Success of the New Bank

Annual Report Hamburg Commercial Bank **2022**

Hamburg Commercial Bank looks back on a very successful year in 2022. The good results highlight the bank's sustainable profitability, which is based on a stronger customer base, strict cost controls, a high level of efficiency and a clear focus on key business areas. The bank's core market is Germany, with selected international countries offering further development potential. Active risk management and strong diversification contribute not only to low risk costs but also to stable earnings. And they ensure pronounced resilience even in a more volatile overall environment. Since privatization in 2018, the bank's key indicators have steadily improved. Hamburg Commercial Bank aims to continue this success story.

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KPI Overview 2019-2022

Profitability / Efficiency

Net income before taxes (in €mn)

2019	2020	2021	2022
77	257	299	363

CIR[1] (in %)

2019	2020	2021	2022
69	42	50	44

Net interest margin[2] (in bps)

2019	2020	2021	2022
75	117	145	168

Capital

CET1 ratio (in %)

2019	2020	2021	2022
18.5	27.0	28.9[3]	20.5[4]

Asset quality

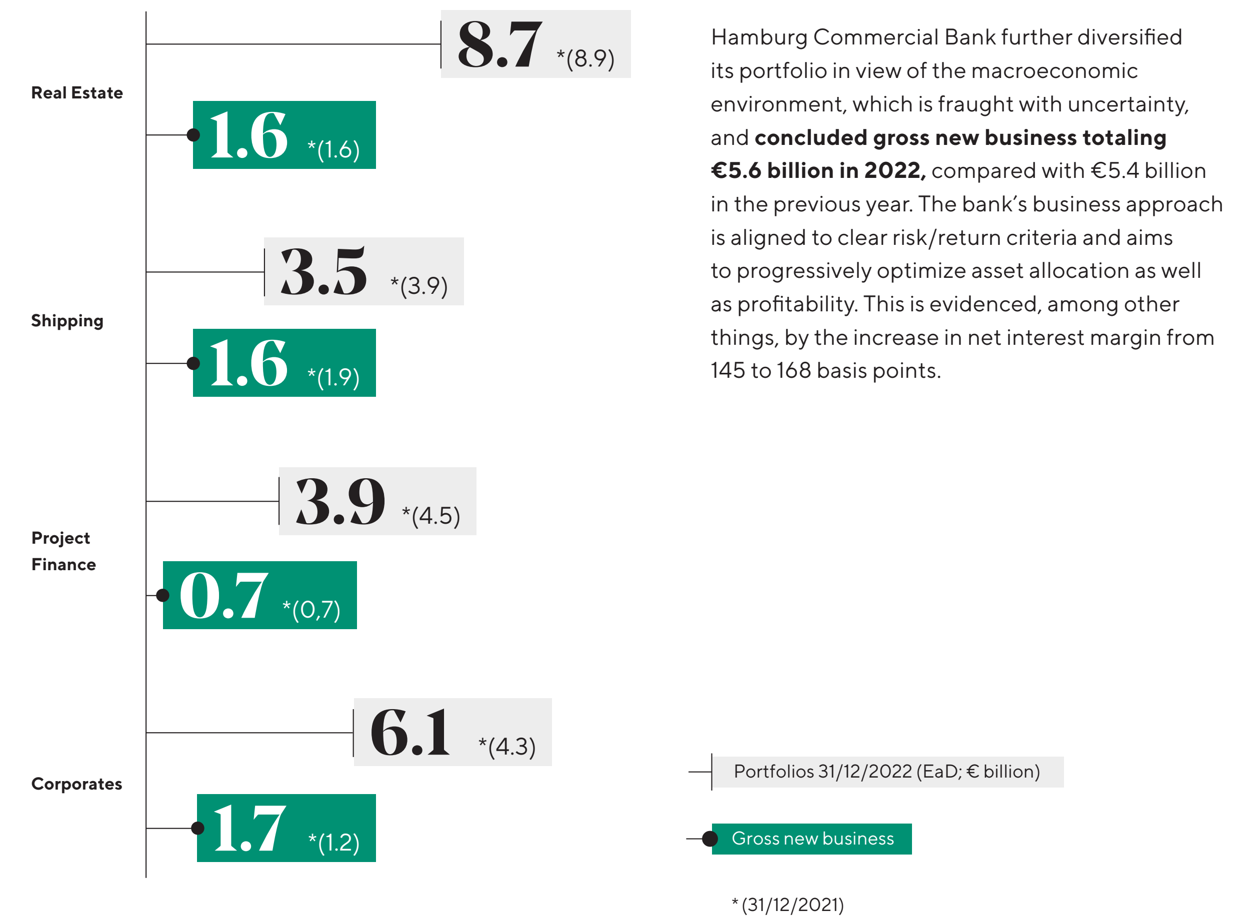
NPE[5] ratio (in %)

