Report on the 429th Financial Year

2018
Berenberg was established in 1590, and today we are one of Europe’s leading privately owned banks, focusing on the business divisions Wealth and Asset Management, Investment Banking and Corporate Banking. The Hamburg-based bank is run by managing partners and has a strong presence in the financial centres of Frankfurt, London and New York.
## Key performance indicators

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<tbody>
<tr>
<td>Net profit for the year € million</td>
<td>65</td>
<td>62</td>
<td>56</td>
<td>60</td>
<td>66</td>
<td>40</td>
<td>104</td>
<td>161</td>
<td>90</td>
<td>23</td>
</tr>
<tr>
<td>Total assets € million</td>
<td>3,389</td>
<td>3,242</td>
<td>3,953</td>
<td>4,279</td>
<td>4,525</td>
<td>4,514</td>
<td>4,738</td>
<td>4,716</td>
<td>4,741</td>
<td>4,693</td>
</tr>
<tr>
<td>Business volume € million</td>
<td>3,552</td>
<td>3,357</td>
<td>4,062</td>
<td>4,383</td>
<td>4,623</td>
<td>4,586</td>
<td>4,801</td>
<td>4,790</td>
<td>4,807</td>
<td>4,743</td>
</tr>
<tr>
<td>Equity € million</td>
<td>212</td>
<td>213</td>
<td>217</td>
<td>221</td>
<td>223</td>
<td>219</td>
<td>234</td>
<td>265</td>
<td>296</td>
<td>293</td>
</tr>
<tr>
<td>Receivables from clients/loans € million</td>
<td>573</td>
<td>559</td>
<td>531</td>
<td>794</td>
<td>642</td>
<td>750</td>
<td>1,013</td>
<td>934</td>
<td>929</td>
<td>1,097</td>
</tr>
<tr>
<td>Liabilities to clients/deposits € million</td>
<td>2,456</td>
<td>2,326</td>
<td>2,874</td>
<td>3,083</td>
<td>3,390</td>
<td>3,199</td>
<td>3,570</td>
<td>3,721</td>
<td>3,736</td>
<td>3,924</td>
</tr>
<tr>
<td>Return on equity (before taxes) %</td>
<td>53.0</td>
<td>45.3</td>
<td>40.1</td>
<td>43.8</td>
<td>46.9</td>
<td>28.7</td>
<td>67.3</td>
<td>95.8</td>
<td>43.0</td>
<td>9.8</td>
</tr>
<tr>
<td>Cost-income ratio %</td>
<td>61.9</td>
<td>74.2</td>
<td>75.9</td>
<td>76.5</td>
<td>78.1</td>
<td>85.7</td>
<td>72.2</td>
<td>63.9</td>
<td>72.7</td>
<td>88.9</td>
</tr>
<tr>
<td>Assets under management € billion</td>
<td>20.7</td>
<td>24.3</td>
<td>24.4</td>
<td>25.7</td>
<td>27.5</td>
<td>32.9</td>
<td>35.7</td>
<td>36.3</td>
<td>37.0</td>
<td>36.7</td>
</tr>
<tr>
<td>Employees*</td>
<td>834</td>
<td>914</td>
<td>1,038</td>
<td>1,036</td>
<td>1,066</td>
<td>1,159</td>
<td>1,236</td>
<td>1,407</td>
<td>1,474</td>
<td>1,640</td>
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* Berenberg Group without Berenberg Bank (Schweiz) AG.
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Dear clients and business associates,

2018 was the most difficult year on the stock markets in the past ten years. For us, it was a year of positives and negatives.

We were able to expand our market position further in important business areas and win new market share. For example, we once again advised on the most IPOs and capital increases of any bank in the German-speaking region and almost doubled the issue volume in Equity Capital Markets from €8.6 billion to €16.7 billion. Revenue from equity trading rose by 25%, with assets under management remaining stable despite the dramatic market upheaval at the end of the year.

As we have emphasised again and again, our focus is always on expanding our business model. From a structural point of view, we have put our Wealth Management, Asset Management, Investment Banking and Corporate Banking divisions in an excellent position. We see very strong possibilities for expanding our business and benefiting from economies of scale in all areas as soon as the markets offer an opportunity to do so.

In Wealth Management, we have a competitive lead in Germany and the UK thanks to our personalised advice. Our Asset Management with its active investment approach offers a broad and outstanding product range, both for our current clients...
and for new investor groups. In Investment Banking, we are one of Europe’s largest names in banking research, and we want to replicate this market success in the US. Our Sales team is one of the very best for European equities and once again advised on more IPOs and capital increases in the German-speaking region in 2018 than any other bank. As regards Corporate Banking, we have become established not only as a partner to many discerning corporate clients but also as an asset manager for illiquid alternative assets.

However, the turbulent market situation meant that we were unable to match the exceptional earnings levels of previous years. We had to acquire extensive resources for the implementation of regulatory measures (primarily MiFID II), which we reduced again in 2018 after successfully implementing these measures. This led to restructuring costs in the significant double-digit millions range.

The Group’s headcount nevertheless rose from 1,474 to 1,640*. It is especially important for our business to be present at the international financial centres of Frankfurt (121 employees), London (398) and New York (68). To reduce regulatory complexity, we divested more than 80% of our shares in Berenberg Bank (Schweiz) AG at the end of 2018 and closed the Vienna branch at the beginning of 2019.

After an increase in net commission income by more than one-third from €254 million to €343 million in 2017, that figure now dropped by 19% to €279 million. This is chiefly attributable to the market situation at the end of the year. Net interest income declined from €67 million to €53 million on account of the European Central Bank’s negative interest rate policy, while trading profit was down from €21 million to €19 million.

Administrative expenses rose from €348 million to €372 million, in particular on the back of business expansion, investments in IT and restructuring costs.

Net profit for the year decreased from €90.2 million to €23.3 million. With our tier 1 capital ratio of 13.2%, we have a very strong level of capitalisation.

We will continue to stand by your side as a responsible and reliable partner. We would like to thank you for the trust you have placed in us and look forward to serving you in the months and years ahead.

Dr Hans-Walter Peters
(Spokesman)

Hendrik Riehmer

* Berenberg Group without Berenberg Bank (Schweiz) AG.
EXECUTIVES

Managing Partners

Dr Hans-Walter Peters (Spokesman)

Hendrik Riehmer

Advisory Board

Professor Dr Harald Wiedmann, Chairman
Former Chairman of the Management Board, KPMG Deutsche Treuhand-Gesellschaft AG,
and former President, Deutscher Standardisierungsrat, Berlin

John von Berenberg-Consbruch
Berlin

Helge F. Kolaschnik
Kolaschnik Partner Rechtsanwälte PartGmbB, Hamburg

Pierre-Yves de Laminne de Bex
Member of the Board of Directors, Compagnie du Bois Sauvage S. A., Brussels

Joshua Ruch
Chairman and Chief Executive Officer, Vaal, Inc., New York

Dr Hans-Rüdiger Schewe
President, Fürstlich Fürstenbergische Gesamtverwaltung, Donaueschingen

Andreas von Specht
Managing Partner, AvS – International Trusted Advisors GmbH, Frankfurt
Extended Management Board

Henning Gebhardt
Christian Kühn
David Mortlock

Managing Directors

Lars Andersen
Tobias Bittrich
Dr Jan Böhm
Matthias Born
Lars Fuhrken
Ludger Hoppe
Laura Janssens
Axel Klappstein
Silke Krüger
Dr Alexander von Kuhlberg

Dr Bernd Meyer
Dennis Paschke
Dr Holger Schmieding
Uwe Schwedewsky
Johannes Sommer
Karsten Wehmeyer
Dirk Wehmhöner
Hans Wöll
Ken Zipse

As at: 1 April 2019
2018 IN REVIEW

January

Our fund managers Henning Gebhardt and Matthias Born speak with Wall Street reporter Markus Koch at the Fund Congress in Mannheim about the factors behind successful fund management.

Berenberg continues to expand its position in European equity capital markets and is selected as best EMEA Mid-Market Equity House by industry publication International Financing Review (IFR) from the Thomson-Reuters Group.

Sustainable investments gain more and more significance. With the Berenberg Sustainable EM Bonds, investors can invest in sustainable emerging markets bonds for the first time.

February

The Berenberg Culture Prize 2018 is awarded to the Baum Quartet from South Korea in front of 400 guests in Hamburg’s Elbphilharmonie. For more than 25 years, the Berenberg Bank Foundation of 1990 has been supporting young talent in the area of culture in Germany.

Marking its relocation in New York, Berenberg rings the opening bell of the NASDAQ high-tech stock exchange. From our new premises at Avenue of the Americas, we analyse US stocks, operate a trading desk and have a dedicated sales team on site.

March

Berenberg acts as co-lead manager of the IPO of medical technology group Siemens Healthineers. With an issue volume of €4.2 billion, the transaction is Europe’s largest public offering in the reporting year.

The Berenberg branch in London celebrates its 15-year anniversary. Roughly 400 staff are employed there.

Berenberg wins not one but two categories in the Equity Capital Markets Awards by industry publication Global Capital: as Best Bank for Small Cap Equity Capital Markets and in the category IPO of the Year (under $300 million) for the IPO of microbattery manufacturer Varta.

How is advancing digitalisation affecting shipping? Berenberg examined this question together with the Hamburg Institute of International Economics (HWWI) in the study Shipping in an era of digital transformation.
April

With the Berenberg Digital Infrastructure Debt Fund I, institutional and private investors can invest in the expansion of data networks in Europe for the first time.

The third Berenberg UK Corporate Conference near London gives small- to large-cap companies the opportunity to present their corporate strategies. More than 500 individual meetings and small-group meetings take place with 200 investors alongside the event.

May

A total of 119 companies and over 200 clients convene at our fourth Berenberg US investor conference in Tarrytown near New York.

Former Masters and British Open champion Mark O’Meara joins our brand ambassador team for golf. In addition to O’Meara, the team includes Fred Couples, Bernhard Langer, Gary Player and Tom Watson.

Berenberg wins 1st place in the category Equities – Germany in the »Citywire Deutschland Awards«. Citywire thus ranks the Berenberg equities specialists working under Henning Gebhardt as the best investment team for German investors in this asset class.

June

Prestigious industry journal Marine Money awards Berenberg the Deal of the Year Award for not one but two transactions.

July

Berenberg expands its Investment Banking position further and wins the title of Best Investment Bank in Germany in the »Euromoney Awards for Excellence« by the Euromoney business magazine.
The first institutional financing solution for Germany’s regional rail passenger transport network is arranged and coordinated by Berenberg for two major insurance firms. Financing is provided for new railway vehicles, which start operation in the Ulm region.

The Berenberg Euro Enhanced Liquidity fund exceeds the threshold of €1 billion in assets under management. This makes the short-running bond fund the first Berenberg fund to exceed this volume.

**August**

Berenberg signs the United Nations-supported Principles for Responsible Investment (UN PRI), in recognition of our responsibility to make an active commitment to environmental and social issues as well as good governance, and to embed these principles in the investment process.

Approximately 6,000 guests follow the Berenberg German Polo Masters on Sylt. The tournament has become one of Europe’s most important and enjoyable polo events.

**September**

Together with the Swiss management, a shareholder group acquires the majority of shares in our subsidiary Berenberg Bank (Schweiz) AG, which is then renamed »Berogens Berenberg AG«. Berenberg retains a shareholding of almost 20% for the time being.

The Berenberg Corporate Responsibility Award is presented to Ritter Sport in St. Michael’s Church in Hamburg. The chocolate maker is committed to sustainable cocoa farming with its own plantation, »El Cacao«, in Nicaragua.

The seventh Berenberg Goldman Sachs Investor Conference sees 180 of the largest DAX-, MDAX-, SDAX- and TecDAX-listed companies convene in Munich to present their corporate strategies and discuss current trends.

**October**

Thirty-four university graduates commence the International Graduate Programme in our London branch. After a six-week induction phase, they will spend 15 months moving through all of the Bank’s business divisions.

Berenberg’s annual report wins the Grand Award for the best non-English language annual report and the Gold Award in the category »Banks International«. A total of 2,200 entries from 34 countries were assessed for the 32nd ARC Awards, the world’s largest competition for annual reports.
Berenberg assists in the Knorr-Bremse IPO as joint bookrunner. The issue proceeds amount to €3.8 billion.

Two bee populations on the roof of our main building on the banks of the Alster River provide a sweet treat: the 2018 harvest yields almost 46 kg of urban honey, which is sold to raise funds for the BerenbergKids Foundation.

November

Berenberg receives top marks in the report »Die Elite der Vermögensverwalter« (Handelsblatt) for the tenth consecutive time and is named Best Asset Manager.

The Berenberg Prize for Scientific Language goes to legal expert Professor Dr Peter Mankowski for his book »Rechtskultur«. The prize recognises outstanding scientific work published in German that is written in an aesthetically appealing and particularly accessible manner.

Our employees show their absolute commitment to the BerenbergKids Challenge in various sporting disciplines such as »human table soccer« or the rodeo bee. A total of €51,300 is collected in advance as start money for various associations that take care of children in need.

Berenberg is named Best Private Bank in Germany at the »Global Private Banking Awards«. This is the tenth time the Financial Times Group with its trade magazines The Banker and Professional Wealth Management awards this title.

December

More than 354 representatives from 180 companies attend the 16th Berenberg European Corporate Conference at Pennyhill Park near London. With 1,352 meetings, the time there is used very efficiently.

Children in the Elbkinder childcare centre in Hamburg-Heimfeld see their Christmas dreams come true. As part of the BerenbergKids Christmas campaign, Berenberg staff donate gifts for the children, to be distributed by Santa Claus.

In the Telos satisfaction study, Berenberg is ranked first in the main category »Overall client satisfaction with smaller asset managers« by the institutional investors surveyed.
Operations and underlying conditions

Profile

For over 425 years, Berenberg has been committed to accountability to its clients. From its earliest beginnings, the Bank has been run by personally liable managing partners, and this principle continues to be the cornerstone of client relationships based on trust. We do not allow ourselves to be steered by short-term success and emotions, but act responsibly.

Our solid reliability is also reflected in the stability of our leadership. Since 1590, Berenberg has had only 38 managing partners, and today’s partners have both been with Berenberg for 20 years or longer.

What counts for us is long-term success alongside our clients. As we help them to grow their wealth, achieve their goals and meet their challenges, we always do so with insight, as expert advisors and long-standing service providers. We address all areas where we feel confident that we can offer our clients exceptional value.

From our Hamburg headquarters, we have established a notable presence in the financial centres of Frankfurt, London and New York in recent years. Today, we have roughly 1,600 employees at 15 locations across Europe and the US. With the expansion of our Wealth and Asset Management, Investment Banking and Corporate Banking business divisions, we are on a secure footing for further market growth, making us a dependable partner for our clients. We analyse the economy and financial markets across all sectors and geographic boundaries, and apply our vision.

In-depth expertise and experience are necessary to make sound decisions, so we have built up one of Europe’s largest equity research teams, established a highly regarded macroeconomics team, and set up a first-rate group of investment strategists and portfolio managers.

All this has made Berenberg more than just a bank. As an advisor and trusted partner, we address client needs with responsibility, insight, vision and expertise. In brief, accountability is our guiding principle.
Structure

Berenberg offers its clients individual services in the following business divisions:

**Wealth and Asset Management central business unit**

**Wealth Management:** Providing advice to high-net-worth individuals is a complex and responsible challenge that we accept with our special expertise and award-winning advisory approach. To this end, we are constantly refining our special Berenberg centres of competence for entrepreneurs, foundations and family offices. In addition, we are reinforcing professional portfolio management as one of our core services alongside personalised advice.

