk, only a portion of the risk capital is used to cover risks. The remaining strategic risk buffer is used to cover possible fluctuations in our risk capital and ensures room for maneuver in the context 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.

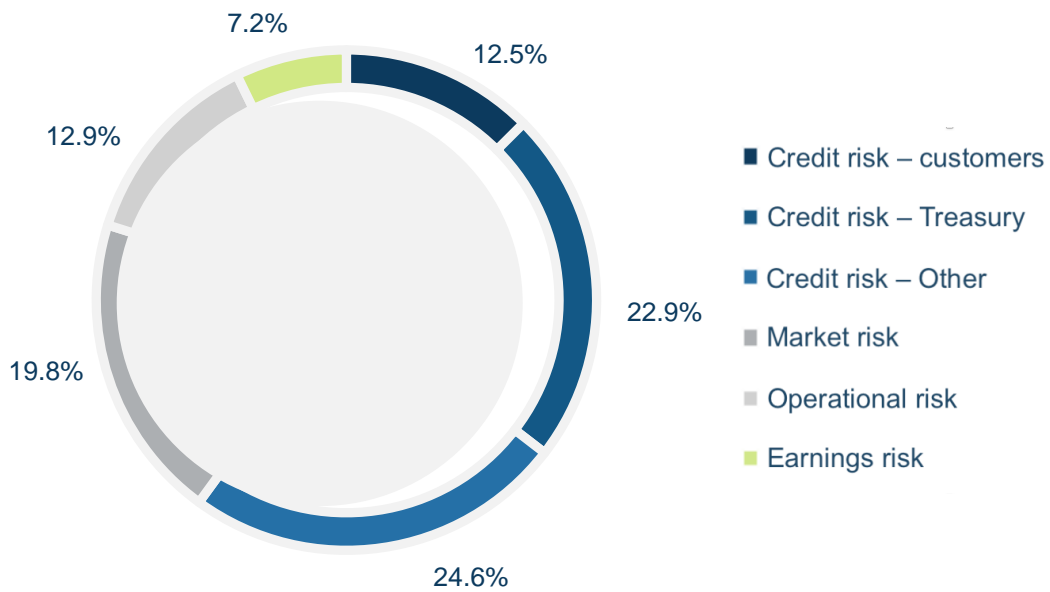
Risk capital, the risk capital limit and risk capital requirements are planned in the course of the annual business and risk strategy review. They are based on the regulatory capital planning, the strategic earnings targets and the risk capital requirements calculated on the basis of the key future business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

The economic risk-bearing capacity is calculated monthly with a 99.9% level of confidence and for a risk analysis horizon of one year.

The increase in the utilization of the risk coverage potential at the Group level from 57% at December 31, 2018 to 65% at the balance sheet date primarily results from greater risk capital requirements due to methodological adjustments. In 2019, the average utilization was 61% (61% in 2018).

The following chart shows the breakdown of the risk capital requirements relative to the individual types of risk of the H&A Group quantified in the risk-bearing capacity.

Figure 1: Break down of the total exposure



## 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. For the year 2019, the BaFin saw the necessity under Section 10d (3) KWG, in line with the recommendation of the Financial Stability Committee of May 27, 2019, to set the ratio of the countercyclical capital buffer in Germany at 0.25% of the total exposure determined in accordance with Article 92 (3) of Regulation (EU) No. 575/2013 with effect from July 1, 2019. This ratio must be applied from July 1, 2020 for calculating the institution-specific countercyclical capital buffer. Countries such as France, Ireland, Denmark, Iceland, Norway, Sweden, Lithuania, the Czech Republic, Slovakia, the United Kingdom and Hong Kong have also specified a capital buffer.