2019	2020	2021	2022
1.8	1.8	1.4	1.2

[1] Cost-income ratio [2] Operating net interest income divided by average total assets. [3] Profits were not included on a voluntary basis, i.e. without including the income after taxes in 2021 in Common Equity Tier capital. [4] The proposed dividend payment of € 1.5 billion in 2023 was taken into account with the effect of reducing Common Equity Tier 1 capital; the dividend payment is subject to the approval of the Annual General Meeting. [5] Non-performing exposures

Portfolio/New Business in 2022[6]

The foundations of Hamburg Commercial Bank



Hamburg Commercial Bank further diversified its portfolio in view of the macroeconomic environment, which is fraught with uncertainty, and **concluded gross new business totaling €5.6 billion in 2022,** compared with €5.4 billion in the previous year. The bank's business approach is aligned to clear risk/return criteria and aims to progressively optimize asset allocation as well as profitability. This is evidenced, among other things, by the increase in net interest margin from 145 to 168 basis points.

Ownership Structure[7]

Several funds initiated by **Cerberus Capital Management, L.P.**			One fund advised by **J.C. Flowers & Co. LLC JCV**	One fund initiated by **GoldenTree Asset Management LP**	**Centaurus Capital LP**	**BAWAG P.S.K.** (inkl. P.S.K. Beteiligungs-verwaltung GmbH)	**HCOB** Current and former Management Board Members (who are or were in office from November 2018)
Promontoria Holding 221 B.V. 9,87%	Promontoria Holding 231 B.V. 13,86%	Promontoria Holding 233 B.V. 18,69%	JCV IV Neptun **Holdings S.à r.l**	Golden Tree Asset **Management Lux S.à r.l**	Chi Centauri LLC		
42,41%			34,93%	12,47%	7,48%	2,49%	0,20%

[6] percentages rounded [7] percentages rounded

“Success story impressively continued”

Marc Ziegner
Chief Financial Officer

Ian Banwell
Chief Executive Officer

Ulrik Lackschewitz
Chief Risk Officer und Deputy CEO

Christopher Brody
Chief Investment Officer

Ladies and Gentlemen,
Hamburg Commercial Bank can look back on a very successful 2022, in which it impressively continued its success story. The bank's key figures have steadily improved since its privatization in 2018. It is now one of the best performing financial institutions in Germany – and its next goal is to rank among the best in Europe. We will be resolutely pursuing that goal this year.

In 2022, the bank increased its consolidated profit after tax by 21 percent to €425 million, while profit before tax also rose by 21 percent to €363 million. At the same time, the bank again succeeded in increasing its profitability: Return on equity rose from 18.4 percent in the previous year to 20.8 percent[1] in 2022. In addition, the already good portfolio quality improved further, with the NPE ratio (non-performing exposure; loans and securities in default) falling from 1.4 to 1.2 percent at the end of 2022. Moreover, risk coverage has been deliberately set at a high level to account for potential adverse macroeconomic scenarios. The NPE coverage ratio improved to a very comfortable 69 percent from 56 percent. The bank's capital position remains very strong. Even after allowing for a possible dividend payment of €1.5 billion euros in the second quarter of this year, the core capital ratio (CET1) is a very robust 20.5 percent, well above regulatory requirements, compared with 28.9 percent in the previous year. As planned, the Group's total assets grew slightly in fiscal 2022, increasing by around 5 percent to €31.8 billion.

[1] The RoE after taxes shown is based on standardised regulatory capital backing (average RWA and CET1 ratio of 13 %)

"Our FY 2022 results underpin HCOB's strong and persistent profitability, based on strengthened client franchise and clear focus. Our guiding principle is striving for excellence in what we do."

— Ian Banwell, CEO

The cost-income ratio improved again to 44 percent – in the previous year it was 50 percent – reflecting the bank's continuous progress in cost efficiency. Total income rose by 5 percent year-on-year to €673 million, while net interest income increased by 19 percent to €627 million. One particularly pleasing development is that the bank succeeded in widening its operating net interest margin by 23 basis points to 168 basis points.

The results, which are substantially above plan, are impressive evidence of Hamburg Commercial Bank's operational strength and sustainable profitability. And they show that risk-conscious action, diversification of business activities, a high level of cost awareness, and a modern technical infrastructure are the appropriate foundation for ensuring long-term success – even in a period marked by geopolitical and economic uncertainties.