**Asset Management:** Our clients’ investment goals are varied and specific. We work to meet these individual needs in the best way possible. Experienced portfolio strategists and investment experts develop actionable strategies, which we execute in special mandates and retail funds. Our active investment expertise includes discretionary and quantitative investments as well as professional risk management strategies.

**Investment and Corporate Banking central business unit**

**Investment Banking:** The broad-based Investment Banking division focuses on service and advisory operations in the segments of Equities, Corporate Finance and Financial Markets. At year-end 2018, our Research team regularly analysed more than 850 stocks. In addition, we support IPOs, capital increases and secondary placements, and provide advice on mergers and acquisitions.

**Corporate Banking:** We assist and advise companies, institutional and financial investors as well as single family offices on transactions and day-to-day activities. We maintain specific expertise in specialist segments such as Structured Finance, Infrastructure & Energy, Shipping, and Real Estate.
Berenberg’s head office is in Hamburg. In Germany, we have branch offices in Düsseldorf, Frankfurt, Munich, Münster and Stuttgart. Outside Germany, we are represented by branch offices in London, Luxembourg and Paris, as well as representative offices in Geneva and Zurich. We closed our Vienna branch at the beginning of 2019. Our subsidiaries and their branch offices are located in Hamburg, Boston, Chicago, New York and San Francisco.
Overall economic development

The upswing in the global economy slowed considerably in the course of 2018. At 2.8%, growth in global economic output nearly matched the previous year's figure. However, almost all of the good news came from the US, where the corporate and income tax reform financed on credit artificially boosted domestic demand. By contrast, growth lost momentum across large parts of Europe and Asia. Dark clouds gathered on the economic horizon in the autumn of 2018, particularly on account of international trade disputes and other political risks.

With growth of 1.8% in 2018, the eurozone was no longer able to match the previous-year result of 2.5%. It is true that the sustained decline in unemployment to a most recent figure of 7.9% is shoring up consumer confidence and private spending. Corporate investment and government spending also saw a further increase, albeit at a somewhat slowing pace. Because exports lagged behind the growth in imports, however, foreign trade weakened the economy overall in 2018. In 2017, the foreign trade balance had still been a significant growth driver.

Particularly concerns from the US surrounding the future of global trade burdened economic development in countries with a strong focus on foreign trade in the reporting year. This situation was compounded by the temporary oil price shock in the autumn of 2018 as well as declining growth rates in China. Problems in some emerging economies such as Turkey and Argentina, which had racked up excessive foreign debt and were forced to tighten their belts due to higher amounts of interest payable in dollars, also had a negative impact. Companies, households and the financial markets were also rattled by worries about Italy’s financial stability and the risk of a no-deal Brexit in March 2019.

Germany continued its recovery in the reporting year, seeing its economic output grow by 1.4%. In addition to private consumption, this development was driven by capital expenditure. However, growth slowed in the German economy during the second half of the year, due in part to temporary special effects in the automotive and chemicals industries. Despite this economic setback and rising government spending, Germany once again enjoyed a healthy government surplus on the back of surging
As in the previous years, price increases in Germany, Europe and the US remained muted in 2018. The rapid pace of technological progress as well as globalisation continue to help dampen inflationary pressure. There are, however, signs that the rapid rise in employment in recent years will be reflected in somewhat more generous pay agreements and a marginal increase in inflation in large parts of the Western world in 2019.

Political risks weigh heavier than usual on the outlook for the year 2019. We are nevertheless cautiously optimistic about the future. If it proves possible to resolve the trade disputes between the US, China and the European Union to a large extent and to avoid a hard Brexit, the economic situation in China, Japan and Europe could rebound a little over the course of the year. By contrast, the US economy is likely to cool slightly after the fiscal measures introduced in the previous year expire.

In view of the risks, the outlook for the finance industry also remains mixed. On the one hand, there is a good chance that the markets will recover slightly from the setbacks suffered in 2018 if economic policy succeeds in containing the political risks in relation to trade and Brexit. On the other hand, we must continue to monitor these risks as well as the political situation in Italy and the «yellow vest» protests in France. In light of these risks, interest rates are not expected to rise significantly. Consequently, banks that traditionally generated most of their earnings in interest-related operations must continue to work hard to find new business models.

»Despite this economic setback and rising government spending, Germany once again enjoyed a healthy government surplus on the back of surging tax receipts and a robust labour market.«
Awards

The quality of our services was again acknowledged with a series of awards in 2018. The report *DIE ELITE DER VERMÖGENSVERWALTER* (The Asset Managers’ Elite), produced in cooperation with Handelsblatt, stated: *“In a far-sighted measure, the bank has invested in the best minds in the industry, putting itself in a strong position. As a result, this private bank has not only a long history, but also a bright future. Sound macroeconomic and unit-based analyses and professional investment decisions secure wealth through a holistic approach while also creating real added value.”*

- *DIE ELITE DER VERMÖGENSVERWALTER (HANDELSBLATT)*
  - *Summa cum laude (with top score)*

- *GLOBAL PRIVATE BANKING AWARDS (FINANCIAL TIMES GROUP)*
  - *Best Private Bank in Germany*

- *CITYWIRE DEUTSCHLAND AWARDS*
  - 1st place: Equities – Germany

- *EUROMONEY PRIVATE BANKING SURVEY*
  - 3rd place: Best private banking services overall in Germany

- *TELOS INVESTOR SCREENING*
  - 1st place: *“Small Asset Managers“ category*

- *EUROMONEY AWARDS FOR EXCELLENCE*
  - *Best Investment Bank in Germany*

- *GLOBAL CAPITAL ECM AWARDS*
  - *Best Bank for Small Cap Equity Capital Markets EMEA*
Financial performance

Earnings

Net profit for the year

The financial year 2018 closed with net profit for the year of €23.3 million. Although we succeeded in expanding our market position in important business areas and winning new market share, the at times turbulent situation on the capital markets as well as non-recurring effects on the cost side have caused earnings to decline substantially since the previous year (€90.2 million) which could not be offset by special effects on the earnings side.

We had forecast solid earnings again for 2018 in the 2017 management report. The actual earnings achieved are below the amount forecast in our 2018 budget.

In recent years, the Bank has transitioned from a Northern German private bank into an international advisory firm. Despite the drop in earnings, we are convinced that our business model, centred on the service-oriented business divisions, is working very well. In addition, we used the reporting year to continue to invest in strengthening our business model on the one hand and to make our cost side more streamlined and more efficient on the other, which led to non-recurring costs.

The return on equity, calculated as the ratio of profit before tax to equity at the start of 2018, amounted to a sturdy 9.8% (43.0%). The cost-income ratio also improved from 72.7% to 88.9%. The ratio of current net interest income (excluding income from participating interests/affiliated companies) to net commission income was still 15:85, which underlines the significance of commission-earning operations for the Bank’s business model.

Net commission income

After net commission income rose by more than a third to reach a historical high in 2017, it dropped 19% below the previous-year figure to €279.0 million in the reporting year. Net commission income is determined by our securities business. In the ECM business in particular, we were able to increase our issue volume, and our Research product is well paid for by clients, as expected. We continued to expand our fund
products in Wealth and Asset Management. Although we won market share in the key areas for our business model and were very well prepared commencing the first financial year under the new MiFID II rules, it has not been possible to match the excellent previous-year figure for the time being. MiFID II resulted in a decline in commission income in particular in our advisory business in Wealth Management as well as in Fixed Income. We also noted a decline in transactions business on account of the turbulent market situation at the end of the reporting year. Thanks to our market position, however, we are confident that we will regain our former success in a market environment that remains challenging. Commission income rose further in the reporting year to exceed interest income in the Corporate Banking division. Alongside the experience we have built up over many years in servicing our German and international shipping clients, we were also increasingly able to generate very pleasing levels of transaction-based commission income from Structured Finance and Infrastructure & Energy.

Adjusted for the assets of Berenberg Bank (Schweiz) AG, assets under management at the Berenberg Group amounted to €36.7 billion (€37.0 billion).

Net interest income

Net interest income fell from €66.6 million to €53.1 million.

Net interest income was once again affected by historically low interest rates in 2018. With our continued prudent approach to lending, net interest income is generated in particular from securities in the liquidity reserve. This conservatively structured portfolio contains securities with relatively high coupons that are trading at a premium. The short residual maturities in turn give rise to write-downs on bonds.
Net trading income

Net income from trading activities dropped by 11.4% to €18.9 million (€21.3 million).

Since our operations are primarily service-oriented, we have only allocated very manageable limits to the trading activities in the equities, bonds and foreign currencies segments. Forex trading dominated net trading income, yielding a healthy result again in 2018. However, this was considerably below the previous-year figure.

Other operating income

Other operating income primarily contained the income from the sale of the majority of shares in Berenberg Bank (Schweiz) AG, thus exceeding the previous-year figure.

General administrative expenses, depreciation of tangible fixed assets and amortisation of intangible assets

Selective investments in expanding our business model were made again in the reporting year. We also keep a close eye on the efficiency of our processes. We implemented more streamlined processes in particular in those areas where processes can be automated, there are no negative effects on our value chain and the changes do not hamper our fulfilment of regulatory requirements in any way.

The number of employees rose slightly again in 2018 compared with the previous year, and selective further investments were made in highly qualified personnel. It was especially the non-recurring effects from restructuring that caused personnel expenses to rise to €226.0 million in a year-on-year comparison (€210.6 million).

We now have a considerably more efficient structure for the years ahead.

Investments in modern IT, the implementation of new regulatory requirements and the strengthening of our locations led to a rise in non-payroll costs. Together with the higher personnel expenses, this led to an increase of 7.6% to €371.8 million (€347.5 million) in general administrative expenses including depreciation of tangible fixed assets and amortisation of intangible assets.

Risk provisions

Sufficient risk provisioning funds have been allocated to valuation allowances and provisions for lending operations. All identifiable risks have been taken into account in full using prudent valuation methods. There was no need in the reporting year
for the creation of new net risk provisions for lending operations. To a large degree, the result from the liquidity reserve must be seen in connection with the net interest income. Our liquidity reserve contains bonds that are trading at a premium and create a corresponding need for a write-down upon maturity. The result from the valuation of equity investments stems from planned start-up losses from our expanding activities in the US, which we see as a very important adjunct to our European activities and which we are convinced will be successful in the future.

Taxes on income
The »taxes on income« position stems from the earnings of the domestic branches and is calculated based on the earnings that also include earnings components on which no taxes are incurred.

Financial and assets position

Capital base and ratios
The Bank’s equity amounted to €292.6 million after the annual financial statements were approved (€296.1 million). This figure contains common equity tier 1 capital of €248.4 million (€245.1 million). In addition, there is supplementary capital in the form of subordinated liabilities in the nominal amount of €65.0 million (€85.0 million). The amount eligible to be included in the core capital as a result of the remaining maturities of the subordinated loans was €44.2 million (€51.0 million).

The total capital ratio as set forth in the Capital Requirements Regulation (CRR) and the German Solvency Regulation amounted to 15.6% (17.1%) at year-end, while the common equity tier 1 capital ratio was 13.2% (14.1%). This level of equity funding places us comfortably above statutory requirements.

At 1.6 at year-end (1.5), our total for the European liquidity coverage ratio (LCR) was well above the minimum level required for regulatory purposes.

Funding and securities in the liquidity reserve
Berenberg can meet all its funding needs from client deposits, while regularly generating a high liquidity surplus. The Treasury business unit invests the majority of this surplus in top-rated bonds with the goal of minimising possible credit risks.
At year-end 2018, the portfolio consisted of bonds and other fixed-income securities with a volume of €1,665.2 million (€2,018.3 million). This portfolio is dominated by securities issued by German public issuers (32.1%) and securities with a German state or public guarantee (38.1%) as well as Scandinavian covered bonds (24.5%).

The remaining maturity of these holdings averaged 1.3 years at year-end 2018, meaning that the spread change risk inherent in the portfolio is limited. The interest rate risk is generally restricted to the three-month or six-month Euribor. The vast majority is deposited at Deutsche Bundesbank, which ensures the availability of a high refinancing facility with the European Central Bank in the event of an unexpected short-term liquidity requirement.

Finally, excess liquidity of €343.8 million (€379.3 million) was invested in promissory note loans (particularly from German public issuers and German development banks as well as German Pfandbriefs).

**Total assets and business volume**

Total assets in the reporting period remained at a similar level to the previous year. They amounted to €4,692.7 million (€4,741.3 million) and are again characterised by a high level of client liabilities of €3,924.5 million (€3,736.2 million). Client deposits accounted for 83.6% (78.8%) of total assets.

Liabilities to banks declined by €127.6 million to €287.8 million. They consist mainly of deposits held by our Swiss participating interest.

Receivables from banks rose to €720.6 million (€549.0 million). These include the investment of €207.4 million in promissory note loans issued by German development banks and in German-registered Pfandbriefs. The majority of the surplus liquidity was again invested in bonds issued by German public issuers instead of receivables from banks.

Receivables from clients amounted to €1,097.1 million as of the balance sheet date (€929.2 million). Part of the liquidity reserve of €163.6 million was invested with German public issuers (promissory note loans or fixed-rate loans).

The expanded business volume fell from €4,866.9 million to €4,743.2 million in line with the moderate decline in total assets. There were also unused irrevocable lending commitments of €172.8 million (€169.3 million).
Credit volume
The expanded credit volume increased to €1,147.6 million (€994.7 million). It consisted of receivables from clients of €1,097.1 million (€929.2 million) and contingent receivables of €50.5 million (€65.5 million) from guarantees and other indemnities.

Overall statement on the results of operations, net assets and financial position
Despite the year-on-year decline in earnings also caused by special effects, we consider ourselves to be in a strong position with our business model. The core capital resources are still well in excess of statutory requirements, and net assets are in good shape. Solvency was guaranteed at all times, and the liquidity position is extremely comfortable.

Sustainability report
In addition to our annual report, we publish a summarised separate sustainability report, which also contains our non-financial statement. You will find the German report on our website: www.berenberg.de/nachhaltigkeitsbericht2018
Wealth and Asset Management
central business unit

Berenberg Wealth and Asset Management stands for personalised advice, active investment solutions and accountability. Specifically, this means that we are a trustworthy partner to our clients and provide bespoke assistance to the best of our knowledge and ability. That’s because we can only be successful if our clients are satisfied with us in the long term. Our discretionary and quantitative investment solutions are based on the expertise of our renowned specialists. With transparent and verifiable investment processes, we aim to ensure that the assets entrusted to us perform positively, whether in portfolio management, investment advisory or in our funds. Last but not least, accountability is an important principle for us as a fast-growing bank with a tradition spanning more than 425 years. Alongside our social involvement, we therefore also attach great importance to applying sustainability and governance criteria in investment processes.

High-net-worth individuals and institutional investors appreciate this approach. At the same time, we will continue on our growth trajectory and open up our investment products to retail clients.

Wealth Management

Focus on investment

In what was an eventful year on the capital markets and a rapidly changing environment for Wealth Management, Berenberg continued to invest in expanding its core competencies. The focus is on refining active portfolio management as part of our asset management and – with a view to advising our clients – identifying attractive individual investments.