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

12/31/2019	General credit exposures	Exposures in the trading book	Securitization exposure	Capital requirements			Weightings of own funds requirements	Countercyclical capital buffer rate	
	Exposure value (SA)	Total long and short positions in the trading book	Exposure value (SA)	Of which: general credit exposures	Of which: exposures in the trading book	Of which: securitization exposures			Total
Amounts in € million									
Germany	585.6	1.7	--	30.1	0.1	--	30.2	54.5%	--
France	124.9	--	--	1.0	--	--	1.0	1.8%	0.25%
Netherlands	75.7	--	--	1.5	--	--	1.5	2.7%	--
Italy	5.0	--	--	0.0	--	--	0.0	0.1%	--
Ireland	42.8	--	--	3.4	--	--	3.4	6.2%	1.00%
Denmark	66.2	--	--	0.5	--	--	0.5	1.0%	1.00%
Portugal	2.7	--	--	0.2	--	--	0.2	0.4%	--
Spain	45.1	--	--	0.6	--	--	0.6	1.1%	--
Belgium	10.7	--	--	0.2	--	--	0.2	0.3%	--
Luxembourg	142.6	--	--	8.4	--	--	8.4	15.2%	--
Iceland	--	--	--	--	--	--	--	--	1.75%
Norway	104.7	--	--	0.8	--	--	0.8	1.5%	2.50%
Sweden	66.2	--	--	0.5	--	--	0.5	1.0%	2.50%

12/31/2019	General credit exposures	Exposures in the trading book	Securitization exposure	Capital requirements			Weightings of own funds requirements	Countercyclical capital buffer rate	
	Exposure value (SA)	Total long and short positions in the trading book	Exposure value (SA)	Of which: general credit exposures	Of which: exposures in the trading book	Of which: securitization exposures			Total
Finland	97.1	--	--	0.9	--	--	0.9	1.7%	--
Amounts in € million									
Austria	64.1	--	--	1.6	--	--	1.6	2.9%	--
Switzerland	10.9	--	--	0.7	--	--	0.7	1.2%	--
Lithuania	--	--	--	--	--	--	--	--	1.00%
Poland	13.1	--	--	0.1	--	--	0.1	0.2%	--
Czech Republic	--	--	--	--	--	--	--	--	1.50%
Slovakia	--	--	--	--	--	--	--	--	1.50%
United Kingdom	50.5	--	--	1.5	--	--	1.5	2.6%	1.00%
Jersey	0.7	--	--	0.1	--	--	0.1	0.1%	--
United States of America	19.0	--	--	1.4	--	--	1.4	2.5%	--
Canada	0.0	--	--	0.0	--	--	0.0	0.0%	--
Bermuda	0.2	--	--	0.0	--	--	0.0	0.0%	--
Cayman Islands	10.2	--	--	0.6	--	--	0.6	1.1%	--
British Virgin Islands	4.7	--	--	0.3	--	--	0.3	0.5%	--
People's Republic of China	4.5	--	--	0.5	--	--	0.5	0.8%	--
Republic of Korea (formerly South Korea)	0.5	--	--	0.0	--	--	0.0	0.1%	--
Taiwan	0.2	--	--	0.0	--	--	0.0	0.0%	--
Hong Kong	--	--	--	--	--	--	--	--	2.00%
EUROFIMA*	22.5	--	--	0.4	--	--	0.4	0.7%	--
<b>Total</b>	<b>1,570.4</b>	<b>1.7</b>	<b>--</b>	<b>55.3</b>	<b>0.1</b>	<b>--</b>	<b>55.4</b>		

\* European Company for the Financing of Railroad Rolling Stock

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

	12/31/2019
Total risk exposure (in € million)	1,281.7
Institution-specific countercyclical capital buffer rate	0.1636%
Institution-specific capital buffer requirements (in € million)	2.1

## 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 are 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 secondary 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 with regard to 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 to be divided according to risk exposure class relative to average amounts, main geographical areas, main industry sectors and residual maturities. The following quantitative disclosures for the entire credit portfolio shows the maximum credit risk of the H&A Group. The maximum credit risk is a gross figure. The gross credit volume is reported without factoring in credit risk mitigation techniques and after recognition of impairment adjustments. For loans and open commitments, it is based on carrying amounts; 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 Chapter 7 of this report.