We work every day to improve the service we provide our customers. We want to support them as competently, quickly and smoothly as possible so they can achieve the goals they have set for themselves. After all, it is our customers to whom we owe our success. On behalf of the entire workforce, we would like to thank them most sincerely for the good and trusting cooperation in 2022. At the same time, we are looking forward to new joint projects!

Personal contact with our customers is extremely important to us, since personal relationships are an essential part of business life, especially in banking. In parallel, we are strengthening the possibilities for collaborating digitally. Hamburg Commercial Bank aspires to be a digital company. That is why it has invested extensively in its IT landscape and payment transaction systems in recent years. Its technology is now at an excellent level. The benefits of these investments are gradually becoming tangible – for the bank as well as for its customers.

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"Pro-active risk management and increasing diversification will contribute to low costs of risk and earnings stability, providing resilience in a more volatile environment."

— Ulrik Lackschewitz, CRO

"Our customers value the bank's expertise and solution oriented approach. Our core market is Germany, but measured regional diversification provides sound potential to develop the bank further."

— Christopher Brody, CIO

Hamburg Commercial Bank focuses on four key business areas in which it has considerable expertise: Commercial Real Estate, Shipping, Project Finance, and Corporates, in which it is active in Germany and in selected countries in Europe. Overall, the bank achieved a gross new business volume of €5.6 billion in 2022, an increase of €0.2 billion compared to the previous year. The two business areas Commercial Real Estate and Shipping each accounted for €1.6 billion of this total. The bank generated gross new business of €1.7 billion in its national and international Corporates segment, and €0.7 billion in Project Finance.

The bank is driving forward the diversification of its activities in all business areas. This applies to countries, asset classes and customer groups – and to funding, which has a broad base. Incidentally, part of this diversification strategy is also the establishment of an office in London, from which its international business is being coordinated.

*To the Investor Relations presentation

For HCOB, sustainability – with its environmental, social and governance (ESG) dimensions – is of central importance. The bank addresses the issue of ESG at three different levels: the strategic, portfolio and corporate levels. The significant progress that HCOB again made in the area of sustainability in 2022 is reflected in various achievements, including the good results of the ESG Self-Assessment conducted for the European Central Bank and the Climate Risk Stress Test.*

Despite the geopolitical and economic uncertainties, we are optimistic about 2023 and plan to increase our volume of new business moderately, but always in a risk-conscious manner. We are being supported in this by the upgrade of our issuer rating to A3 by the rating agency Moody's in February 2023 – a reflection of our successful work in recent years. Having already hired 125 new employees in 2022, Hamburg Commercial Bank plans to recruit around 150 more this year. This underpins our claim to be a very dynamic company that is actively shaping its future – new, qualified employees are an important part of this effort. Together with our entire workforce, which is as competent as it is motivated, we are working to continue Hamburg Commercial Bank's success story in 2023. We firmly believe we will succeed.

Sincerely,

Ian Banwell	**Ulrik Lackschewitz**
Christopher Brody	**Marc Ziegner**

"HCOB's capital generation capacity has strengthened significantly. Stringent cost control and efficiency has been the key to our success over the last years – and will remain so."

— Marc Ziegner, CFO

“General conditions on the real estate market have changed completely”

Peter Axmann
Global Head of Commercial Real Estate

The year 2022 was marked by Russia’s invasion of Ukraine, which resulted in great suffering for many people and higher energy prices. Consequently, inflation and interest rates rose. What impact did these conditions have on the commercial real estate market?
PA After more than ten years of upswing, the general conditions on the real estate market have changed completely. Interest rates quadrupled within a year. Of course, this had a significant impact on the market, where restraint and uncertainty now dominate.

What does that mean in concrete terms?
PA The transaction volume on the real estate market slumped over the course of the year, especially in the fourth quarter. Calculated for the market as a whole, there were 41 percent fewer deals last year; in the commercial residential sector, the decline was as much as 72 percent compared to 2021. At the same time, 40 percent of all deals were made in the first quarter – until February 24, everyone assumed it would be a normal year.

The low transaction volume not only shows that there are risks, but also that supply and demand are not matching up. Would you agree?
PA That’s exactly how it is. Due to the increased interest rates, buyers expect a significant reduction in the sales price. In addition, there are now other reasonably low-risk investments like government bonds again. A ten-year federal bond has yielded less than zero percent for years; recently it even rose to 2.5 percent. This means that investors expect an additional risk premium when purchasing real estate. That’s why buyers are demanding price discounts in the current situation, which many sellers have so far refused to grant – partly because they don’t want to, partly because they can’t since their calculations are based on higher prices. We expect that it will take at least until mid-2023 for a new, lower price level to be found.