We keep a constant eye on supplementary investment solutions that round out liquid portfolio management in a meaningful way. In the reporting year, these centred on selected investments in real estate and digital infrastructure. In our view, these will make a decisive contribution to achieving long-term investment objectives and mitigating at the wealth portfolio level the capital market risks that emerged once again in 2018.
For complex wealth portfolios, we were able to create specific added value through our cross-bank multi-deposit controlling. This service offering shows our clients which parts of their portfolios are generating a positive performance and where there may be hidden cluster risks. In response to the growth in this area, we invested in new software that will once again improve analysis and reporting considerably. Another investment focus was the development of our new online and mobile banking, which will form the basis for a new way of working with existing and new clients.

The aim of our considerations and decisions is to increase our clients’ wealth while ensuring the highest product and service quality. In a market increasingly characterised by standardisation, it is important to us to maintain sufficient scope for high-quality advice and optimum investment decisions to address individual client situations and objectives.

Advisory expertise
Our advisors are highly qualified specialists who develop individual advisory approaches in established teams at six locations across Germany and in London, never losing sight of their fundamental client focus. Knowledgeable dialogue between advisor and client is ensured by an ongoing exchange of ideas, both inside and outside the Bank, and by continued professional development measures for our employees. The advisor teams at our Hamburg headquarters and in the branch offices bring together the expertise gained over time and are very familiar with our clients’ needs. They have highly specialised knowledge and are driven by the commitment to think and act in the interest of our clients.

“The aim of our considerations and decisions is to increase our clients’ wealth while ensuring the highest product and service quality.”
In a strong position
We are excellently positioned in terms of our client structure and our service offering. We are growing in our core target groups, and had considerable success in acquiring new clients in 2018. Discerning clients, often with very complex requirements, entrusted us with their business once again in the reporting year. The regulatory directive MiFID II was implemented consistently and very quickly, future-proofing our work going forward. It must nevertheless be said that this directive, which was intended to protect consumers, has resulted in a great deal of bureaucracy and high costs for the Bank as well as a considerable amount of irritation for our clients.

Our tried-and-tested business model enables us to work together in an interdisciplinary manner in the interest of our clients. For example, currently around 100 analysts in Investment Banking analyse listed companies across Europe, and they also serve as an additional source of information for Wealth Management. Via Asset Management and Corporate Banking, our private clients have access to investment solutions that are normally reserved for institutional investors. In Wealth Management, we only include those topics in our advisory approach that promise our clients actual additional benefit.

Asset Management
In Asset Management, we offer strategies and solutions in five areas: Berenberg Equity Funds is synonymous with fundamental equities competence that is virtually unparalleled in Germany – in particular for German and European growth stocks. Berenberg Multi Asset offers investors with a long-term outlook globally invested asset management strategies with a European focus. As an active manager, we are characterised by our qualified opinion on the capital markets, which we implement decisively – including anti-cyclically and separate from benchmarks. In Berenberg activeQ, we gather our quantitative, strictly rule-based and forecast-free strategies, which have been established on the market for many years. Berenberg Overlay Management is now one of the world’s largest active currency managers. Additionally, we create individual strategies for controlling and hedging against stock market and interest rate risks within a portfolio. In Berenberg Liquid Alternatives, we offer a volatility strategy with BERENBERG VOLATILITY PREMIUM that meets with a great deal of interest from institutional investors.
The year 2018 also saw the Berenberg ESG Office commence its work. We believe that sustainability matters are becoming more and more important to investors and that ESG-compliant companies have a competitive edge on the global markets. Consequently, Berenberg has signed the UN PRI (United Nations-supported Principles for Responsible Investment) in recognition of our responsibility to make an active commitment to environmental and social issues as well as good governance (ESG = Environmental, Social, Governance), and to embed these principles in our investment process.

**Equity Funds**

In 2018, we expanded our newly created equities platform, and we have been winning over clients and market observers alike with our fundamental stockpicking approach. For example, the fund rating agency Citywire selected us for an award in the »Equities – Germany« category. According to Citywire, the equities experts who work with Henning Gebhardt, Head of Wealth and Asset Management, and Matthias Born, Head of Equities, make up the best investment team available for German investors in this asset class. The Equities team increased the assets under management in this fund to over €1 billion.

The Berenberg European Micro Cap fund played a major part in this success. On account of high inflows, we decided in December 2018 to close the fund’s institutional share class to new investments for the time being despite continued strong interest. This allows us to prevent any dilutive effect for existing investors. The measure is also further proof that product quality and our long-term client relationships are far more important to us than a potential short-term increase in assets. Even our growth targets in Wealth and Asset Management will not prompt us to depart from this principle.

At the end of the reporting year, we set up two further equity funds that invest in stocks worldwide. The Berenberg Global Focus Fund links in with the tried-and-tested concept we already apply to our European funds, namely fundamental stock analysis, a long-term investment horizon and ongoing risk management. The portfolio managers look for companies with special growth and success prospects – in this regard, the regular discussions directly with the executive boards of interesting
compañías proporcionan una ventaja competitiva. Con nuestra BERENBERG SUSTAINABLE WORLD EQUITIES fund, abordamos criterios adicionales de ESG para construir un portfolio sustentable.

**Multi Asset**

Overall, 2018 was a very challenging year across all asset classes. While stock markets recorded substantial negative figures, there was also a noticeable rise in risk premiums for corporate and financial bonds. Scarcely any asset class succeeded in generating a positive performance over the year.

In portfolio management and multi-asset strategies, we increased assets under management marginally overall despite the burden from the weak capital markets. This was attributable in part to new inflows in portfolio management and the launch of two new funds that met with significant client interest. The two new products are representative of key stylistic elements that are also subject to the more stringent investment process introduced in 2018. **GLOBAL BOND OPPORTUNITIES** is a benchmark-independent, flexible bond fund with an investment focus on global corporate bonds. **BERENBERG VARIATO** bundles our best investment ideas in a promising multi-asset portfolio. Allocation here is likewise not based on benchmarking, and benefits from a large degree of freedom.

Furthermore, we have put in place the organisational framework to render special mandates with a similar orientation even more comparable and to achieve a more or less consistent performance in the focus groups. Roles and responsibilities have now been defined even more clearly. Over the course of the reporting year, we also added multi-asset staff and expanded our capital market communications. Clients and interested parties now have access to a large number of newsletters and publications, entitled »Horizon« and »Markets«, where we provide regular analyses of market events and explain the reasoning behind our allocation decisions. This enables us to meet our aim of giving incisive insight into our view of the markets and also presenting performance in a transparent and verifiable way for our clients.
activeQ

The added value of systematic investment processes with transparent and verifiable allocation and selection decisions becomes especially apparent in difficult market phases. We are therefore very pleased that we were able to win several new engagements with our quantitative approach and that existing clients decided to step up their involvement.

The BERENBERG SUSTAINABLE EM BONDS fund set up in January 2018 was especially successful, generating considerable added value compared to its peers. The fund uses more than 40 ESG criteria to invest in emerging-market government and corporate bonds. Including sustainability criteria in the investment process meant that volatility was reduced verifiably compared to the benchmark.

Another success story in the reporting year involved BERENBERG EURO ENHANCED LIQUIDITY, which was the first retail fund in Berenberg’s history to exceed €1 billion in assets under management.

After the exceptionally successful year 2017, in which our BERENBERG ACTIVEQ MULTI ASSET fund outperformed large parts of the stock markets with a performance of +14.3%, the concept showed even in the turbulent reporting year that systematic risk management is effective in difficult market phases. The fund’s losses were much lower than those of the established key share indices, thanks to its rule-based and forecast-free multi-asset investment approach.

Because the market environment is constantly evolving, we work continuously on refining our strategies. In October 2018, we broadened the investment process for the bond fund BERENBERG ACTIVEQ EMERGING MARKETS BONDS to include active duration management with the goal of reducing losses from rising US interest rates and further optimising the risk-return ratio.

Overlay Management

Our rule-based investment approach proved its worth again in 2018. For example, our clients were able to participate in the gradual appreciation of the US dollar and generate significant added value compared with a static hedge. Rising hedging costs and the increasing shift from traditional to illiquid investment options in foreign currencies once again showed the high demands on an individually designed strategy for optimum currency hedging. We were able to apply our many years of experience
in this field and are delighted to have won new clients and seen existing clients step up their involvement. We manage a total of approximately €12.3 billion in special mandates, which encompass not just currency strategies but also interest and equity strategies. The latter proved an efficient form of risk management in 2018 when stock markets were falling.

Additionally, we came an important step closer to even more transparency in executing our foreign exchange transactions. Since mid-2018 we have offered our clients detailed transaction cost analysis that presents all cost components of all transactions. This analysis is carried out by a service provider that is independent of Berenberg.

**Liquid Alternatives**

In the course of the reporting year, the Liquid Alternatives team reached the planned headcount of three portfolio managers and one product specialist. The team manages a total of roughly €2.2 billion in volatility strategies. The assets under management are managed in one retail fund and several special mandates, as well as in the form of an overlay solution in multi-asset strategies. Despite the challenging market environment, the *Berenberg Volatility Premium* retail fund held its own in the peer group. Furthermore, it was awarded the »Alternative Investment Award« by the finance publication Geld-Magazin. The most important confirmation for us was reflected in positive inflows of over €50 million into the retail fund and over €215 million into the special mandates.

The volatility risk premium represents the insurance premium for the capital markets and can be generated via different asset classes by selling options. Attractive and largely uncorrelated returns can be collected in this way. Many volatility funds focus on the equities asset class. We, however, are convinced of the benefits of a diversified approach. For this reason, we broadened our approach in the reporting year to include the credit asset class in addition to equities and bonds. Performance is expected to be more consistent as a result, and the strategy’s risk-adjusted returns will be improved further. Berenberg is the only provider to offer volatility risk premium collection diversified across these three asset classes.
Successful market positioning

With this clear product range, extended on the equities side in particular, we have succeeded in garnering a successful position on the international market. This is also thanks to our considerable stepping-up of marketing activities and public relations work. Our investment experts are respected interview partners to the specialist and daily press. They also present their approaches and views at a large number of industry conferences, where they engage directly with clients and interested parties.

Stronger market penetration is also assisted by the recently completed adjustment of the sales structure. We have an international footprint, and our sales strategies are tailored to the respective target markets. Apart from Germany, Switzerland and Austria (GSA), in Europe these markets primarily include the UK, Luxembourg and Scandinavia. We continue to work with other institutions as part of our individual portfolio management and portfolio management funds. Our offering of high-quality solutions makes us a strong partner for savings banks and other banks. This applies both to the different requirements of the bank in question and the respective client needs.
Investment and Corporate Banking
central business unit

Our Investment Banking and Corporate Banking business divisions help provide businesses’ access to capital. Our offerings range from IPOs and brokerage through to structured financing options and advice on M&A activities. Institutional investors also benefit from our research and capital market expertise.

Investment Banking

The Investment Banking division offers a wide range of banking and advisory services across Equities, Corporate Finance and Financial Markets.

Equities

The introduction of MiFID II on 3 January 2018 had a material impact on the industry and on the way we do business and receive payments for our services. Notably, our affected asset management clients must now separately identify payments for execution and research services. With the vast majority of our affected clients now bearing the cost of research services on their own profit and loss statement, the industry has seen a significant contraction in overall payments for research.

Against this backdrop, a decline of just 1% in our secondary revenues represents a very strong result. We estimate that revenues in the industry overall declined by 20–30%, implying considerable market share gains for Berenberg. On the basis of industry data, we estimate that we now have a market share in excess of 4% in the areas where we operate.

During the summer of 2018, we conducted a full strategic review of our equities business. We had three main considerations. First, we are performing well in our European business, but growth is becoming more challenging given our strong market share and the overall declines in the market. Second, given market volatility, the outlook for equity capital markets seems more uncertain. Thirdly, there are still areas where we see considerable opportunities for growth, notably in the UK and in the US. In line with our strategic review, we have therefore reduced individual
sectors in which the willingness of customers to pay for services has been shown to be rather low.

**Equity Research and Sales**

We ended 2018 with 87 analysts covering 761 stocks in London and 12 analysts covering 95 stocks in New York. Our total coverage was 856 stocks, versus 770 at the end of 2017. This represents an increase of more than 70% versus three years ago.

Between the team in London and New York, we now cover more than 150 US-listed shares. We expect this to double in the next two years, with the majority of this growth coming from the team in New York. The US team plans to focus on under-covered mid-cap shares with a stock-picking approach.

Our sales team of 52 generalists and 11 specialists serviced in excess of 900 paying clients across all major financial hubs in Europe and the US. The research and sales teams supported our colleagues in Corporate Finance on a total of 48 equity capital markets transactions, including 14 IPOs.

The arrival of MiFID II had significant implications for the way our buy-side clients interact with us and our sell-side competitors. In particular, our clients are reducing their number of sell-side relationships with brokers, and closely monitor the level of services they consume. Thanks to the quality of our research and sales efforts, we maintained relationships with over 95% of our clients. In addition, our team had more than 12,900 meetings with investors in 2018, a modest increase on 2017.

Facilitating interaction between our buy-side clients and the companies we cover remains a key priority for the team. As such, we arranged close to 23,000 meetings between investors and the management teams of companies under our coverage. We also hosted 34 conferences, including our 16th flagship European Corporate Conference at Pennyhill Park in Surrey in the UK, which this year attracted 354 corporate representatives and 480 institutional clients.

«Thanks to the quality of our research and sales efforts, we maintained relationships with over 95% of our clients.»
Equity Trading

The advent of MiFID II also resulted in substantial changes to our execution business. We have spent the past three years preparing for these changes, with significant investments in our IT capabilities and an increase in the numbers of sales traders and traders within the business.

As a consequence of MiFID II (which mandates unbundling), we receive cheques in place of bundled trades from affected clients. As a result, commission rates declined in 2018. On the other hand, the volume of trading activities showed a very positive development, with an increase by 25% to more than €80 billion notional traded. Within this context, of particular note was our UK business, where we achieved growth of 43% year on year to notional traded in excess of €19 billion. One major factor in this respect was the launch of our UK market-making desk during the summer of 2018.

In February of last year, our New York office relocated to new premises. Over the course of 2018, we traded US and Canadian equities on behalf of over 230 leading institutional clients based in the US and Europe (increase of around 15% in comparison to 2017). This allowed us to boost our sales commissions by almost 30% in comparison to the previous year. The transaction volume in ADRs (American depositary receipts) also grew, and we saw greater engagement from US-based institutional clients.
Corporate Finance

Equity Capital Markets (ECM)

In 2018, Berenberg again expanded its strong position in the European ECM business. We have confirmed our market position as the leading bank in the German-speaking region, further strengthened the UK ECM business and for the first time provided advice on transactions in the US.

Despite volatile capital markets, we were able to assist with 48 transactions (versus 51 in 2017) with a volume of around €16.7 billion (up from €8.6 billion) in the reporting year. Of particular note is the fact that 2018 we were one of the top ten investment banks in ECM business throughout Europe. For example, we provided assistance to Siemens Healthineers, a medical technology group, and Knorr-Bremse, a manufacturer of braking systems, with the largest European IPOs last year (€4.2 billion and €3.8 billion, respectively), and acted as lead manager for the IPOs of drugmaker Dermapharm, Swiss engineering company Klingelnberg, e-commerce enterprise Westwing Group and Team17, a UK-based video game developer.