**Table 9: Average gross credit volume**

Exposure classes	12/31/2019	Average 2019
Amounts in € million		
Central governments or central banks	2,652	2,634
Regional governments or local authorities	341	346
Public sector entities	88	97
Multilateral development banks	97	99
International organizations	54	54
Institutions	1,629	1,560
Corporates	792	889
Retail business	--	--
Exposures secured by real estate	40	33
Exposures in default	27	24
Particularly high-risk exposures	9	9
Covered bonds	917	771
Institutions and corporates with short-term credit assessments	--	--
Units or shares in undertakings for collective investment (UCI)	183	164
Other exposures	46	57
<b>Total</b>	<b>6,875</b>	<b>6,737</b>

The average amount of counterparty risks is obtained from the average of the individual quarterly reports for 2019.

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	1,680	571	401	--	--	2,652
Regional governments or local authorities	256	55	30	--	--	341
Public sector entities	88	--	0	--	--	88
Multilateral development banks	--	--	--	25	72	97
International organizations	54	--	--	--	--	54
Institutions	668	858	58	2	43	1,629
Corporates	509	216	20	44	43	792
Retail business	--	--	--	--	--	--
Exposures secured by real estate	30	10	--	0	--	40
Exposures in default	25	2	--	--	--	27
Particularly high-risk exposures	8	0	--	--	--	9
Covered bonds	224	693	--	--	--	917
Institutions and corporates with short-term credit assessments	--	--	--	--	--	--
Units or shares in undertakings for collective investment (UCI)	44	139	--	--	--	183
Other exposures	46	--	--	--	--	46
<b>Total</b>	<b>3,632</b>	<b>2,544</b>	<b>509</b>	<b>32</b>	<b>158</b>	<b>6,875</b>

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	--	1,845	--	--	--	807	--	2,652
Regional governments or local authorities	--	--	--	--	--	340	1	341
Public sector entities	--	71	--	--	0	17	--	88
Multilateral development banks	--	97	--	--	--	--	--	97
International organizations	--	54	--	--	--	--	--	54
Institutions	--	1,629	--	--	--	--	--	1,629
Corporates	102	310	6	2	42	6	324	792
Retail business	--	--	--	--	--	--	--	--
Exposures secured by real estate	11	6	--	--	2	--	21	40
Exposures in default	3	7	--	--	0	7	10	27
Particularly high-risk exposures	5	3	--	--	--	--	1	9
Covered bonds	--	917	--	--	--	--	--	917
Institutions and corporates with short- term credit assessments	--	--	--	--	--	--	--	--
Units or shares in undertakings for collective investment (UCI)	--	183	--	--	--	--	--	183
Other exposures	--	--	--	--	--	--	36	46
<b>Total</b>	<b>121</b>	<b>5,122</b>	<b>6</b>	<b>2</b>	<b>44</b>	<b>1,177</b>	<b>403</b>	<b>6,875</b>

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	2,219	272	161	--	2,652
Regional governments or local authorities	47	161	106	27	341
Public sector entities	5	49	33	1	88
Multilateral development banks	20	40	37	--	97
International organizations	--	32	22	--	54
Institutions	1,007	185	55	382	1,629
Corporates	518	88	5	181	792
Retail business	--	--	--	--	--
Exposures secured by real estate	36	1	--	3	40
Exposures in default	22	--	2	3	27
Particularly high-risk exposures	9	--	--	--	9
Covered bonds	33	445	439	--	917
Institutions and corporates with short-term credit assessments	--	--	--	--	--
Units or shares in undertakings for collective investment (UCI)	--	--	183	--	183
Other exposures	46	--	--	--	46
<b>Total</b>	<b>3,962</b>	<b>1,273</b>	<b>1,043</b>	<b>597</b>	<b>6,875</b>

The H&A Group endeavors to undertake long-term investments only to a limited extent, so that most of the assets have a remaining term 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);
- Breach 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; specific loan loss provisions (SLLP) or provisions are formed for doubtful debts. Hauck & Aufhäuser has formed general loan loss provisions (GLLP) to cover potential default risks. Since 2018, the general loan loss provisions have been formed on the basis of the statistical mathematical method. Additionally, there are provisions for general banking risks in accordance with Section 340f of the HGB. Throughout the year, we ensure that special loan loss provisions and other 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.

Examinations of whether to implement internal interest suspension with a neutral recognition effect are taken on a case-by-case basis.