And where will that be?
PA We expect discounts of 10 to 15 percent compared to the current level, depending on the property.

What criteria determine how great the reductions will be?
PA In the business sector in particular, sustainable properties with a favourable environmental balance are in demand, especially in good locations. In the next few years, the demand for such properties will be greater than the supply. Rents will continue to rise there, with only a minimal correction in property values. In the medium term, we even see somewhat higher values. By contrast, the outlook is not good for business properties in secondary locations with investment backlogs; here we expect significant markdowns in the long term as well. There will even be properties where renovation no longer makes economic sense.

Under these circumstances, how did the bank position itself in terms of new business in 2022?
PA Due to the difficult conditions, we were deliberately cautious. In total, our volume of new business in 2022 matched that of 2021, i.e. €1.6 billion. In the Commercial Real Estate segment net income after taxes was €74 million.

Does this caution also apply to new business in commercial real estate in 2023?
PA Yes. A lot depends on the economy and the interest rate level. If the general situation eases, we will be ready.

Has Covid contributed to the proliferation of people working from home? Is that noticeable – is there less demand for office space?
PA Companies tend to occupy less office space than before. Individual workstations are no longer provided for all employees, but are calculated with a factor of 0.7, for example. At the same time, demand is high for centrally located, energy-efficient and well-equipped space.

What about residential real estate?
PA In this area, demand will not be met by new construction for the time being. In principle, this is good for property values. At the same time, however, residential property has become less affordable – many people cannot buy due to the rise in interest rates.

If real estate prices fall a little further, will 2023 be a good time to invest in the market?
PA Things will bottom out when interest rates stop rising and no one expects them to rise any further. And yes, in terms of modern buildings in good locations, it could then become an attractive time to invest.

Peter Axmann (left) and Christian Schimanski

Christian Schimanski, Key Account Manager Commercial Real Estate, about a €75 million deal in Düsseldorf

The deal:
Hamburg Commercial Bank contributes €75 million to finance the purchase and modernization of a building in Düsseldorf for J.P. Morgan Asset Management.

The story behind it:
Christian Schimanski: “We have been working with J.P. Morgan Asset Management for a long time and have already realized a number of attractive projects together. The financing of this prestigious building in a prime location on the legendary Königsallee in the center of Düsseldorf was nevertheless something special. Not only because the building, which has a total area of 14,600 square meters, is truly stately. The financing shows that even in an environment characterized by geopolitical and economic uncertainty and rising interest rates, real estate projects can indeed be realized in Germany. It always depends on the potential of the property and the location. In the case of this property, the prospects are outstanding – especially in somewhat more complicated times, it is crucial to select the right assets. J.P. Morgan Asset Management will extensively modernize the building, which will, among other things, significantly improve its energy efficiency. This revitalization will pay dividends in terms of the building’s sustainability, an aspect that is particularly important to us as a financing partner.”

The deal’s financing volume is

€75 million.

The space of the building financed in Düsseldorf is

14,600 square meters.

“High global demand for transport capacity”

Jan-Philipp Rohr
Global Head of Shipping

The COVID-19 pandemic didn’t hurt the shipping markets. Despite massive geopolitical turmoil and economic uncertainty, they even did well in 2022. How do you explain this resilience?
JR There are several reasons for it. One very important reason is that many shipping companies tended to hold back on orders in recent years, which is why there was and still is no overcapacity in the market. This was often enough the case in the past, and it led to low rates. At the same time, global demand for transport capacity has been high, and the pandemic has caused congestion in some ports, immobilizing ships and containers. In addition, after Russia’s invasion of Ukraine, some supply routes disappeared and new ones had to be established. These developments, which are actually very negative, also tied up capacities and ultimately contributed to the good state of the markets.

Do good markets mean good business for the bank?
JR It helps a lot, to say the least! We closed 2022 with just under €1.6 billion in profitable gross new business, so we are satisfied with that. The bottom line is that we earned €77 million after taxes in Shipping.

So far, Hamburg Commercial Bank has focused on the asset classes containers, bulkers and tankers. Will that also be the case in 2023?
JR Those will remain our central pillars, definitely. However, we want to try to become more active in the carrier and offshore asset classes this year, both of which have recently become attractive again.

To what extent?
JR The market for car carriers has developed very well after a difficult phase. The demand for car carriers is high and there is limited availability since very few new orders were placed in recent years. With regard to offshore, the Russian invasion of Ukraine has led to a very different way of thinking about gas and oil today than before the war. It is now important to secure energy supplies for the medium and long term so that an emergency situation doesn’t occur. Against this background, more is being invested to develop oil and gas fields. That’s why the market for ships that supply the big platforms has become attractive to us.