We assisted companies with capital increases across several sectors. These included Aroundtown, a real-estate company (€606 million), Burford Capital, a provider of financial and other services (£193 million), and ProCredit Holding, a banking group specialised in sustainable development (€61 million). In addition, we acted as flow-back manager during the spin-off of Puma, the German sports goods manufacturer, from luxury group Kering.

In the UK ECM business, we succeeded in winning 13 further corporate broking mandates, which means that we currently hold a total of 30 mandates from clients in the UK market. Another milestone was the successful completion of our first three ECM transactions in the US.

Debt Capital Markets (DCM)

In the reporting year, we closed six transactions with a volume of around €1.5 billion. In the area of traditional bonds, we set up a €1 billion EMTN* programme as joint arranger and initial dealer on behalf of Sixt Leasing and subsequently placed a drawdown in the form of a €250 million bond. In addition, we increased Borealis’s high-yield US dollar bond issued in 2017 by $50 million.

* European Medium Term Note.

The most transactions

<table>
<thead>
<tr>
<th>Number of deals</th>
<th>Lead bank</th>
</tr>
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<tbody>
<tr>
<td>23</td>
<td>Berenberg</td>
</tr>
<tr>
<td>17</td>
<td>Credit Suisse</td>
</tr>
<tr>
<td>17</td>
<td>UBS</td>
</tr>
<tr>
<td>14</td>
<td>JPMorgan</td>
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<td>14</td>
<td>Goldman Sachs</td>
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<tr>
<td>13</td>
<td>Deutsche Bank</td>
</tr>
<tr>
<td>12</td>
<td>Citi</td>
</tr>
<tr>
<td>12</td>
<td>Morgan Stanley</td>
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</table>

Source: Bloomberg
In the structuring and placement of the €75 million convertible bond for Shop Apotheke, we acted as sole global coordinator and sole bookrunner and achieved a successful placement of the bond to international investors. As joint global coordinator and joint bookrunner, we furthermore placed the €159 million convertible bond for SGL Carbon and the first ever convertible bond for Cosmo Pharmaceuticals. In addition, we arranged a second incentivised conversion offer of Aroundtown’s €300 million convertible bond issued in 2016.

M&A Advisory
In 2018, Berenberg succeeded in reinforcing its position as a leading provider of advisory services in public takeovers for family- and owner-managed businesses facing succession situations, as well as strategic advice for medium-sized companies in connection with non-organic growth strategies.

As we continue to refine the expertise and coverage of our M&A business, the technology sector will become another pillar of our advisory approach. Increasing digitalisation and disruptive technology trends, such as the Internet of Things (‘Industry 4.0’) and artificial intelligence, are transforming business models across industries and leading to permanent changes in the competitive landscape, boosted by a range of M&A activities.

In light of such seismic shifts, in-depth industry expertise and a multi-layered range of M&A advisory services put Berenberg in the best possible position to assist the relevant market actors in structuring the respective opportunities and risks – whether as part of traditional growth and platform acquisitions, or with innovative investments and capital market solutions such as carve-outs, spin-offs and joint ventures that necessitate a corresponding portfolio realignment.
Financial Markets

Fixed Income Research
As part of the introduction of the European financial markets directive MiFID II in the reporting year, our Fixed Income Research aligned its strategy even more rigorously to specialist and niche topics and high-quality research with real added value for institutional investors. This effort paid off, and is reflected in the repeated increase in readership for our research reports. In particular the second, extended edition of our issuers paperback »Berenberg Emittenten-Taschenbuch« once again met with huge interest from our clients. In 2019, the end of net purchases by the European Central Bank (ECB) on the bond markets is likely to steer the gaze of investors increasingly to the individual issuer level on account of the differentiated spreads. With top-notch research on issuer-specific topics, we will again provide our institutional clients with valuable assistance for their investment decisions in 2019.

Fixed Income Sales Trading
Apart from MiFID II becoming effective, the reporting year was shaped by the activities of the ECB. Continued low interest rates resulted in an increasing shift to investments in other asset classes. To be prepared for the potential growth in revenue-generating activities in the event of a marginal increase in interest rates, we focused our competencies at our locations in Hamburg and London. We see major advantages in targeting clients in a focused manner across all fixed income products, and intend to reposition ourselves in this challenging market environment.

Forex Trading
The EUR/USD exchange rate development in 2018 was characterised by a weaker euro than in the previous year. This development is due in part to the strength of the US dollar on the back of the US President’s tax reform, low unemployment, rising inflation in the US and related interest rate increases, both actual and expected. Secondly, negative factors such as the slowdown in the eurozone economy, the ongoing policy of the ECB to keep interest rates low as well as budgetary uncertainties all combined to weaken the euro overall.
By contrast, the pound sterling exchange rate became extremely volatile after the UK’s withdrawal agreement with the European Union and the ensuing uncertainty.

Looking to the emerging markets, the stand-out event was the continued downward spiral of the Turkish lira until late 2018. This is attributable first and foremost to the presidential elections in Turkey and the related uncertainty concerning the independence of the Turkish Central Bank. The knock-on effects were an economic downturn, a rapid rise in inflation and related increasing interest rates for Turkish government bonds. While the lira has since regained some stability, it is still trading below the previous year’s exchange rates and continues to be very volatile.

Emerging markets currencies weakened over the course of the reporting year in view of the rise in US interest rates and the resulting outflows of direct investment.

In this market environment, Sales developed suitable tailored solutions for our clients, which include corporates, institutional investors and banks. Proprietary trading was also successful thanks to a disciplined and professional approach.

The significance of electronic trading is growing continuously due to stricter regulatory and reporting requirements. We are liaising closely with IT and paying close attention to these developments.
Corporate Banking

In recent years, Corporate Banking has become established not only as a partner to many discerning clients but also as an asset manager for illiquid alternative assets. This is chiefly reflected in the fact that we assist sophisticated credit exposures – predominantly for institutional investors, but also for large family offices – exclusively from the transaction business via Luxembourg-based funds. This allows us to be a good and reliable partner to many of those seeking credit on the one hand, while on the other hand opening up an excellent opportunity/risk profile for investors through our special access to transactions. Additionally, as part of our day-to-day banking we offer our clients a wide range of individual solutions for account management, payment transactions, and currency and interest rate risk management.

Structured Finance

The trend observed in 2017, of private debt funds winning market share in the financing of company acquisitions by financial investors, continued in 2018. In a very competitive market, our strategy of also cooperating with private debt funds for acquisition financing was successful. We were in a position to assist a range of super senior transactions as well as leveraged buy-outs financed entirely by banks. Examples include the refinancing of the SF-Filter Group, previously financed through a super senior structure and held by Ambienta, and the financing for the takeover of the AEMtec Group by Capiton. The financial year was the most successful ever for our Structured Finance team, which closed more than two dozen transactions.

One significant milestone was the set-up of the third structured finance credit fund for €350 million. This is a fund managed by us that can also grant direct loans. In addition, we again won some financing advisory mandates in the reporting year. These included our advisory engagement for the QSIL Group together with our Corporate Finance team.

«In a very competitive market, our strategy of also cooperating with private debt funds for acquisition financing was successful.»
Infrastructure & Energy

On the basis of our credit platform in particular, we were able to expand our business activities further. With the BERENBERG DIGITAL INFRASTRUCTURE DEBT FUND I we initiated our third fund and completed the first closing of a lending transaction successfully. These special assets finance digital infrastructure products such as the build-out of the fibre-optic network.

The two BERENBERG GREEN ENERGY JUNIOR DEBT FUNDS set up in 2017 also developed positively. The funds provide junior financing for products in the renewable energy segment. Some of these positive developments included successful expansion of the portfolio, with some returns considerably above expectations, as well as the capital increase in Fund II to roughly €250 million.

The Rail and Logistics segment is the third pillar of the Infrastructure & Energy department. We coordinated and arranged the financing of railway vehicles for DB Regio for operation on the Ulm diesel network for two major German insurance firms. This is the first institutional financing solution for regional rail passenger transport in Germany.

Furthermore, we are in charge of a financing advisory mandate for an Austrian consortium that is taking part in a call for tenders for the large-scale build-out of the fibre-optic network in Lower Austria.

Shipping

We continued successfully on our growth trajectory in the shipping business, expanding our business with existing clients and winning new international clients and shipping investors for our Bank. We are continuing to benefit from ongoing market consolidation in the industry, where the remaining stakeholders are back in a stronger position and are looking toward the future. We were able to provide flexible and reliable assistance to these clients with their business, which is experiencing renewed growth, via our internationally established, modern platform for payment transactions, cash management and forex trading with specialist maritime competency. Also, traditional banks are continuing to retreat from ship financing, causing alternative financing sources such as private debt funds and Asian leasing models to gain in significance.
Firstly, this development of a globally clearly diversified financing offering is generating increasing demand for advisory services by our clients, whom we support by arranging financing, for example. Secondly, it has resulted in us winning a range of attractive maritime asset management mandates, as alternative providers of financing generally require a service partner for the banking side of their business, for example for payment transactions or credit servicing.

Our Luxembourg-based shipping loan fund BEGO ALTERNATIVE ASSET FUND, set up in 2016, also grew further, with new senior secured ship loans from the primary and secondary markets performing very pleasingly for the institutional investors in the fund. We expect additional growth in this area.

Real Estate
Germany’s real estate market was once again characterised by rising purchase prices and rents in almost all types of use in 2018. Because purchase prices rose at a faster pace than rents, there was a further fall in returns.

This was true in particular for the larger conurbations on account of high levels of migration, insufficient levels of new construction, high employment and rising income, combined with low interest rates and a lack of investment alternatives. Many investors responded by shifting their activities to B-ranked and C-ranked cities and to alternative types of use, for example corporate real estate.

Thanks to the close collaboration with the Real Estate division, we can support our private and corporate clients across all sectors in their real estate activities, both on the assets and the liabilities side.
<table>
<thead>
<tr>
<th>Equity Capital Markets</th>
<th>IPO</th>
<th>IPO</th>
<th>Spin-off</th>
<th>IPO</th>
<th>Capital Increase</th>
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<tr>
<td><strong>Closed transactions</strong></td>
<td><strong>SIEMENS Healthineers</strong></td>
<td>EUR 4.2bn</td>
<td><strong>KNORR-BREMSE</strong></td>
<td>EUR 3.8bn</td>
<td>EUR 2.5bn</td>
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<td>Co-Lead Manager</td>
<td>Joint Bookrunner</td>
<td>Flowback Manager</td>
<td>Joint Bookrunner</td>
<td>Joint Bookrunner</td>
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<tr>
<td><strong>Dermopharm AG</strong></td>
<td><strong>GODEWIND Immobilien AG</strong></td>
<td>EUR 377m</td>
<td>EUR 375m</td>
<td><strong>Burford</strong></td>
<td>GBP 193m</td>
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<tr>
<td>Joint Bookrunner</td>
<td>Joint Global Coordinator and Sole Bookrunner</td>
<td>Joint Global Coordinator and Joint Bookrunner</td>
<td>Joint Global Coordinator and Joint Bookrunner</td>
<td>Co-Lead Manager</td>
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<tr>
<td><strong>CORESTATE Capital Group</strong></td>
<td><strong>Altair</strong></td>
<td>EUR 210m</td>
<td>USD 223m</td>
<td><strong>home24</strong></td>
<td>USD 202m</td>
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<td>Secondary Placing</td>
<td><strong>TEN LTD</strong></td>
<td><strong>Burford</strong></td>
<td><strong>RIB</strong></td>
<td><strong>Rights Issue</strong></td>
<td><strong>Secondary Placing</strong></td>
</tr>
<tr>
<td><strong>Cofinimmo</strong></td>
<td><strong>HEICO FRESH</strong></td>
<td><strong>TEN LTD</strong></td>
<td><strong>Burford</strong></td>
<td>EUR 155m</td>
<td>EUR 150m</td>
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<tr>
<td>Joint Bookrunner</td>
<td>Joint Global Coordinator and Joint Bookrunner</td>
<td>Co-Manager</td>
<td>Joint Global Coordinator and Sole Bookrunner</td>
<td>Joint Bookrunner</td>
<td>Joint Global Coordinator and Joint Bookrunner</td>
</tr>
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<td>Equity Capital Markets</td>
<td>IPO</td>
<td>IPO</td>
<td>Secondary Placing</td>
<td>Secondary Placing</td>
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<tr>
<td><strong>EUR 130m</strong>&lt;br&gt;Sole Global Coordinator and Sole Bookrunner</td>
<td><strong>EUR 122m</strong>&lt;br&gt;Joint Global Coordinator and Joint Bookrunner</td>
<td><strong>GBP 108m</strong>&lt;br&gt;Sole Global Coordinator and Sole Bookrunner</td>
<td><strong>EUR 104m</strong>&lt;br&gt;Joint Global Coordinator and Joint Bookrunner</td>
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<tr>
<td><strong>EUR 73m</strong>&lt;br&gt;Sole Global Coordinator and Joint Bookrunner</td>
<td><strong>GBP 62m</strong>&lt;br&gt;Sole Global Coordinator and Sole Bookrunner</td>
<td><strong>GBP 61m</strong>&lt;br&gt;Joint Global Coordinator and Joint Bookrunner</td>
<td><strong>EUR 65m</strong>&lt;br&gt;Sole Global Coordinator and Sole Bookrunner</td>
<td><strong>EUR 63m</strong>&lt;br&gt;Sole Global Coordinator and Sole Bookrunner</td>
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<tr>
<td><strong>EUR 61m</strong>&lt;br&gt;Sole Global Coordinator and Joint Bookrunner</td>
<td><strong>GBP 41m</strong>&lt;br&gt;Joint Global Coordinator and Joint Bookrunner</td>
<td><strong>EUR 45m</strong>&lt;br&gt;Sole Global Coordinator and Sole Bookrunner</td>
<td><strong>GBP 38m</strong>&lt;br&gt;Joint Global Coordinator and Joint Bookrunner</td>
<td><strong>GBP 35m</strong>&lt;br&gt;Joint Global Coordinator and Joint Bookrunner</td>
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<td><strong>EUR 36m</strong>&lt;br&gt;Joint Global Coordinator and Joint Bookrunner</td>
<td><strong>GBP 32m</strong>&lt;br&gt;Sole Global Coordinator and Sole Bookrunner</td>
<td><strong>GBP 30m</strong>&lt;br&gt;Joint Global Coordinator and Joint Bookrunner</td>
<td><strong>EUR 30m</strong>&lt;br&gt;Sole Global Coordinator and Sole Bookrunner</td>
<td><strong>EUR 24m</strong>&lt;br&gt;Sole Global Coordinator and Sole Bookrunner</td>
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<tr>
<td>Capital Increase</td>
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<td>Rights Issue</td>
<td>&lt;10% Capital Increase</td>
<td>Capital Increase</td>
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<tr>
<td>GBP 20m</td>
<td>GBP 20m</td>
<td>EUR 19m</td>
<td>EUR 17m</td>
<td>GBP 15m</td>
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<tr>
<td>Joint Global Coordinator and Joint Bookrunner</td>
<td>Joint Global Coordinator and Joint Bookrunner</td>
<td>Sole Global Coordinator and Sole Bookrunner</td>
<td>Sole Global Coordinator and Sole Bookrunner</td>
<td>Joint Global Coordinator and Joint Bookrunner</td>
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<tr>
<th>Secondary Placing</th>
<th>Capital Increase</th>
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<tbody>
<tr>
<td>GBP 12m</td>
<td>GBP 6m</td>
<td>GBP 3m</td>
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<tr>
<td>Sole Global Coordinator and Sole Bookrunner</td>
<td>Joint Global Coordinator and Joint Bookrunner</td>
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<tr>
<th>Convertible Exchange Offer</th>
<th>Bond Senior Unsecured</th>
<th>Convertible</th>
<th>Convertible</th>
<th>Convertible</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR 300m 1.500% / 42.5% 01/2021</td>
<td>EUR 250m 1.500% 05/2022</td>
<td>EUR 175m 2.500% / 20.0% 12/2023</td>
<td>EUR 159.3m 3.000% / 30.0% 09/2023</td>
<td>EUR 75m 4.500% / 25.0% 04/2023</td>
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<tr>
<td>Sole Global Coordinator and Sole Advisor</td>
<td>Joint Arranger and Initial Dealer</td>
<td>Joint Global Coordinator and Joint Bookrunner</td>
<td>Joint Global Coordinator and Joint Bookrunner</td>
<td>Sole Global Coordinator and Sole Bookrunner</td>
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<tr>
<th>Senior Secured Bond Tap</th>
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<tbody>
<tr>
<td>USD 50m 7.500% 11/2022</td>
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<tr>
<td>Joint Global Coordinator and Joint Bookrunner</td>
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<tr>
<td>Structured Finance</td>
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<tr>
<td><strong>Senior Financing within the context of an acquisition</strong></td>
</tr>
<tr>
<td><strong>Sole Mandated Lead Arranger</strong></td>
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<tr>
<th>Acquisition Financing</th>
<th>Acquisition Financing</th>
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<th>Acquisition Financing</th>
<th>Acquisition Financing</th>
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<tr>
<td><strong>Super-Senior Financing within the context of an acquisition</strong></td>
<td><strong>Super-Senior Financing within the context of an acquisition</strong></td>
<td><strong>Super-Senior Financing within the context of an add-on acquisition</strong></td>
<td><strong>Super-Senior Financing within the context of an acquisition</strong></td>
<td><strong>Super-Senior Financing within the context of an add-on acquisition</strong></td>
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<tr>
<td><strong>Mandated Lead Arranger</strong></td>
<td><strong>Mandated Lead Arranger</strong></td>
<td><strong>Mandated Lead Arranger</strong></td>
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<tr>
<th>Acquisition Financing</th>
<th>Refinancing</th>
<th>Refinancing</th>
<th>Refinancing</th>
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<tbody>
<tr>
<td><strong>Super-Senior Financing within the context of an add-on acquisition</strong></td>
<td><strong>Senior Financing within the context of a refinancing</strong></td>
<td><strong>Super-Senior Financing within the context of a refinancing</strong></td>
<td><strong>Super-Senior Financing within the context of a refinancing</strong></td>
<td><strong>Super-Senior Financing within the context of a refinancing</strong></td>
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<td><strong>Sole Mandated Lead Arranger</strong></td>
<td><strong>Sole Mandated Lead Arranger</strong></td>
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<tr>
<th>Refinancing</th>
<th>Corporate Financing</th>
<th>Financial Advisory</th>
<th>Financial Advisory</th>
<th>Recapitalisation</th>
</tr>
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<tbody>
<tr>
<td><strong>Senior Financing within the context of a refinancing</strong></td>
<td><strong>Corporate Loan for general corporate purposes</strong></td>
<td><strong>Financial Advisory within the context of Isthmos Holding GmbH acquiring a majority of shares in Ibykus AG</strong></td>
<td><strong>Financial Advisory within the context of QSIL GmbH acquiring Barat Ceramics GmbH</strong></td>
<td><strong>Senior Financing within the context of a recapitalisation</strong></td>
</tr>
<tr>
<td><strong>Mandated Lead Arranger</strong></td>
<td><strong>Sole Mandated Lead Arranger</strong></td>
<td><strong>Sole Financial Advisor</strong></td>
<td><strong>Sole Financial Advisor</strong></td>
<td><strong>Mandated Lead Arranger</strong></td>
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Cross-divisional services