Proposals for allocation to risk provisioning (SLLP, 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 2019 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	Closing balance
Amounts in € million					
Specific loan loss provision	7.2	--	0.4	0.6	6.2
Suspension of interest	9.4	0.7	--	8.1	2.0
General loan loss provision	2.4	--	0.3	--	2.1
Provisions	1.2	0.2	1.2	--	0.2

The details of non-performing loans as of December 31, 2019 are set out in the following table.

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

Main industries	Total utilization from non-performing or defaulting loans (requiring impairment)	Balance SLLP (incl. country risks)	Balance GLLP	Balance provisions	Defaulting loans (not requiring impairment)
Amounts in € million					
Processing industry	--	--	--	--	--
Energy supply	0	--	--	--	0
Construction industry	--	--	--	--	--
Commerce	--	--	--	--	--
Financial/insurance services	7	--	--	--	7
Real estate sector	10	8	--	--	10
Services	3	--	--	--	3
Public authorities	7	--	--	--	7
Health and social welfare	--	--	--	--	--
Arts, entertainment and recreation	--	--	--	--	--
Private households	0	--	--	--	0
Other	--	--	2	--	--
<b>Total</b>	<b>27</b>	<b>8</b>	<b>2</b>	<b>--</b>	<b>27</b>

The specific loan loss provision amounts set out 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 table 13 on the development of risk provisioning. The GLLP was allocated to "Other."

**Table 15: Non-performing loans and defaulting loans by main geographical region**

Main geographical region	Total utilization from non-performing or defaulting loans (requiring impairment)	Balance SLLP (incl. country risks)	Balance GLLP	Balance provisions	Defaulting loans (not requiring impairment)
Amounts in € million					
Germany	25	8	2	--	25
Other EMU countries	2	--	--	--	2
Other EEA countries	0	--	--	--	0
Other	--	--	--	--	--
<b>Total</b>	<b>27</b>	<b>8</b>	<b>2</b>	<b>--</b>	<b>27</b>

#### 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 the Federal Republic of Germany (Hermes)
Regional governments or local authorities	Export guarantees of the Federal Republic of Germany (Hermes)
Public sector entities	Export guarantees of the Federal Republic of Germany (Hermes)
Institutions	Standard & Poor's
Corporates	Standard & Poor's
Securitization	Standard & Poor's

The Federal Financial Supervisory Authority and the German Federal Bank were notified in writing on December 13, 2013 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 December 1, 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 regulatory hedging instruments, where they meet the requirements of the CRR:

- 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 notarized acknowledgment of indebtedness
- Limited bank guarantees
- Limited bank guarantee sureties
- Pledging of deposits held at third-party banks.

As we have a large volume of financial collateral, we have 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 along with our own analysis.

When making credit decisions, liens on property 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). Liens on property are factored in 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 exposure value set out in Article 11 of the CRR describes the amount at risk of default 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	After credit risk mitigation
Amounts in € million		
0%	-3,181	-3,265
2%	-130	-130
4%	-148	-148
10%	-760	-760
20%	-1,418	-657
35%	-40	-40
50%	-187	-152
70%	--	-26
75%	--	--
100%	-961	-676
150%	-36	-34
250%	-15	-15
370%	-36	-34
1,250%	--	--
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	725	--	109
Corporates	259	--	26
Retail business	--	--	--
Exposures secured by real estate	--	--	--
Exposures in default	2	--	--
Particularly high-risk exposures	--	--	--
Covered bonds	--	--	--
Institutions and corporates with short-term credit assessments	--	--	--
Units or shares in undertakings for collective investment (UCI)	--	--	--
Other exposures	--	--	--
<b>Total</b>	<b>986</b>	<b>--</b>	<b>135</b>

### 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 stipulated in Annex II of the CRR.

Hauck & Aufhäuser only uses the mark-to-market method set out in 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. Exposures are assigned a risk weighting of 2%. Collateral held in custody for the benefit of the CCP that 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 set out in Article 308 of the CRR.