Which countries were the focus of deals last year?
JR Greece contributed over 50 percent to our new business. Greek shipping companies – often family-run companies – are traditionally very active and again bought and sold many ships in 2022. However, we are also active in the rest of Europe, and North America and Asia are attractive growth markets, so we want to increase our presence there.

What about Germany?
JR Unfortunately, Germany has become much less important as a shipping location over the past 15 years or so. We still have German customers who have experienced good years recently. I could imagine that we will do a bit more business in Germany again in the future.

In the shipping industry, many ships were ordered in the past when freight and charter rates were high, resulting in an oversupply. Is there a threat this might happen again?
JR I don’t think so. The cost of building a new ship is still very high, which is slowing the willingness to invest. Production costs have risen due to supply bottlenecks and limited capacities, among other things, and are currently well above the long-term average. We therefore believe that for the time being we can expect a fairly balanced relationship between supply and demand.

Matthias Happich (left) and Jan-Philipp Rohr

For many years, there has been a debate about which will be the best fuel for ships in the future. Methanol, hydrogen and ammonia are among the fuels under discussion. To what extent does this uncertainty influence the ordering behavior of shipping companies?
JR That is of course a major factor. In 2022, gas prices rose sharply, which led some shipping companies that have LNG-capable ships to revert to conventional fuel. Gas was simply too expensive, even though LNG was actually considered a good solution. This illustrates how complicated the situation is. One of the challenges is that alternative fuels have to be available in sufficient quantities – and all over the world, because ships are operated globally.

What are your market expectations for 2023?
JR We definitely see positive signs for tankers. For containers, we will have to see how things develop this year – here, tonnage that was ordered in 2020 and 2021 will come onto the market. We expect a decent year for bulkers, and the same applies to the specialist offshore and carrier segments. Overall, we are quite optimistic.

Matthias Happich, Key Account Manager Shipping, about the financing of Gram Car Carriers

The deal:
€42 million in financing for Gram Carriers, enabling the company to acquire more ships.

The story behind:
Matthias Happich: “Gram Car Carriers is one of the largest maritime providers of car carriers. We have had good relations with the company, which has its headquarters in Oslo, for many years. In recent years, the market for car carriers also went through a rather difficult period because there was an oversupply of ships – as in many other segments of the business. Since mid-2021, however, demand for carriers has risen sharply again and the market has recovered significantly. Among other things, this is due to the fact that electric vehicles have experienced a strong upswing – and these cars often have to be transported by sea to their sales markets. In this much-improved situation, we have joined with a number of other banks to provide Gram Car Carriers with financing that will enable the company to continue its investment in modern, low-emission ships that can accommodate up to 7,000 vehicles. Our share of the financing is another step into this market segment, which is expected to become even more important for us this year.”

€42 million
are provided by the bank for Gram Car Carriers.

The modern car transporters can take
up to 7,000 vehicles
on board.

“Volume in international corporates business continuously increased”

Jens Thiele
Global Head of Project Finance & Corporates
and General Representative

Last year, the bank set itself the goal of diversifying its corporate business and closing more deals abroad. Did it succeed?
JT Yes, we succeeded in both areas. Our goal was to close €1 billion in new international business in 2022, and we achieved €1.2 billion. That is a strong result. We have continuously increased the volume of our international corporates business in recent years. In 2020, it was €600 million, then €900 million in 2021, and now it's €1.2 billion. At the same time – and this is important – we have not increased the average ticket size. In this way, we reinforce the high granularity in our portfolio and thus spread the risks effectively. Overall, in our Corporates & Project Finance segment, we concluded gross new business of €2.4 billion, and profits after tax were €67 million – an excellent basis on which we will now build.

Which countries are particularly important for the bank in its international business?
JT In our international business, we focus mainly on Western and Northern Europe as well as the US. These are markets in which we see good risk-return ratios and an acceptable legal environment. In doing business there, we aim to have a broadly diversified portfolio. Among other things, we completed a first transaction in France in 2022 and in eight other countries.

What kind of deals do you focus on in Corporates International?
JT The focus is on credit products like working capital lines and term loans, but it also includes bonds and factoring. Overall, it's a mix of primary transactions and of participations in deals, usually about half-half, although in 2022 it was slightly more participations. In addition, we have succeeded in increasing cross-selling with our customers. This applies to payment transactions, deposits and hedging products – and strengthens our customer relationships.