Real Estate
The Real Estate division was expanded further in 2018, taking on more personnel in various areas. Besides providing all-round advice on the economics of all aspects of real estate as a capital investment, we discreetly structure transactions for buyers and sellers. Berenberg also offers value-based asset management services, which are particularly important across the real estate cycle. We carried out numerous mandates in 2018, both in advisory and in asset management.

The mixed-use property »Nedderfeld« in Hamburg-Eppendorf as well as the »Fachartzentrum« specialist medical centre in Lübeck were acquired for the successfully placed open-ended special real estate fund BERENBERG REAL ESTATE HAMBURG. Furthermore, we reached an exclusive agreement on a property pipeline for full investment of the fund.

The open-ended special AIF BERENBERG REAL ESTATE BERLIN accepted new institutional investors in two closings. The investment focus is the greater Berlin and Potsdam area. The fund will broaden its investment activities in 2019.

External Asset Management Office
Increasing regulatory requirements and the related administrative hurdles as well as the sometimes dramatic market upheaval posed major challenges for the entire financial industry in the reporting year, and thus also for independent asset managers. In this environment, a purely technical custodian bank function for individual portfolio management as well as for private label funds constitutes only a minimum service level. We view the extensive services provided by our team as well as consulting and coaching as an add-on and a unique selling proposition on the market. Our cooperation partners appreciate this package, and have now increased in number to 156. Currently we are planning to connect the independent asset managers more closely with other divisions in our Bank. Asset managers can extend their own range of services in this way, positioning themselves even better vis-à-vis their clients.
Bank Management central business unit

We can succeed in providing the best possible service to our clients only if the infrastructure required by the staff areas is optimally aligned to this objective. In addition, implementation of constantly changing regulatory requirements ties up a great deal of resources, and the market environment is characterised by increasing digitalisation and automation. For this reason, we have brought together the IT (information technology), Transaction Services, Balance Sheet/Reporting, Taxes/Affiliates and Risk Controlling units, which are especially important in this context, into the Bank Management central business unit in order to harness their combined forces.

Our IT plays an important role in rendering our services. We made a conscious decision to develop important components ourselves, using standard solutions where this makes sense for efficiency reasons. In doing so, however, we always keep an eye on our value chain and consider which solution allows for optimum alignment with the needs of our clients. Agile working is used consistently for our in-house developments. This allows us to achieve a very high degree of flexibility, boosting IT productivity and innovativeness in a sustained manner. We are also building on a more modular approach to our IT architecture. In combination with the possibility of achieving continuous delivery and integration, this gives us a highly flexible and scalable basis that enables a rapid response to new business requirements and facilitates external partner integration. Alongside implementation of regulatory requirements, the current focus of our development work is predominantly on digitalisation and automation projects. To provide our business segments with stable and reliable IT services, we have our own IT centre infrastructure. In order to achieve a sustainable operating framework, we plan to make greater use of scalable solutions (for example, cloud computing) in future in combination with our own systems. The increasingly international nature of our business is supported by a global IT approach. In our IT management, we place a special focus on the segment of governance and regulatory framework. Consistent alignment of our IT to agile working, in combination with our very high level of expertise as operator and developer of our own systems, allows us to integrate strict regulatory requirements into our systems and business processes without delay. An information security unit operating independently of IT ensures the necessary system protection.
The rendering of securities services for our clients necessitates a powerful securities handling system. From our Transaction Services unit, we offer our front office segments handling processes tailored closely to their specific needs. We take care that our handling processes are not only robust and of the highest quality but also as efficient as possible. We rely on increasing automation, firstly to reduce susceptibility to error, and secondly to be able to give our front office segments a platform for further growth and the progressing internationalisation of our business.

The Balance Sheet/Reporting department ensures that financial reporting regulations are duly applied and that reporting of our business activities to the supervisory authorities takes place in a timely and accurate manner. The Taxes/Affiliates unit ensures compliance with all tax regulations and coordinates the accounting of our subsidiaries. The Risk Controlling unit is responsible for analysis and management of the risks associated with banking that are independent of the market segments (please also refer to the Risk Report on page 50 et seq.). For many years now, we have made sure that we do not consider the key risk indicators in isolation from how our business is otherwise developing. For this reason, Controlling has similarly been integrated into this unit to provide the responsible staff and management with all relevant information required in this context on a timely basis. Central projects of the Bank are coordinated from a department set up for this purpose within the Bank Management unit. In this way, we can ensure uniform management of projects and thus an efficient implementation of new topics.
Employees

The dynamic developments on the markets in connection with increasing regulatory requirements for our industry can only be tackled successfully with highly dedicated and very well qualified employees. Even with a headcount of roughly 1,600 employees in 15 locations, we master this challenge very well on a global scale.

Berenberg relies on a healthy mix of experienced staff and young talents. Once again in the reporting year, we made an intensive effort to hire and train school-leavers and university graduates, taking into consideration demographic change and the tough competition for applicants. For example, we recruited a total of 34 new employees for our International Graduate Programme in 2018. With a view to setting up a similar programme in the US, five new employees started work in our US subsidiary to be trained as young professionals in a rotation programme.

Furthermore, 41 new talents are currently completing business and IT apprenticeships or dual-track programmes with us. Last but not least, we have given numerous students the opportunity to gain practical experience at our Bank as interns and working students.

The focus of personnel development in 2018 was on developing and implementing a new global appraisal system for our employees to replace the various feedback systems currently in use.

After the thoroughly successful implementation of the regulatory requirements at the end of 2017 and beginning of 2018 (including MiFID II), we have now adjusted our personnel resources in the areas of IT and Investment Banking to a level that corresponds to the original size. Roughly 150 employees were affected. This personnel measure is reflected in the 2018 figures only to a minor extent. In total, the number of employees in the Group (without Berenberg Bank (Schweiz) AG) increased from 1,474 to 1,640.

We would like to thank all of our employees for their commitment and dedication. We have built a very trusting and constructive working relationship with the Works Council over many years. The implementation of the aforementioned personnel adjustments bore testimony to the value and resilience of this relationship. We therefore wish to extend our special gratitude to the members of the Works Council and of the JAV (Youth and Trainee Council) for the trusting and constructive working relationship.
Risk report

We retained our cautious risk strategy in the reporting period. The deliberate focus on less risky, service-oriented business divisions once again proved its value. Our risk culture is marked by an extremely conservative risk appetite and is defined by management once a year as part of the strategy planning process. Risks are assumed only to an extent that ensures the Bank’s ability to continue as a going concern in the long term. This approach forms the basis for our risk management, including the setting of risk limits.

The Bank’s liquidity situation remained very comfortable throughout 2018. We invest our deposit surplus in a highly liquid portfolio dominated by securities of German public-sector issuers with short remaining maturities and supplemented by German Pfandbriefs/covered bonds with strong credit ratings. At no time has the Bank conducted proprietary investments in securitised credit structures or similar.

Our risk management process is characterised by its strategic focus on service-based business divisions, combined with the use of contemporary risk measurement methods ideally suited to our corporate structure. The main risk types that we analyse in our risk management processes are counterparty, market price, operational and liquidity risk. Reputational risks are evaluated as part of the management of operational risk. We also take into account the possibility of a fall in earnings (adverse scenarios, conservative definition of risk cover).

In view of the new risk-bearing capacity guidelines (internal capital adequacy assessment process, »ICAAP«) published in May 2018 by the supervisory authority, there have been some fundamental changes to this year’s planning process, resulting in capital planning, profit and loss planning and risk-bearing capacity being merged. Although the new guidelines allow for continued use of previous approaches (»old-style« going concern approaches) for the time being, we decided to switch to the new regulations as of 31 December 2018. For the first time, the guidelines introduce a normative and an economic perspective to risk-bearing capacity to be considered in unison. The aim here is to consider both the institution’s continued existence and
the protection of creditors. Both perspectives are based on the fundamental principle of calculating risk-bearing capacity, which involves comparing detected risks with the available risk cover (primarily equity). This early switch puts us in a strong position to meet the regulatory requirements in this area.

The **normative perspective** is based on the regulatory requirements, especially with regard to the institution’s equity capital. Different scenarios are analysed as part of three-year integrated capital planning. Alongside the baseline scenario, which considers business developments in normal economic framework conditions, an adverse scenario is considered that assumes a severe economic downturn lasting much longer than a year. This scenario is based on extensive macroeconomic and institution-specific assumptions. It is not only simulated in isolation for individual parameters, but also constitutes an integrated stress test as defined by MaRisk AT 4.3.3 with an impact on all relevant parameters, and includes management control measures to counteract the crisis. The results show that the Bank could address even such an extreme scenario without difficulty, using its own assets and earnings power.

For the **economic perspective**, the economic capital is calculated at close to present value. The basis is provided by the capital indicators in the balance sheet (according to HGB), supplemented by hidden reserves and/or losses. In our very conservative approach, budgeted profits are not credited. The potential losses of the business divisions are quantified for the above risk types on the basis of the value-at-risk (VaR) principle. VaR represents an upper loss ceiling for a given probability level. Risk is quantified using our established present value model calculations at an extremely high confidence level of 99.9% and with a risk horizon of one year. In principle, the VaR procedures reflect the potential losses on the basis of normal market conditions. To gain a more extreme perspective on the risk situation, we supplement risk evaluations with an analysis of appropriate historical and hypothetical stress tests.

Our regular comparisons between risk and risk cover are based on these two different methods of assessing the risk position. Risk-mitigating diversification effects across the various risk types are consciously ignored by aggregating the covering amounts for the various categories of risk conservatively.
In the course of quarterly analyses carried out in parallel, the results of various stress scenarios specific to risk types as well as of general stress scenarios are compared with the available economic capital and cannot exceed this figure. We also perform ad hoc stress tests as and when required. As an inverse stress test, we define additional scenarios that would tie up all of the available economic capital if they were to occur.

The new method pursuant to the risk-bearing capacity guidelines was introduced as of 31 December 2018. Up until that date, the traditional »going concern« approach was used. Not all of the economic capital available to the Bank in the past financial year was used by the business divisions, which highlights the particular caution built into the Bank’s risk management process and reflects the appropriateness of the relationship between the opportunities arising from business activities and the risks assumed with regard to overall profit or loss. Our overall risk-adjusted bank management provides for the business divisions to take on risk only if it is commensurate with the potential rewards.

Management has overall responsibility for the risk management process and defines the general conditions for managing the various risk types. The Risk Controlling unit acts independently of the various front offices in organisational terms, in accordance with the Minimum Requirements for Risk Management (MaRisk) for banks and financial services institutions. This unit works closely with other areas to ensure a constant and timely flow of information to the Bank’s management and Advisory Board, and is responsible for developing and overseeing the systems used in overall bank and risk management. Risk Controlling carries out a risk inventory at regular intervals and compares the risk amounts of the various risk types with the available economic capital. As part of the risk management process, we ensure (in line with our strategy) that excessive concentrations of risk do not exist, either within or across risk classes.

In its risk management, Berenberg employs the classic model of three lines of defence. In the first line of defence, the operational managers in the Bank’s various units are risk owners with responsibility and accountability for assessing,
managing and mitigating risk. This includes the implementation and monitoring of organisational hedging operations and control activities anchored in the processes.

In the second line of defence, the Risk Controlling and Compliance units facilitate and monitor the implementation of effective risk management and ensure independent risk reporting to the Bank’s management.

The third line of defence consists of the Bank’s independent Auditing department, which employs a risk-oriented approach to evaluate how effectively the Bank controls its risks and how well the first and second lines of defence perform their tasks.