The following table shows the positive replacement value from derivatives as of December 31, 2019 before and after application of netting agreements and offsetting of collateral:

**Table 19: Positive replacement values**

12/31/2019	Positive replacement values prior to netting and collateral	Netting possibilities	Eligible collateral	Positive replacement values after netting and collateral
Amounts in € million				
Interest rate derivatives	43	0	14	29
Currency derivatives	61	24	11	26
Equity derivatives	10	0	3	6
Commodity derivatives	--	--	--	--
Credit derivatives	--	--	--	--
<b>Total</b>	<b>114</b>	<b>25</b>	<b>28</b>	<b>61</b>

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 EUR 374.7 million as of December 31, 2019.

### 6.1.7 Securitization exposure (Article 449 CRR)

Hauck & Aufhäuser no longer held any securitization exposures at the end of 2019.

## 6.2 MARKET RISKS (Article 445 CRR)

Market risks arise through our trading and non-trading transactions and our asset/liability management transactions.

Assets 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 all exposures into account. The market risks arising from our trading and banking 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 260 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 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 general parameters 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 (Euro crisis 2011), hypothetical stress scenarios (EBA stress test), and various stress tests.

### 6.3 INTEREST RATE RISKS IN THE BANKING 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 banking 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 value of the banking book for our institution at the end of the year of € 29.7 million, which corresponds to 11.6% 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 as a result of external events. Legal risks and IT risk are allocated to the operational risks.

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

- Risk avoidance, e.g. by withdrawing from specific areas of business;
- Risk mitigation, e.g. through process optimization or skills enhancement measures for employees;
- Risk transfer, e.g. through taking out insurance policies to cover major losses with low 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 Risk Executive Committee, which is responsible for managing and steering operational risks.

For regulatory purposes, the capital charges for operational risks are conducted 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 completely reporting all significant risks; and
- The development of scenarios to assess the consequences of potential losses and the opportunities to avoid such losses.

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 our business operations can continue. Further processes such as regular appraisal of employees and standardization of our contractual 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.

Excess liquidity 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 shortfall in liquidity.

We see liquidity risk as:

- The solvency risk, i.e. the risk of not being able to meet payment obligations at a specific point in time;
- The funding risk, i.e. the risk of not being able to fund ourselves at favorable conditions over the long term;
- The asset marketability risk, i.e. the risk of restricted tradability of 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 to this committee on the situation and development of the liquidity.

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 for the investment portfolio along with daily calculation of the hidden assets and hidden liabilities in the market risk report. All other liquidity risks are not examined through the calculation of risk-bearing capacity 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 investment 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 earnings 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 diminished goodwill as a result of events that damage confidence of its stakeholders in the H&A Group. Against this backdrop, reputation risks are not viewed as independent types of risk but as components and potential enhancers of risks to earnings 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.

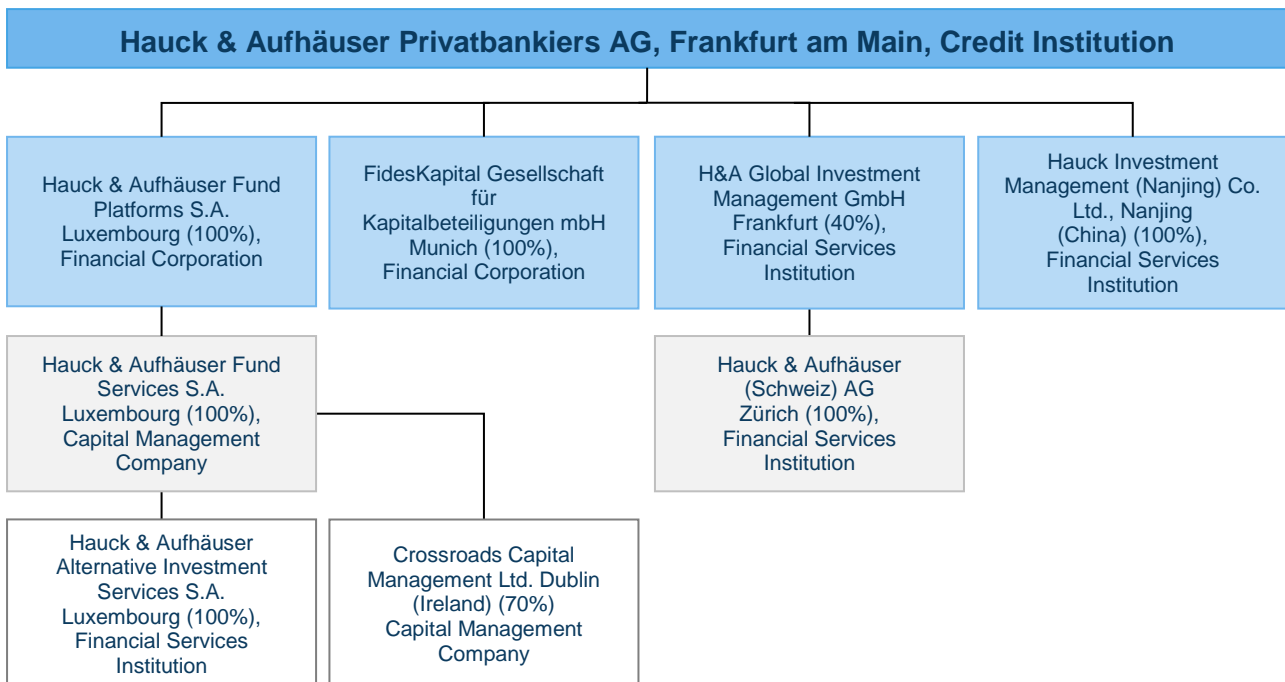
## 7 INVESTMENTS IN THE BANKING BOOK (Article 447 CRR)