In 2022, the bank became more active in London again. What role does that location play?
JT London is important for us. It's where many companies, banks and consulting firms are based, so London continues to be a very significant financial center. Having a presence there is important both for acquiring transactions and for monitoring them.

In Germany, corporate banking has recently been characterized by very high competition among banks. How important is German corporate banking for the bank at present?
JT The market is indeed still not easy, because many are trying to become more profitable via larger volumes – in vain. We have a different approach: For us, the focus is on profitability since we are convinced that business has to be profitable for everyone involved.

What does that mean in numbers?
JT In Corporates Germany, we signed new business of €400 million in 2022. After a phase of consolidation in which we were not so active, we grew again in 2022. In the process, we managed to substantially increase our profitability in our core segment. It's been a great success for all our colleagues, who have done a super job. In addition, cross-selling is responsible for over 40 percent of earnings.

Jens Thiele (left), Jan-Frederik Meyer und Linda Müller

What is the bank's target group?
JT It's comprised of companies mainly from the north with a sales volume of between €100 million and €750 million. We have long-standing relationships with many of them. Some of the companies are active in leasing and factoring, which at the moment is particularly attractive to us. Ultimately, however, we also go beyond the parameters I've described, both in terms of size and regions.

The bank changed its payment transaction provider last year. Are the resulting advances in technology helping in the customer business?
JT We invested in Payments because we want to be successful there. Last year, despite the technically challenging switch to a new provider, we managed to completely achieve the goals we had set ourselves. We now want to move onto a growth path, and we have added staff to achieve this.

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Jan-Frederik Meyer, Key Account Manager Corporates Germany, about MeinAuto Group AG

The deal:
€50 million in working capital for the leasing company Mobility Concept GmbH.

The story behind it:
Jan-Frederik Meyer: "In recent years, digital car sales in Germany have changed considerably and become more professional. Vehicle sales via the online platform Mobility Concept GmbH are growing significantly and offer companies and private individuals a simple and fast way to lease or purchase a vehicle at attractive conditions – often including insurance and service packages. The leasing company Mobility Concept GmbH specializes in fleet solutions in the B2B sector and continues to rapidly expand its B2C business via Meinauto.de. We are supporting the company in this endeavor with an operating credit line of €50 million. The company is part of MeinAuto Group AG, one of the leading online platforms for selling new cars digitally in Germany. It is exciting for us at the bank to assist a company in a rapidly expanding market sector and support its further growth. In this case, there is also the fact that we have considerable expertise in financing leasing companies and enjoy being active in this area. So it's a good fit."

Thanks to a credit line of

€50 million,

the leasing company Mobility Concept GmbH can further expand its business operations.

Linda Müller, Key Account Manager Project Finance, about the financing of fiberglass networks in Germany for Primevest CP

The deals:
HCOB is providing more than €120 million for various projects carried out by Primevest Capital Partners (Primevest CP). These funds will be used to finance the roll-out of the fiber-optic network in suburban and rural areas in Germany.

The story behind it
Linda Müller: "We have been in contact with Primevest Capital Partners since 2020. The solid business relationship that has developed since then enabled us to implement a large number of projects together in 2022. Primevest is now one of our core clients in the project finance sector. HCOB structured the financing bilaterally, thereby leveraging the deal team's industry expertise. The bilateral investment loans are funded under the German government's KfW Digital Infrastructure Program, which was launched to support the construction and expansion of the fiber-optic network in Germany. This shows the strategic importance that the network's expansion has for Germany; it is essential for the country's digitalization. Overall, we still have a lot to do in Germany when it comes to increasing the availability of fiber-optic networks. Less than one-third of households have access to the technology, and all households are supposed to have it by 2030. Primevest CP's networks mainly serve suburban and rural areas and are leased to Internet providers. More than 100,000 private households can be supplied with fiber-optic connections made possible by these projects. This is another step on the way to nationwide coverage based on this technology."

The bank Primevest Capital Partners is providing more than
€120 million
to expand fiber-optic networks in Germany.

To what extent did the changed environment caused by Russia's invasion of Ukraine, including high inflation and increased interest rates, influence the course of business in 2022 in the Corporates & Project Finance area?
JT First of all, the invasion was a big shock. In purely economic terms, the rise in interest rates has made refinancing much more expensive for companies. That puts pressure on companies' available cash flow, which automatically has an impact on risks. We are keeping a very close eye on that. At the same time, companies have had and continue to have a need for new financing. I am pleased that we have been able to assist many customers here. Overall, we have not seen any significant negative impact in our portfolio or in new business, but we must continue to be very vigilant.