A back office unit organisationally independent of the front office monitors exposure to counterparty risk using a wide-ranging limit structure. A range of targeted risk controlling analyses supports the management of default risk at the overall portfolio level.

*Market price risk* arises from both short-term positions in the trading book and strategic positions in the liquidity reserve, and is closely monitored by Risk Controlling.

Risk Controlling also quantifies *operational risk* using advanced methodologies, the extent of which is limited by a comprehensive set of rules and contingency plans.

Treasury is responsible for the management of *liquidity risk*, together with the Money Market department. Risk Controlling is included in monitoring, and validates the results.

An overall calculation is performed on a monthly basis to track the profit and loss of the business divisions, taking into account the risks assumed. The Risk Controlling unit provides management with an efficient management information system that enables the recipients to analyse earnings and risks at different aggregation levels, using risk-adjusted indicators, among other things.

The Bank’s Auditing department regularly examines the organisational precautions for managing, monitoring and controlling the various categories of risk, based on the parameters specified in the Audit Manual.
Risk Controlling and Credit Risk Management regularly provide information to the Risk Monitoring Committee set up by the Bank’s Advisory Board, which holds three scheduled meetings each year.

The principles of our risk management strategy are recorded in a written risk strategy paper, which is available to all employees.

The complete risk report can be accessed at our website: www.berenberg.de/en/riskreport
Outlook

Banks continue to operate in a difficult environment. Not only must they cope with constantly changing regulatory requirements and historically low or even negative interest rates, but they also have to overcome the challenges of digital transformation.

Berenberg will continue to make every effort to master the challenges in a timely and proactive manner. As a medium-sized bank, we are very well equipped in this respect. We are of sufficient size while maintaining the flexibility to react quickly and in a targeted way. Therefore, in recent years we have repeatedly adjusted our business model to meet the respective requirements and to expand Berenberg into an advisory firm with international operations. Beyond Hamburg, we have become established at the major financial hubs. We have consistently expanded our London branch and prepared ourselves for the different Brexit scenarios. On the whole, we expect this location to create more advantages than disadvantages in the years ahead. We are convinced that London will remain a very important finance location even after Brexit, and we have a strong foothold with our branch. We are in constant correspondence with the UK supervisory authorities in this regard. Being a bank headquartered within the EU, we also fulfil all requirements to be able to continue offering our services in our targeted business area.

We will continuously expand our New York operations. We will grow our equity research desk to cover US stocks, thus adding increasing regional diversification to the business model established in Europe. Thanks to our advisory services aligned to client requirements, we have been able to acquire numerous new clients in recent years. We are thus optimistic about the future, and plan to further expand our business in 2019 and continue to grow in our core markets of Germany, the UK, continental Europe and the US. We wish to remain the preferred partner for existing clients, and consider ourselves to be in an excellent position to constantly win new clients and expand our market share. We will retain our proven, diversified business model with our Wealth and Asset Management, Investment Banking and Corporate Banking business divisions. In Wealth Management, we focus on providing services for sophisticated asset structures. This division dovetails very closely with Asset Management in order to offer our clients an even broader, excellent product range.
The outstanding equities expertise in the Bank will also be leveraged for this purpose. In securities trading, we are planning to further increase our market share, and also achieve in other markets the top ranking in the capital market business that we have in Germany. In Corporate Banking, we plan to develop new innovative products and tap new client groups.

As diverse as the divisions are, they are all united by our determination to provide clients with top-quality, objective advice, the best possible service and excellent execution. Berenberg will continue to focus on the service offering and pursue very conservative risk management. We will concentrate on the existing business divisions and exploit opportunities that promote the continuous development of our business activities. We will continue to apply our strategy of organic growth with a view to concentrating fully on our clients’ needs.

Besides expanding our front office units, we will also constantly adapt our internal structures. We will focus closely on our in-house IT, which has state-of-the-art equipment and deploys modern organisational structures to provide the necessary flexibility. Furthermore, we place great importance on strong regulatory functions. These primarily include Compliance, Auditing and Risk Controlling. No specific risks were known at the reporting date that go beyond the risks managed as part of our risk management process and that could have a major impact on the Bank’s future business performance.

We are convinced that we have an excellent position in the market and that the hard work of our dedicated and skilled workforce will enable us to generate solid earnings again in 2019, at least on the previous-year level of earnings, especially in light of the increase in net commission income. Because of regulation, the low interest rate levels and the increasing pressure to invest due to advancing digitalisation, we expect that the industry will experience lasting and severe pressure to consolidate. However, we consider ourselves to be very well prepared with a robust business model, and we want to use this phase to win further market share. In doing so, we will keep an especially sharp focus on structuring our processes to be as efficient and cost-effective as possible.
Wealth and Asset Management

The consistent focus of our Wealth Management is reflected in the increasing significance of our centres of competence for entrepreneurs, family offices and foundations. We are expecting substantial growth in these client groups in particular, and we consider ourselves to be in the best possible position for such growth. The closer links to Corporate Banking and Investment Banking will provide additional tailwinds on our growth trajectory and make the »Berenberg platform« with its innovative product and advisory solutions even more tangible for our clients. As regards digitalisation, we will continue to analyse very closely which new developments can generate added value for our clients, either directly or indirectly, and which sources of positioning and/or income can be integrated in our business model.

Our growth trajectory is likewise set to continue for Asset Management. Our investment focus will continue to be on quality in the form of competent investment specialists, processes that are second to none, our technical infrastructure, and visibility through incisive appearances using various channels and expanding our international sales activities and collaborations.

In 2019, the Equities team will focus on the existing funds. We want to further improve our track record and win new clients for Berenberg. The objective in the field of multi-asset products is to implement the more stringent investment process introduced in 2018 sustainably. We want to be even more strongly linked to transparency and verifiability, as well as to incisiveness and decisive action in this area, even if this runs counter to prevailing trends. The two new funds GLOBAL BOND OPPORTUNITIES and VARIATO will be important vehicles in this regard, making use of large degrees of freedom far removed from benchmarks. In our quantitative activeQ strategies, we want to increase assets further in 2019 and gain new clients. To achieve this goal, we are working on the continuous improvement of our investment processes and on developing new strategies to meet our clients’ needs. In respect of Liquid Alternatives, we will concentrate on rigorously refining the existing strategy, marketing the retail fund and diversifying the product offering.
We also consider our Overlay Management position to be very strong in 2019 and will therefore devote most of our energy to gaining new clients in Germany and abroad that have international investments and appreciate professional risk management. In addition, we will step up our efforts to assist our clients in evaluating individual portfolio risks and implementing the most efficient strategy. The increasing uncertainty on the markets has already fuelled higher demand for tailored risk management strategies. We expect this trend to continue in 2019. This means that constantly reviewing existing investment processes and developing new ones will remain a major part of our daily work.

**Investment Banking**

Following discussions with all our major clients on expected payment levels in 2019, we expect to have another year of market share growth. We expect to maintain our leading position for IPOs and capital increases in the German-speaking region. We intend to build on our successes in the UK and in other parts of continental Europe. We also expect our US equity capital markets business to make further progress in 2019.

We have made considerable changes to our fixed income and forex businesses in 2018, and we expect these changes to allow the divisions to make a profitable contribution to the Bank.

We are making the necessary adjustments to our business in preparation for the UK exiting the European Union. In our view, Brexit will thus have no material impact on our business.
Corporate Banking

The Structured Finance, Infrastructure & Energy and Shipping departments grew our activities in the fields of credit funds and managed accounts to well in excess of €1 billion in 2018. Consequently, we take a very positive view of continuing the rapid expansion in this area. More and more institutional investors, as well as large family offices, are entrusting their money to us for lending, or engaging us to carry out administrative tasks in the case of illiquid alternative assets. This allows us to exploit our international structure and expand our international activities in this area. Among other things, this entails more and more involvement of our international payment transactions and our forex trading. Our expertise with regard to illiquid alternative assets means that we can present our services and our service quality to new client groups.
## Balance sheet as at 31 December 2018

### Assets

<table>
<thead>
<tr>
<th></th>
<th>€ 2018</th>
<th>€ 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash reserve</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash on hand</td>
<td>2,359,450</td>
<td>1,829,229</td>
</tr>
<tr>
<td>Balances with central banks</td>
<td>975,527,481</td>
<td>837,886,368</td>
</tr>
<tr>
<td></td>
<td>977,886,931</td>
<td>839,715,597</td>
</tr>
<tr>
<td><strong>Receivables from banks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payable on demand</td>
<td>374,210,610</td>
<td>299,742,882</td>
</tr>
<tr>
<td>Other receivables</td>
<td>346,350,033</td>
<td>249,234,575</td>
</tr>
<tr>
<td></td>
<td>720,560,643</td>
<td>548,977,457</td>
</tr>
<tr>
<td><strong>Receivables from customers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,097,095,804</td>
<td>929,223,573</td>
</tr>
<tr>
<td><strong>Bonds and other fixed-income securities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and debentures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– of public-sector issuers</td>
<td>533,958,707</td>
<td>892,616,461</td>
</tr>
<tr>
<td>– of other issuers</td>
<td>1,131,246,080</td>
<td>1,125,704,699</td>
</tr>
<tr>
<td></td>
<td>1,665,204,787</td>
<td>2,018,321,160</td>
</tr>
<tr>
<td><strong>Shares and other variable-yield securities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>45,943,601</td>
<td>224,441,415</td>
</tr>
<tr>
<td><strong>Trading portfolio</strong></td>
<td>61,669,176</td>
<td>19,787,590</td>
</tr>
<tr>
<td><strong>Participating interests</strong></td>
<td></td>
<td>818,845</td>
</tr>
<tr>
<td><strong>Shares in affiliated companies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>25,931,936</td>
<td>28,820,040</td>
</tr>
<tr>
<td><strong>Trust assets</strong></td>
<td>5,540,775</td>
<td>5,660,273</td>
</tr>
<tr>
<td><strong>Intangible assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased franchises, industrial property rights and similar rights, and licences to such rights</td>
<td>4,111,982</td>
<td>4,883,724</td>
</tr>
<tr>
<td><strong>Tangible fixed assets</strong></td>
<td>18,823,330</td>
<td>17,864,957</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>60,435,353</td>
<td>96,660,880</td>
</tr>
<tr>
<td><strong>Prepaid expenses</strong></td>
<td>7,530,626</td>
<td>6,471,895</td>
</tr>
<tr>
<td><strong>Excess of plan assets over pension liabilities</strong></td>
<td>1,164,654</td>
<td>288,278</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>4,692,718,443</td>
<td>4,741,341,416</td>
</tr>
</tbody>
</table>

*1) thereof: with Deutsche Bundesbank €975,045,935*
*2) thereof: municipal loans €163,575,695*
*3) thereof: eligible as collateral with Deutsche Bundesbank €533,958,707*
*4) thereof: eligible as collateral with Deutsche Bundesbank €1,131,246,080*
*5) thereof: in banks €505,798*
**ANNUAL FINANCIAL STATEMENTS**

**BALANCE SHEET**

<table>
<thead>
<tr>
<th>Equity and liabilities</th>
<th>€</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities to banks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payable on demand</td>
<td></td>
<td>241,115,652</td>
<td>377,254,596</td>
</tr>
<tr>
<td>With agreed term or notice period</td>
<td></td>
<td>46,685,582</td>
<td>38,134,707</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>287,801,234</td>
<td>415,389,303</td>
</tr>
<tr>
<td><strong>Liabilities to customers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings deposits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– with agreed notice period of three months</td>
<td></td>
<td>264,989</td>
<td>290,493</td>
</tr>
<tr>
<td>– with agreed notice period of more than three months</td>
<td></td>
<td>14,672</td>
<td>14,044</td>
</tr>
<tr>
<td>Other liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– payable on demand</td>
<td></td>
<td>3,299,508,154</td>
<td>3,413,168,881</td>
</tr>
<tr>
<td>– with agreed term or notice period</td>
<td></td>
<td>624,663,512</td>
<td>322,732,038</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>3,924,451,327</td>
<td>3,736,205,456</td>
</tr>
<tr>
<td><strong>Trust liabilities</strong></td>
<td></td>
<td>5,540,775</td>
<td>5,660,273</td>
</tr>
<tr>
<td><strong>Other liabilities</strong></td>
<td></td>
<td>30,604,690</td>
<td>47,593,931</td>
</tr>
<tr>
<td><strong>Deferred income</strong></td>
<td></td>
<td>144,337</td>
<td>108,381</td>
</tr>
<tr>
<td><strong>Provisions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for pensions and similar obligations</td>
<td></td>
<td>26,875,162</td>
<td>25,226,922</td>
</tr>
<tr>
<td>Provisions for taxes</td>
<td></td>
<td>1,953,584</td>
<td>3,215,522</td>
</tr>
<tr>
<td>Other provisions</td>
<td></td>
<td>77,278,736</td>
<td>80,205,968</td>
</tr>
<tr>
<td><strong>Total provisions</strong></td>
<td></td>
<td>106,107,482</td>
<td>108,648,412</td>
</tr>
<tr>
<td><strong>Subordinated liabilities</strong></td>
<td></td>
<td>65,000,000</td>
<td>85,000,000</td>
</tr>
<tr>
<td><strong>Fund for general banking risks</strong></td>
<td></td>
<td>13,100,000</td>
<td>15,800,000</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscribed capital</td>
<td></td>
<td>150,000,000</td>
<td>150,000,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>86,704,633</td>
<td>86,704,633</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td></td>
<td>23,263,965</td>
<td>90,231,027</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td></td>
<td>259,968,598</td>
<td>326,935,660</td>
</tr>
<tr>
<td><strong>Contingent liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities under sureties and guarantee agreements</td>
<td></td>
<td>50,491,254</td>
<td>65,546,726</td>
</tr>
<tr>
<td><strong>Other commitments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irrevocable loan commitments</td>
<td></td>
<td>172,835,542</td>
<td>169,258,368</td>
</tr>
</tbody>
</table>

\[\text{\textsuperscript{a}}\text{ thereof: special item compliant with Section 340g HGB in conjunction with Section 340e (4) HGB €13,100,000}\]
### Income statement for the period from 1 January to 31 December 2018

<table>
<thead>
<tr>
<th>Expenses</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest expenses</strong></td>
<td>32,331,979</td>
<td>30,686,411</td>
</tr>
<tr>
<td><strong>Commission expenses</strong></td>
<td>54,636,069</td>
<td>60,548,204</td>
</tr>
<tr>
<td><strong>General administration expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Wages and salaries</td>
<td>197,409,950</td>
<td>184,619,411</td>
</tr>
<tr>
<td>– Social security charges and expenses for pensions and similar benefits</td>
<td>28,608,952</td>
<td>25,957,832</td>
</tr>
<tr>
<td>Other administrative expenses</td>
<td>136,887,891</td>
<td>127,876,220</td>
</tr>
<tr>
<td><strong>Depreciation of tangible fixed assets and amortisation of intangible assets</strong></td>
<td>8,779,220</td>
<td>8,901,504</td>
</tr>
<tr>
<td><strong>Other operating expenses</strong></td>
<td>5,052,021</td>
<td>4,813,245</td>
</tr>
<tr>
<td>Write-downs of and valuation allowances on receivables and certain securities and additions to loan loss provisions</td>
<td>21,988,342</td>
<td>22,556,871</td>
</tr>
<tr>
<td>Write-downs of and valuation allowances on participating interests, on shares in affiliated companies and securities classified as fixed assets</td>
<td>1,347,232</td>
<td>6,020,832</td>
</tr>
<tr>
<td><strong>Taxes on income</strong></td>
<td>–147,010</td>
<td>11,569,523</td>
</tr>
<tr>
<td>Other taxes where not shown under Other operating expenses</td>
<td>158,239</td>
<td>171,511</td>
</tr>
<tr>
<td><strong>Net profit for the year</strong></td>
<td>23,263,965</td>
<td>90,231,027</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>510,316,850</td>
<td>573,952,591</td>
</tr>
</tbody>
</table>

1) thereof: for pensions €8,160,248
2) thereof: for compounding €1,487,786
<table>
<thead>
<tr>
<th>Income</th>
<th>€</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest income</strong> from</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- credit and money market activities</td>
<td>68,951,445</td>
<td>72,479,875</td>
<td></td>
</tr>
<tr>
<td>- fixed-income securities and debt register claims</td>
<td>11,899,547</td>
<td>19,388,989</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>80,850,992</strong></td>
<td><strong>91,868,864</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Current income</strong> from</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- shares and other variable-yield securities</td>
<td>500,320</td>
<td>345,197</td>
<td></td>
</tr>
<tr>
<td>- shares in affiliated companies</td>
<td>4,043,430</td>
<td>5,040,351</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>4,543,750</strong></td>
<td><strong>5,385,548</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Commission income</strong></td>
<td><strong>333,596,000</strong></td>
<td><strong>403,765,009</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net income from trading portfolio [1]</strong></td>
<td><strong>18,878,365</strong></td>
<td><strong>21,298,514</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Other operating income</strong></td>
<td><strong>72,447,743</strong></td>
<td><strong>51,634,656</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>510,316,850</strong></td>
<td><strong>573,952,591</strong></td>
<td></td>
</tr>
</tbody>
</table>

[1] thereof: reversal of special item compliant with Section 340g HGB in conjunction with Section 340e (4) HGB in the amount of €2,700,000
Selected notes to the financial statements as at 31 December 2018

General information

The annual financial statements for the year ended 31 December 2018 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the accounting regulations for banks. Unless stated otherwise, figures for the previous year are shown in parentheses.