On the basis of the Hauck & Aufhäuser's Strategy Map, we divide our investments into three categories: strategic investments, financial investments and commercially expedient 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 involve 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 commercially expedient investments essentially serve to create tailored individual solution approaches for our customers, such as in the area of fiduciary transactions in equity investments.

The following chart provides an overview of the investment structure of Hauck & Aufhäuser showing the key investments. Short descriptions of the individual investments are provided below:

Figure 2: Significant investments



### **Hauck & Aufhäuser Fund Platforms S.A., Luxembourg**

The company has been part of the Hauck & Aufhäuser Group since 2017 and head of the Luxembourg sub-group.

### **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 2019. 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 tailored investment solutions and advisory services for complex fund products. It is an administrator of alternative investments and specialized in the management of regulated and non-regulated investment products with particular expertise in investments in the field of real estate, infrastructure, venture capital, fund-of-fund and private equity.

### **Crossroads Capital Management Ltd., Dublin, Ireland**

Founded in September 2015, Crossroads Capital Management Ltd. has been a 70%-owned subsidiary of Hauck & Aufhäuser Fund Services S.A. since 2019. The capital management company based in Ireland provides corporate services, independent advisory and UCITS/AIFM management.

### **FidesKapital Gesellschaft für Kapitalbeteiligungen mbH, Munich**

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

### **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. The company is a financial services provider licensed by BaFin to provide investment advice, acquisition brokerage and financial portfolio management.

### **Hauck & Aufhäuser (Schweiz) AG, Zürich**

For many years, the Zürich-based company has primarily supported private and corporate clients invest 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.

### **Hauck Investment Management (Nanjing) Co. Ltd., Nanjing, China**

Founded in 2019, the company is active in the field of cross-border corporate financing (M&A and IPO in Germany) as well as client acquisition for Private Banking. It is based in Nanjing, China.

In addition to the significant investments of Hauck & Aufhäuser shown in the overview of the investment structure, we also have a number of minority investments, which in particular are managed by FidesKapital Gesellschaft für Kapitalbeteiligungen mbH. They are of minor importance to the Group. The carrying amounts of these minority investments are assessed on a monthly basis through regular 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 carrying amount corresponds to the fair value. Write-ups are only permissible up to the amount of the acquisition cost. The strategic investments are integrated in the regular controlling processes of the H&A Group and are monitored on a monthly basis.

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

**Table 20: Valuation of investments**

Group of investment instruments	Carrying amount	Fair value	Market capitalization
Amounts in € million			
Financial institution	195	195	1
of which listed on the stock market	1	1	1
Providers of ancillary services	0	0	--
Other undertakings	6	6	--
Credit institution	--	--	--
Banking book shares	0	0	--
<b>Total</b>	<b>201</b>	<b>201</b>	<b>1</b>
of which			
Affiliated companies	191	191	--
Investments	10	10	--

Since mid-2017, our investment portfolio has included one company traded on the stock exchange.