The bank is active in financing infrastructure projects. How did Project Finance 2022 go?
JT In the entire Project Finance segment, we concluded around €700 million in new business, all of it profitable. We are very satisfied with this and are building on it in 2023.

The demand for renewable energy is increasing. The bank has many years of experience in this area. Is that paying off?
JT While the expansion of renewable energy in Germany is more urgent than ever, it stalled badly in 2022. There are several reasons for this: One is the approval procedures for new plants. The other is supply bottlenecks for components, especially from Asia. The energy transition is necessary and we are available to support it with financing. But it is not enough to focus on solar and wind in the energy sector. Other segments are also important, for example waste-to-energy plants and district heating networks, and we are active in both areas.

What are the expectations for 2023?
JT For us, the aim is to grow in a risk-conscious manner in each of our segments – Corporates Germany, Corporates International, Project Finance, and Payments & Trade. This applies both to new business and to sustainable earnings.

At Home in Hamburg – Deals with a Regional Reference

The deal:
$20 million in factoring for Hamburg-based BDV Behrens GmbH

The story behind it:
Michael Rothehüser, Head of Corporates Germany:
"We have a long-standing business relationship with BDV Behrens, including a deep mutual understanding of our business models. BDV Behrens supplies its international customers – many of whom are based in Africa or South America – with a range of products, including chemicals, fertilizers, pharmaceutical goods and paper. With payments taking as long as 180 or 270 days in South America, it needs an adequate and reliable supply of working capital financing. HCOB supports BDV Behrens through a factoring program. In concrete terms, this means that we buy credit-insured receivables that the company has acquired from its customers. BDV Behrens immediately receives the equivalent value of these receivables less agreed costs. Factoring is a flexible addition to the classic working capital line, for example for balance sheet planning, and is thus a sensible component in a company's financing mix. In total, we provide BDV Behrens with $20 million in factoring financing. The company can generate liquidity from receivables up to this amount. We have been offering factoring to our customers for many years and want to further expand the field in our German corporate customer business."

The deal:
$40 million to refinance two container ships for the Hamburg shipping company Leonhardt & Blumberg

The story behind it:
Andreas Rasch, Account Manager Shipping:
"Leonhardt & Blumberg is a traditional Hamburg shipping company founded in 1903 with a fleet of around 40 ships, with which we have a long-standing business relationship. Our loan of $40 million allowed us to refinance two 10- and 12-year-old vessels. The well-chartered units have a capacity of 3,600 and 2,800 whole 20-foot standard containers (Twenty-foot Equivalent Unit, TEU), respectively. This refinancing has enabled the shipping company to expand its business activities to include tanker shipping and to initiate a diversification of its fleet. We are happy to support those efforts. And, of course, we are happy when we can close deals in Hamburg."

Sustainability as a Success Criterion – ESG at Hamburg Commercial Bank

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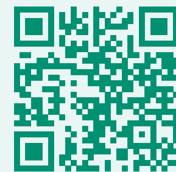
For HCOB, compliance with ESG criteria and their further development is a matter of course – both for reasons of social responsibility and economic sustainability. For HCOB, sustainability means future viability, which is reflected in the orientation of the bank's business model and processes. In this context, dialogue with customers plays an important role, among other things, in order to provide them with the best possible support in the development of their business activities toward greater sustainability. In this context, it is important to take into account the various aspects related to environmental, social and governance factors, or ESG.

In 2022, HCOB continued to advance the issue of sustainability both internally and externally by identifying ESG-related market potential and organizing ESG training for employees, among other activities. HCOB's progress in this field is reflected in the ESG self-assessment and climate stress test conducted on behalf of the European Central Bank (ECB), in which HCOB again performed well, along with its sustainability ratings which have improved continuously since 2020.

As a signatory to the UN Principles of Responsible Banking, HCOB pursues the goals of the Paris Climate Agreement and the UN's 17 Sustainable Development Goals (SDGs). In addition, the bank is a member of the Partnership for Carbon Accounting Financials (PCAF) initiative and implements the international PCAF standard for measuring and disclosing its financed greenhouse gas emissions.

The issue of ESG is managed at the bank by a department set up for this purpose, which reports to the Sustainability Committee, on which the Board of Management is fully represented. The bank considers the issue of sustainability at three levels: strategy and corporate governance, at the portfolio level, and at the corporate level.



For more information on ESG and the goals the bank has set for 2023 and beyond, see the CSR Report 2022.

Strategy and governance
The bank's strategy is aligned with ESG aspects in order to achieve the sustainability targets it has set itself. These include reducing its own carbon footprint and strengthening ESG-related dialogue with customers. The planned development of the bank's own Sustainable Finance Framework this year will enable the bank to anchor ESG aspects even more firmly in its strategy in the future. This will make the bank's business model more resilient and strengthen its competitive position.