Accounting policies

The existing accounting policies were applied without change in the reporting period.

As a general rule, receivables from customers and banks were recognised at nominal value or cost, with accrued interest taken into account for corresponding balance sheet items. Deferred income items have been set up for discounts on loans and on purchased receivables.

All identifiable credit and country risks in the portfolio of receivables were taken into account through the recognition of specific valuation allowances and provisions. General valuation allowances as well as lump-sum valuation allowances in Luxembourg have been set up to cover latent credit risk. The value adjustments were deducted from the receivables or added to provisions.

Securities in the liquidity reserve were measured strictly at the lower of cost or market or in consideration of hedges. These hedges are shown on the balance sheet based on the net hedge presentation method, whereby the offsetting changes in value from the hedged risk (effective portion) are not shown on the balance sheet. An overall unrealised gain arising within the hedge was not taken into account. In contrast, if the ineffective portion of the changes in the value of the underlying and hedging transactions from the hedged risk corresponds to a loss, a corresponding provision is recognised.

The prospective assessment of effectiveness as well as the retrospective determination of the effectiveness of the hedge was carried out by comparing the contractual terms, since the contractual terms of the underlying and hedging instrument offset each other.

Borrowed and/or lent securities from securities lending transactions and the associated retransfer obligations and/or retransfer claims were reported in the balance sheet.
Financial instruments held for trading purposes are marked to market less a risk discount. The risk discount is determined on the basis of the Bank’s internal management system using actuarial methods. The value at risk is determined for a holding period of ten days and a confidence level of 99%. A historical observation period of 250 trading days is assumed, with the individual changes in value being incorporated in the calculation with exponential weighting. The risk discount is calculated and disclosed separately for each portfolio. The risk premium is recognised up to the amount of the write-up.

Shares in affiliated companies and participating interests less operationally necessary write-downs are recognised at cost.

Tangible fixed assets and purchased intangible assets were accounted for at their depreciated historical cost. Accordingly, they were depreciated or amortised proportionately on a straight-line basis over their expected useful life, which is based on the useful life for tax purposes. Assets costing up to €250 are written off in full in the year of acquisition. Low-value assets costing between €250 and €1,000 are grouped together in a collective item and depreciated on a straight-line basis. They are shown in the statement of changes in fixed assets as additions and included in the amount disclosed for depreciation in the 2018 financial year. The option to account for internally generated intangible assets as fixed assets was not exercised.

Other assets, including option contracts, were recognised at the lower of cost or fair value. Generally, option premiums received and paid are not transferred to the income statement until the options expire or are exercised.

Liabilities are carried at the settlement amount plus accrued interest. Accrued interest on subordinated liabilities is reported under other liabilities.

Provisions for pensions are calculated in the amount of the obligation at cash value on the basis of the biometric data included in the 2018G standard tables prepared by Heubeck-Richtafeln GmbH. An interest rate of 3.21%, a rate of increase of 2.5% in future compensation, an increase in pension benefits of 1.8% and an industry-specific standard fluctuation are applied. Appropriations to pension provisions are presented in other operating expenses and personnel expenses. Assets used to settle pension obligations are netted against corresponding obligations. The difference between the amount of the pension provisions recognised based on a flat market rate from
the past ten financial years and the amount of the provisions recognised based on a flat interest rate from the past seven financial years amounted to €6.1 million on the balance sheet date.

Provisions have been recognised taking account of all identifiable risks and uncertain obligations, including those arising from off-balance-sheet transactions, in accordance with the principles of prudent business judgement.

Provisions with a remaining term of more than one year are discounted using the average market rate of the past seven years appropriate for their remaining maturity (Section 253(2) sentence 1, German Commercial Code (HGB)). As provided for in the Regulation on the Discounting of Provisions (RückAbzinsV), the interest rates used for discounting tally with the monthly interest rates published by Deutsche Bundesbank.

The equity items were recognised at par value (Section 272(i) HGB). In accordance with Section 256a HGB, assets and liabilities denominated in foreign currency were translated into euros at the European Central Bank’s mean spot exchange rate prevailing at the balance sheet date.

Gains on currency and securities transactions involving customers are reported in net commission income. The price gains on customer-related trading activities are also reflected in net commission income. Consequently, deviating from the regulatory trading book, the securities transactions conducted on behalf of customer are carried under bonds and other fixed-yield securities and under shares and other variable-yield securities.

Negative interest from lending operations and positive interest from deposit banking were recognised as a reduction of interest income and/or interest expenses.

We made use of the option to net expenses and income for the presentation of risk provisions in the income statement.

Derivatives are measured using hedge accounting. Currency forwards are measured across the board using the forward rate applicable at the reporting date for all transactions. The results in the respective currencies are offset. Any remaining loss is to be presented under other liabilities. An offsetting item was set up on the assets side of the balance sheet under other assets for any remaining gain from specially covered transactions.
Loss-free valuation of the interest book

Provisions for anticipated losses on pending transactions are to be set up for any excess obligations arising from activities involving interest-bearing financial instruments in the banking book. All assets and liabilities that are not attributable to the trading book or which fall under equity or similar items (fund for general banking risks, subordinated loans) have been included in the banking book. When a possible excess obligation is determined, matching amounts or maturities are notionally closed at the reporting date. The funding structure is taken into account consistent with internal management in the process.

On account of the large excess deposits, there was no mismatch of amounts for which it would have been necessary to notionally close the items when calculating the excess obligations. There was no mismatch of amounts/maturities with respect to liquidity, even under very strict assumptions regarding the deposit base underpinned by both a certain decline in the volume of deposits over time and extreme stress assumptions arising from high ad-hoc outflows of deposits.

When determining the excess obligations, provisions already recognised under other valuation rules (such as interest-related provisions for hedges as defined in Section 254 HGB) were included when measuring a possible provision for anticipated losses on pending transactions. The necessity of taking into account the risk costs expected to be incurred and administration costs was determined as a markdown on the cash flow.

The banking book is measured at present value. No provisions for anticipated losses on pending transactions needed to be set up.
Notes to the balance sheet

Receivables from/liabilities to banks/customers

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from banks</td>
<td>159,611</td>
<td>14,268</td>
<td>110,596*</td>
<td>108,867*</td>
<td>76,143*</td>
<td>126,099*</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>from customers</td>
<td>704,343</td>
<td>563,830</td>
<td>118,913</td>
<td>64,960</td>
<td>213,387*</td>
<td>233,309</td>
<td>60,453</td>
<td>67,125</td>
<td></td>
</tr>
<tr>
<td>of which with no fixed maturity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to banks</td>
<td>43,636</td>
<td>37,599</td>
<td>3,050</td>
<td>535</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>to customers</td>
<td>593,529</td>
<td>288,907</td>
<td>31,134</td>
<td>33,825</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Savings deposits</td>
<td>265</td>
<td>290</td>
<td>0</td>
<td>0</td>
<td>14</td>
<td>14</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

* This relates primarily to the investment in promissory note loans issued by German public sector issuers and/or government guaranteed promissory note loans.

Loans with a maturity of more than one year are not subject to any specific interest rate risk as a result of swaps or other interest rate hedges (micro and/or portfolio hedges).

Disclosure of relationships with affiliated companies, and companies in which a participating interest is held

<table>
<thead>
<tr>
<th>Relationships</th>
<th>with affiliated companies</th>
<th>with companies in which a participating interest is held</th>
</tr>
</thead>
<tbody>
<tr>
<td>€'000</td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>0</td>
<td>8,210</td>
</tr>
<tr>
<td>Customers</td>
<td>10,050</td>
<td>11,545</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>0</td>
<td>180,969</td>
</tr>
<tr>
<td>Customers</td>
<td>6,405</td>
<td>7,551</td>
</tr>
</tbody>
</table>
Bonds and other fixed-income securities

This item broke down into securities from €’000 public sector issuers other issuers Total

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€’000</td>
<td>€’000</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>533,959</td>
<td>1,131,246</td>
<td>1,665,205</td>
</tr>
<tr>
<td>of which due in 2019</td>
<td>276,133</td>
<td>374,415</td>
<td>650,548</td>
</tr>
<tr>
<td>2017</td>
<td>892,616</td>
<td>1,125,705</td>
<td>2,018,321</td>
</tr>
</tbody>
</table>

Debt securities from public sector issuers included primarily bonds issued by German states and/or with a guarantee at the federal and/or state level as well as European government bonds.

The following table shows the breakdown of bonds of other issuers:

<table>
<thead>
<tr>
<th>€’000</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>German Pfandbriefs</td>
<td>87,485</td>
<td>60,954</td>
</tr>
<tr>
<td>European covered bonds</td>
<td>408,579</td>
<td>404,747</td>
</tr>
<tr>
<td>Bonds with government guarantee</td>
<td>635,175</td>
<td>637,211</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>22,793</td>
</tr>
<tr>
<td>Total</td>
<td>1,131,246</td>
<td>1,125,705</td>
</tr>
</tbody>
</table>

As a rule, bonds with government guarantees were issued by German development banks backed by Germany or German states.

The average remaining maturity of all bonds is 1.3 years. Interest rate risk is normally limited to the 3- or 6-month Euribor rate by investing in floaters or entering into hedges in the form of interest rate swaps (micro and/or portfolio hedges).

Valuation units

Fixed-income securities in the amount of €810.0 million (€1,179.7 million) as well as promissory note loans in the amount of €102.3 million (€102.3 million) were included in micro and/or portfolio hedges to hedge interest rate risk. The Bank’s strategy for managing interest rate risk calls for its lending and deposit-taking activities
to have a short-term structure. Transactions with a term of more than one year are essentially hedged by entering into interest rate swaps, which serves to reduce the dependence on positions that are sensitive to changes in interest rates. The prospective effectiveness assessment as well as the retroactive hedge effectiveness determination was implemented using a comparison of the contractual conditions, as the conditions of the basic underlying transaction and those of the security instrument have an offsetting effect. All risk of changes in value, interest and cash flow is secured for the entire term.

**Shares and other variable-yield securities**
This item contains shares in investment funds of €0.6 million (€82.4 million) used as investments as part of the liquidity reserve.

**Marketable and listed securities**
As in the previous year, bonds and other fixed-income securities were listed. All shares were publicly quoted. €0.5 million (previous year: €2.5 million in shares in affiliated companies) of the long-term equity investments are marketable. The remaining participating interests and shares in affiliated companies are not marketable.

**Trading portfolio**

<table>
<thead>
<tr>
<th></th>
<th>€’000</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and other fixed-income securities</td>
<td>57,772</td>
<td>17,285</td>
<td></td>
</tr>
<tr>
<td>Shares and other variable-yield securities</td>
<td>3,897</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>0</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>61,669</strong></td>
<td><strong>19,787</strong></td>
<td></td>
</tr>
</tbody>
</table>

Financial instruments held for trading purposes are marked to market less a risk discount. The total risk discount amounted to €0.1 million (€0.1 million).
Trust assets

€5.5 million (€5.7 million) in trust assets and the corresponding trust liabilities relate (under receivables from customers to other trust assets) or trust liabilities (under liabilities to customers).

Statement of changes in fixed assets

<table>
<thead>
<tr>
<th>€'000</th>
<th>Historical acquisition cost</th>
<th>Cumulative depreciation, amortisation and write-downs</th>
<th>Residual book value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating interests</td>
<td>225</td>
<td>88</td>
<td>506</td>
</tr>
<tr>
<td>Shares in affiliated companies</td>
<td>34,841</td>
<td>1,000</td>
<td>-506</td>
</tr>
<tr>
<td>Furniture and office equipment</td>
<td>63,173</td>
<td>6,396</td>
<td>0</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>28,490</td>
<td>2,692</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>126,729</td>
<td>10,176</td>
<td>0</td>
</tr>
</tbody>
</table>

80.1% of the shares held in Bergos Berenberg AG (previously Berenberg Bank (Schweiz) AG) were sold in 2018.

Other assets

This item included receivables from shareholders amounting to €15.8 million (€28.7 million) and, due to the special coverage, an asset-side balancing item of €13.7 million (€4.6 million) from closed forward exchange and currency option contracts. In addition, there were tax refund claims in the amount of €13.3 million (€0.0 million) as well as distributions from participating interests in the amount of €4.0 million (€5.0 million).
Deferred taxes
At the reporting date, there were temporary differences in the carrying amounts of individual items in the financial and tax accounts. Recognition and measurement differences giving rise to deferred tax assets and liabilities occurred in the following line items: receivables from customers, shares and other variable-yield securities, long-term equity investments and provisions.

Deferred taxes were calculated based on an average municipal trade tax multiplier of 16.37%.

The option to capitalise deferred tax assets set forth under Section 274(i) sentence 2 HGB has not been exercised.

Excess of plan assets over pension liabilities
Long-term financial assets that are barred from access by all other creditors and serve exclusively to settle liabilities arising under post-employment benefit obligations were measured at fair value and netted with provisions for pensions and similar obligations in accordance with Section 246(2) sentence 2 HGB. The associated expenses and income from accrued interest and from assets to be netted are handled accordingly. If the fair value of assets (plan assets) exceeds the amount of liabilities, the excess is to be shown separately in the balance sheet as the excess of plan assets over pension liabilities.