## 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 fair value of derivative transactions.

In accordance with the “Guidelines on disclosure of encumbered and unencumbered assets” of the EBA dated June 27, 2014 (EBA/GL/2014/03), the following tables set out the assets and collateral as well as the encumbrance of the same. The values are stated as median values based on quarterly reports as at the end of each quarter.

Table 21: Carrying amounts of the encumbered and unencumbered assets

Assets	Encumbered assets		Unencumbered assets	
	Carrying amount	Fair value	Carrying amount	Fair value
Amounts in € thousand				
Loans on demand	--		2,284,647	
Equity instruments	--		276,938	
Debt securities	824,822	849,230	1,658,868	1,698,363
of which: covered bonds	117,775	120,284	592,441	614,859
of which: asset-backed securities	--	--	30,005	30,008
of which: issued by general governments	582,509	602,702	513,521	531,821
of which: issued by financial corporations	242,313	246,529	1,159,779	1,185,004
of which: issued by non-financial corporations	--	--	15,807	16,185
Loans other than loans on demand	--		263,731	
of which: mortgage loans	--		108,641	
Other assets	95,575		621,967	
<b>Total</b>	<b>920,397</b>		<b>5,106,151</b>	

Table 22: Collateral received for encumbered and unencumbered assets

Collateral received	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Amounts in € thousand		
Loans on demand	--	--
Equity instruments	4,609	155,531
Debt securities	1,789	562,389
of which: covered bonds	--	202,282
of which: asset-backed securities	--	--
of which: issued by general governments	1,789	82,452
of which: issued by financial corporations	--	409,645
of which: issued by non-financial corporations	--	50,997
Loans other than loans on demand	--	--
Other assets	--	--
<b>Total</b>	<b>6,398</b>	<b>717,920</b>
<b>Own issued debt securities other than covered bonds and ABS</b>	<b>--</b>	<b>--</b>
<b>Assets, collateral received and issued debt securities</b>	<b>907,718</b>	

Table 23: Encumbered assets/collateral received and associated liabilities

Sources of encumbrance	Matching liabilities, contingent liabilities, or securities lent	Encumbered assets, collateral and own issued debt securities other than covered bonds and ABS
Amounts in € thousand		
Derivatives	88,904	95,485
Deposits	57,284	18,475
Issued debt securities	--	--
<b>Carrying amount of selected financial liabilities</b>	<b>146,188</b>	<b>113,960</b>
Nominal of loan commitments received	--	--
Nominal of financial guarantees received	--	--
Fair value of securities borrowed with non-cash collateral	717,566	669,261
Other	--	146,844
<b>Other sources of encumbrance</b>	<b>717,566</b>	<b>816,105</b>
<b>Total</b>	<b>863,754</b>	<b>930,065</b>

## 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 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, 2019 of 4.38%.

**Table 24: Leverage ratio common disclosure**

Line purs. EBA		CRR leverage ratio exposure values
Amounts in € million		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFT))		
1	On-balance sheet items (excluding derivatives, securities financing transactions (SFT) and fiduciary assets, but including collateral)	5,569
2	(Asset amounts deducted in determining Tier 1 capital)	-43
3	<b>Total on-balance sheet exposures (excluding derivatives, securities financing transactions (SFT) and fiduciary assets) (sum of lines 1 and 2)</b>	<b>5,526</b>
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	89
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	286
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)	-63
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	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>312</b>
Securities financing transaction (SFT) exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales 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	1
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 exposures from securities financing transactions (SFT) cleared for clients via a qualified central counterparty (QCCP))	n/a
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>1</b>

Line purs. EBA		CRR leverage ratio exposure values
		Amounts in € million
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	277
18	(Adjustments for conversion to credit equivalent amounts)	-229
19	Other off-balance sheet exposures (sum of rows 17 and 18)	48
<b>Exempted exposures (on and off-balance sheet) in accordance with Article 429 (7) and (14) of the CRR</b>		
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
<b>Capital and total exposures</b>		
20	Tier 1 capital	258
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	5,886
<b>Leverage ratio</b>		
22	Leverage ratio	4.38
<b>Choice on transitional arrangements and amount of derecognized fiduciary items</b>		
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	-22