<table>
<thead>
<tr>
<th>€’000</th>
<th>Acquisition cost of securities</th>
<th>Fair value</th>
<th>Amount payable provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provisions for pensions and similar obligations</td>
<td>18,456</td>
<td>17,456</td>
<td>18,454</td>
</tr>
<tr>
<td>Other provisions (semi-retirement)</td>
<td>2,550</td>
<td>2,001</td>
<td>2,551</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>€’000</th>
<th>Other operating expenses</th>
<th>Interest income</th>
<th>Valuation at fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provisions for pensions and similar obligations</td>
<td>557</td>
<td>630</td>
<td>0</td>
</tr>
<tr>
<td>Other provisions (semi-retirement)</td>
<td>64</td>
<td>67</td>
<td>0</td>
</tr>
</tbody>
</table>
In accordance with Section 246(2) sentence 2 HGB, the other operating expenses arising from compounding must be netted with the gains on the measurement of securities which are part of the plan assets. Neither in 2018 nor in 2017 were there any netting transactions relating to interest expenses and gains on the fair value measurement of securities.

Section 253(1) sentence 4 HGB requires that such assets be measured at fair value. The assets in question comprise exchange-listed securities of public issuers, the market value of which results from the stock exchange price at the reporting date, as well as promissory note loans from public issuers.

Obligations of €1.1 million (€1.1 million) arising from employee working-time accounts, which would otherwise be presented under other liabilities, were netted with assets of the same amount, which would otherwise be presented under other assets.

In total, there was an excess of plan assets over post-employment benefit liabilities of €1.2 million (€0.3 million).

Other liabilities
This item essentially included liabilities from accounts payable by trade debtors in the amount of €7.2 million (€3.3 million) and commitments to the local tax office in the amount of €3.2 million (€11.9 million). Impending losses for forward exchange deals were incurred as a result of losses from closed positions and extensions based on the original price in the amount of €2.0 million (€11.2 million), liabilities from personnel costs of €4.6 million (€4.2 million) as well as from structured foreign currency transactions of €5.2 million (€0.6 million).

Other provisions
This item included provisions from the ineffective portion of hedges of 18% (10%) and, to a large extent, provisions for personnel costs of 69% (72%).
Subordinated liabilities
Expenses included interest in the amount of €3.8 million (€3.3 million), €1.9 million (€2.6 million) of which is accrued and shown under other liabilities. The following table shows the breakdown of the subordinated liabilities totalling €65.0 million:

<table>
<thead>
<tr>
<th>€'000</th>
<th>%</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,000</td>
<td>6.250</td>
<td>07/01/2019</td>
</tr>
<tr>
<td>10,000</td>
<td>6.000</td>
<td>03/01/2020</td>
</tr>
<tr>
<td>10,000</td>
<td>6.000</td>
<td>30/01/2020</td>
</tr>
<tr>
<td>10,000</td>
<td>4.125</td>
<td>27/09/2032</td>
</tr>
<tr>
<td>7,000</td>
<td>4.125</td>
<td>27/09/2032</td>
</tr>
<tr>
<td>11,000</td>
<td>4.125</td>
<td>27/09/2032</td>
</tr>
<tr>
<td>1,000</td>
<td>4.125</td>
<td>27/09/2032</td>
</tr>
<tr>
<td>1,000</td>
<td>4.125</td>
<td>27/09/2032</td>
</tr>
<tr>
<td>10,000</td>
<td>4.125</td>
<td>27/09/2032</td>
</tr>
</tbody>
</table>

The terms correspond to Article 63 CRR. There is no right to demand early repayment.

Fund for general banking risks
The line item fund for general banking risks in the amount of €13.1 million (€15.8 million) was recognised in accordance with Section 340e(4) HGB in conjunction with Section 340g HGB.

Additional notes to the balance sheet
Various securities have been deposited with other banks as security deposits for Eurex and lending trades. There were no open-market positions at year-end.

Assets in the amount of €298.1 million (€244.4 million) and liabilities in the amount of €1,914.4 million (€1,568.3 million) were denominated in foreign currency.
Contingent liabilities
Liabilities arising from sureties and guarantees include bills of exchange guarantees in the amount of €38.5 million (€49.6 million) and documentary credits in the amount of €12.0 million (€15.9 million).

During the course of the annual screening of the lending portfolio carried out as part of the Bank’s credit risk management, the guarantees for bills of exchange and documentary credits that have been issued were examined for potential default risk. The share of the average enforcement under guarantees in the past three financial years was immaterial. As a result, the likelihood that the amounts will be enforced is considered to be low.

Other commitments
The other obligations consisted exclusively of irrevocable loan commitments totalling €172.8 million (€169.3 million).
Notes to the income statement

Negative interest expenses and income
Interest expenses included negative interest netted in the amount of €4.2 million (€2.5 million). Interest income included negative interest in the amount of €1.3 million (€1.0 million).

Breakdown of income by geographic segment
Interest income, current income from shares and other variable-yield securities, participating interests and shares in affiliated companies, commission income, net income from the trading portfolio and other operating income shown in the income statement break down into 89% (87%) generated in Germany and 11% (13%) generated abroad.

Commission income
We provided services to our customers, particularly in the management and brokerage of securities transactions and in international documentary business. Income of €210.4 million (€255.9 million) from commission-earning business, €31.9 million from research activities, and €39.1 million (€37.8 million) from fund management was generated from the management and brokerage of securities transactions.
Other disclosures

Other financial commitments
There is a proportionate contingent liability to satisfy the obligation of other partners – members of the Bundesverband deutscher Banken e.V. – to make additional contributions.

For the next three financial years, there are financial commitments from rental, maintenance and other lease agreements in the annual amount of €44.1 million (€36.9 million), with a duration of three years.

Forward transactions and futures contracts
Forward transactions entered into during the course of the year can be divided into the following categories by their essential nature:

• Forward transactions in foreign currencies, in particular currency forwards, commitments arising from currency options, currency warrants and structured products (foreign currency transactions);
• Forward interest rate contracts, in particular forwards involving fixed-income securities, commitments arising from interest rate options, interest rate option rights, interest rate swaps, swaptions, caps and floors;
• Futures contracts relating to other price risks, in particular equity futures, index futures, commitments arising from equity options, option rights, commitments arising from index options and index warrants.

Customer transactions are generally hedged. As a result, the amount and timing of future cash flows is correspondingly balanced. As a general rule, the Bank only enters into its own positions in order to hedge interest rate risks from other positions directly or in general. Thus, interest rate swaps are used as interest rate hedging instruments for fixed-income bonds (micro and/or portfolio hedges).
The following table shows the derivative financial instruments outstanding at the reporting date:

<table>
<thead>
<tr>
<th>€’000</th>
<th>Volume</th>
<th>Positive market values</th>
<th>Negative market values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward exchange transactions</td>
<td>25,377,048</td>
<td>29,193,409</td>
<td>78,451</td>
</tr>
<tr>
<td>Swaps</td>
<td>1,465,951</td>
<td>1,559,899</td>
<td>4,583</td>
</tr>
<tr>
<td>Caps/floors</td>
<td>788,850</td>
<td>667,177</td>
<td>287</td>
</tr>
<tr>
<td>Securities futures</td>
<td>1,404,054</td>
<td>896,927</td>
<td>8,385</td>
</tr>
<tr>
<td>Securities options</td>
<td>3,772,539</td>
<td>831,228</td>
<td>437,907</td>
</tr>
<tr>
<td>Equity options</td>
<td>0</td>
<td>21,900</td>
<td>0</td>
</tr>
<tr>
<td>Bonds/futures</td>
<td>0</td>
<td>142,532</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>1,938</td>
<td>0</td>
<td>118</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32,810,380</strong></td>
<td><strong>33,313,072</strong></td>
<td><strong>529,731</strong></td>
</tr>
</tbody>
</table>

The transactions listed above are almost exclusively entered into to hedge fluctuations in interest rates, exchange rates or market prices in trading activities.

The Bank assesses the potential market risk for trades involving interest rates and trades involving equity and/or currency risk in its trading book based on the standard method in accordance with the CRR. This gave rise to a capital adequacy requirement of €16.1 million (€19.3 million).

The following table shows the breakdown of the capital adequacy requirement:

<table>
<thead>
<tr>
<th>Market risk</th>
<th>Capital adequacy requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>€’000</td>
<td>2018</td>
</tr>
<tr>
<td><strong>Standard method</strong></td>
<td></td>
</tr>
<tr>
<td>Net equity positions</td>
<td>8,470</td>
</tr>
<tr>
<td>Net interest positions</td>
<td>6,182</td>
</tr>
<tr>
<td>Overall currency position</td>
<td>1,469</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,121</strong></td>
</tr>
</tbody>
</table>
Board of Management
The Board of Management comprised the following managing partners in 2018:

Dr Hans-Walter Peters, Banker (Spokesman)
Hendrik Riehmer, Banker

Shareholders
30.4%  Berenberg family
26.1%  PetRie Beteiligungsgesellschaft mbH
        (Dr Hans-Walter Peters [Managing Director] and Hendrik Riehmer)
        and Dr Hans-Walter Peters
1.5%   Former managing partners
15.0%  Christian Erbprinz zu Fürstenberg
15.0%  Professor Dr Jan Philipp Reemtsma
12.0%  Compagnie du Bois Sauvage S.A.  As at: 1.1.2019

Remuneration and loans
We have opted not to disclose the remuneration of the active and former managing partners or the provisions set aside for these individuals, because we consider the requirements cited in Section 286(4) HGB to be fulfilled.

As in the previous year, no loans were granted to members of the Board of Management after taking account of the allocation of the profit available for distribution in 2018.

Appropriation of profit
The net profit of €23.3 million for the year is earmarked for distribution to the shareholders in the amount of €20.6 million and for transfer to the revenue reserves in the amount of €2.7 million.
INDEPENDENT AUDITOR’S REPORT

Unqualified auditor’s report by the independent auditor to Joh. Berenberg, Gossler & Co. KG, Hamburg

Report on the audit of the annual financial statements and of the management report

Audit opinions

we have audited the annual financial statements of Joh. Berenberg, Gossler & Co. KG, Hamburg, which comprise the balance sheet as at 31 December 2018, the income statement for the financial year from 1 January 2018 to 31 December 2018 and the notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Joh. Berenberg, Gossler & Co. KG for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the components of the management report set forth under »Other information«.

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

• the annual financial statements comply in all material respects with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018 in compliance with German legally required accounting principles, and

• the management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the components of the management report listed under »Other information«.

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

Basis for the audit opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Financial Statements Audit Regulation - No 537/2014, referred to subsequently as »EU Audit Regulation« and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the »Auditor’s responsibilities for the audit of the annual financial statements and of the management report« section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.
Furthermore, we declare, in accordance with Article 10 (2) f) EU Audit Regulation, that we have not performed any forbidden non-audit services in accordance with Article 5 (1) EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:
1. Recognition of commission income
2. Recoverability of receivables from customers

Re 1. Recognition of commission income

Background
Joh. Berenberg, Gossler & Co. KG recognises in its income statement for the period from 1 January 2018 to 31 December 2018 significant commission income (€ 333.6 million). Joh. Berenberg, Gossler & Co. KG is a credit institution that has geared its business primarily to the brokerage and trade of financial instruments to and/or for clients and consequently generates a significant portion of its income in the form of commission from the trade of financial instruments. Accordingly, the correct calculation and posting of commission income from this business has a significant influence on the correct presentation of the financial performance of the Company.

The comments made by Joh. Berenberg, Gossler & Co. KG on the commission income can be found in section 4.3 commission income in the notes to the financial statement.

Auditor’s response and findings
In connection with the processing of transactions with financial instruments, we obtained an understanding of the process of calculating and recognising commission up to the posting of commission income and tested selected controls. In particular, we used control tests to audit the process of the transfer of business data from trade transactions for financial instruments to the IT systems used to calculate commission as well as the underlying authorisation concepts. Furthermore, we carried out analytical audit procedures and, in test of details for a sample of transactions, we assessed the correct calculation and posting of the commission income.

We were able to satisfy ourselves that the calculation logic of the IT systems used and the control activities implemented ensure that commission is calculated properly and that periods are matched accurately.
Re 2. Recoverability of receivables from customers

Background
At € 1,097.1 million or 23.4% of total assets, receivables from customers are a significant asset item at Joh. Berenberg, Gossler & Co. KG. Assessing the recoverability of receivables from customers and setting up appropriate specific valuation allowances is based to a large extent on estimates and assumptions by the Company’s legal representatives regarding the ability of the borrowers to service their debts. There is also estimation uncertainty and judgemental differences in the measurement of loan collateral. For these reasons, and in light of the significant amount of receivables from customers, the recoverability of receivables from customers and the creation of appropriate specific valuation allowances were a key audit matter as part of our audit.

The disclosures by Joh. Berenberg, Gossler & Co. KG on the receivables from customers are included in section 3.1 Receivables/liabilities from/to customers/banks in the notes to the financial statements.

Auditor’s response and findings
We analysed and assessed the appropriateness of the operating processes provided by the Bank to identify and evaluate receivables at risk of default. In discussions with the employees responsible as well as a critical review of the internal guidelines, we obtained an understanding of the Bank’s process for granting credit and monitoring. Based on a selection of individual cases from the credit portfolio, we tested the effectiveness of the design of key controls implemented.

For selected items at risk of default, we audited whether there is a knowledge of potential credit losses, whether these were calculated and processed properly and whether the valuation allowances were created for an appropriate amount and were recorded in the annual financial statements. We also audited to what extent the estimates made by the legal representatives are sufficiently documented and justified. As far as the collateral provided by borrowers is concerned, we used a deliberate selection of individual cases to satisfy ourselves that the Bank had valued these appropriately and included them in the valuation allowances.

We determined the audited individual cases using a risk-based approach with a deliberate selection. In doing so, we took into account in particular large-volume loans as well as loans from key industries for the Bank.

On the whole we were satisfied that the estimates and assumptions made by the legal representatives are sufficiently documented and justified to support the valuation of the receivables from customers, which are significant in terms of amount.
Other information

The legal representatives are responsible for the other information. The other information comprises:

• the annual report, which is expected to be provided to us after this date, with the exception of the audited annual financial statements and management report as well as our auditor’s report, and

• the non-financial statement, the publication of which on the Company’s website is referred to in the management report.

Our opinions on the annual financial statements and on the management report do not cover other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

• is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or

• otherwise appears to be materially misstated.

Responsibility of the legal representatives and the audit committee for the annual financial statements and the management report

The legal representatives are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities and financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the legal representatives are responsible for such internal controls as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to intent or error.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to a going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company’s position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have
considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient suitable evidence for the assertions in the management report.

The audit committee is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor’s responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to intent or error, and whether the management report as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to intent or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

• Obtain an understanding of internal control system relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.

• Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.

• Conclude on the appropriateness of the legal representatives’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required
to draw attention in the auditor’s report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company’s position it provides.
- Perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the audit committee with a statement that we have complied with the relevant independence requirements, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 23 April 2018. We were engaged by the management on 4 June 2018. We have been the auditor of Joh. Berenberg, Gossler & Co. KG without interruption since financial year 1948.

We declare that the opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).
German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Hauke Zink.

Hamburg, 26 March 2019

BDO AG
Wirtschaftsprüfungsgesellschaft

signed Dr. Zemke  signed Zink
Wirtschaftsprüfer  Wirtschaftsprüfer
[German Public Auditor]  [German Public Auditor]