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

Line purs. EBA		Applicable amount
		Amounts in € million
1	Total assets as per published financial statements	5,702
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))	-22
4	Adjustments for derivative financial instruments	312
55	Adjustments for securities financing transactions (SFT)	1
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	48
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total 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	-155
8	<b>Leverage ratio total exposure measure</b>	<b>5,886</b>

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

Line purs. EBA		CRR leverage ratio exposure values
		Amounts in € million
EU-1	<b>Total on-balance sheet exposures (excluding derivatives, securities financing transactions (SFT), and exempted exposures), of which:</b>	<b>5,569</b>
EU-2	Trading book exposures	2
EU-3	<b>Banking book exposures, of which:</b>	<b>5,567</b>
EU-4	Covered bonds	917
EU-5	Exposures treated as sovereigns	3,263
EU-6	Exposures to regional governments, multilateral development banks, international organizations and public sector entities NOT treated as sovereigns	15
EU-7	Institutions	613
EU-8	Secured by mortgages of immovable properties	38
EU-9	Retail exposures	n/a
EU-10	Corporate	420
EU-11	Exposures in default	17
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	284

## 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 our employees.

Our remuneration policy is derived from this corporate policy. It is our intention to foster in our employees in equal measure both a long-term, values-oriented approach and entrepreneurial engagement. It is, therefore, bound to the principles of transparency and basic income 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 laid down 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 of capital management companies are 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) as well as guidelines issued 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 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 living wage

The monthly salary serves to ensure the living standards 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 result in 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 profitability 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 remuneration:

- An incentive to improve performance and/or reach a higher performance level;
- Greater opportunities for individuals to increase their 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;
- Enhancement of the quality 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 applies 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 withstand scrutiny in line with the strictest standards currently under discussion at the international and national level.

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

#### 10.3.2 Performance-related non-collectively agreed variable remuneration

The remuneration system, which consists 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") fulfill 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

both the fulfilment of tasks and the achievement of targets as well as on the profit of the Bank.

- 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 sustainable advisory services.
- The performance of our client advisers is measured through their contribution to the company's success and not according to sales of specific products. This prevents an incentive being created to sell specific forms of investment or financing to clients without the clients specifically needing such forms of investment or financing.
- The tasks that the employees perform are set forth in their job description and through the agreement of other additional tasks and 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 controlling 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.

Bonuses are 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 bonus payments: the level of individual target achievement, the net operating profit of the Bank as a whole and the relevant business unit. However, these elements are only used to provide guidance, 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 determined at most for the first year of employment. Furthermore, in accordance with Section 5(3)(2) of the InstitutsVergV, in the event of termination of employment, our Bank does not establish in individual contracts any entitlement to payments, which remain unchanged despite any negative individual performance contributions.

### 10.3.3 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, among others, the remuneration system at its meeting on

12/17/2018 and approved the relevant statements for the record. Furthermore, the employees are informed in a suitable manner of the remuneration system applicable to them.

#### 10.3.4 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 legislator 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.

#### 10.3.5 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 2019 financial year:

- Fixed remuneration paid for the 2019 financial year, Article 450 (1)(h)(i)
- Variable remuneration paid for the 2019 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 2019 financial year was € 95 million, with € approximately 77 million in fixed remuneration and approximately € 18 million in variable remuneration paid to 669 beneficiaries.

**Table : Remuneration broken down by company**

Company	Fixed salary	Variable remuneration	Beneficiaries
Hauck & Aufhäuser Privatbankiers AG – Frankfurt	47,528	14,672	365
Hauck & Aufhäuser Privatbankiers AG – Luxembourg	17,356	2,146	179
Hauck & Aufhäuser Fund Services S.A.	8,019	885	79
Hauck & Aufhäuser Alternative Investment Services S.A.	3,910	603	47

None of the employees of Hauck & Aufhäuser or its subsidiaries received remuneration in excess of € 1 million in the 2019 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-wide 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 incorporating Hauck & Aufhäuser (Schweiz) AG into 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 affixing 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



Robert Sprogies

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