ESG at portfolio level
HCOB contributes to the sustainable development of the economy through lending and investment. As early as 2020, the bank integrated ESG aspects into its lending process. In the process, all potential transactions undergo a multi-stage procedure in which they are screened for the three ESG dimensions. The bank also conducts a comprehensive dialogue with customers on ESG-relevant issues and possible improvements. To prepare employees working in sales and the back office for this dialogue, the bank has organized sector-specific training on sustainability.

ESG at the corporate level
Sustainable management also relates to the bank's own actions. This includes raising employee awareness of sustainability aspects as well as measuring and disclosing the carbon footprint resulting from the bank's operations. In addition, CO_2 emissions generated by building operations and air travel are offset through certified measures. In this context, the bank is supporting the rewetting of the Königsmoor moor in northern Germany in cooperation with the Schleswig Holstein compensation agency. Peatlands store a particularly large amount of carbon.

In addition, diversity is important to HCOB, with a particular focus on the advancement of women. The bank also offers a comprehensive range of social benefits for all employees and is committed to supporting various social projects by making donations.

Exemplary projects

Customer:
DC Developments GmbH & Co. KG
Project:
Innovative mixed-use quarter Sedelhöfe
Total volume of financing:
€171 million, with HCOB's share at 50 percent

Together with other financing partners, HCOB provided a club loan for the Sedelhöfe quarter in Ulm. The project was realized by several sponsors under the leadership of DC Developments. The property is among the best in its class for energy consumption and efficiency. The project comprises four buildings for retail, offices, medical practices, apartments and an underground parking garage with charging stations for electric cars. Some 35,000 square meters of space are being created. The project's outstanding level of sustainability is underscored by its meeting the platinum standard of the German Sustainable Building Council (DGNB e.V.). Retail space is heated and cooled using 100 percent renewable energies.

Customer:
AS Tallink Group
Project:
Financing of five existing ferries for goods and passengers (Ro-Pax)
Total volume of financing:
sustainability-related loan (SLL) of €135.5 million, with HCOB providing €27.1 million

Tallink is the leading ferry company in the Baltic Sea region with a clear sustainability strategy. One way Tallink is demonstrating this is by entering into a sustainability-linked loan (SLL) with a clear focus on sustainability. Key goals of the SLL include:

- **Reducing the core fleet's absolute level of CO_2 emissions by at least 2 percent annually**
- **Guaranteeing a very low rate of occupational accidents among the company's employees**

If Tallink achieves these targets, the company will benefit from a reduction in margins; if it does not, the margins will increase. Through this SLL, HCOB is supporting its shipping customers in providing good working conditions and reducing their carbon footprint.

“Great progress in modernizing our IT landscape and systems”

Carsten Schrader
Chief Information & Technology Officer
and Genereal Representative

Hamburg Commercial Bank has extensively modernized its IT landscape in recent years. Did this project enter the home stretch in 2022?
CS Yes, you could say that. We started the conversion in mid-2019 and now hope to complete the vast majority of the work in the first half of 2023. We laid the foundation for this in 2022, which was a very eventful year overall in that we made significant progress in modernizing our IT landscape, something that applies to our credit system, our general ledger and our new central data platform, among other areas. In the fall, we also had the go-live of nCino, an application to manage our credit process. At the same time, we completed our change of payment provider in 2022, which was also a very important step in our modernization efforts.

What are the biggest advantages of the new IT landscape?
CS One very significant advantage is that the new IT applications operate in the cloud, which allows us greater flexibility and is more cost-effective. In the course of the IT transformation, we reduced the number of our applications by about one-third and focused strongly on standard software, which reduces complexity and is much easier to use. Working with modern technology is also much more fun and efficient.

Will further improvements be made to the IT landscape in 2023?
CS As we complete our work on our IT landscape, there will be changes to systems that affect our accounting, controlling and risk controlling, among other activities. And – this is also an important point – we will complete the work on our central, integrated data platform. In addition, we will continue to optimize our infrastructure and make selective additions to the application landscape.

Banking has always been considered a “people business.” Why are modern, high-performance IT systems now so important for banks?
CS Banking is still a people business, of course, but IT very much determines the degree to which banking is efficient. Banking’s technical components are immensely important. To a large extent, IT is what drives the quality and speed of decision-making, interactions with customers and the market, and employee satisfaction. At the same time, data are an essential asset for banks. In order to be able to use this asset, powerful and modern IT is required. Flexible, reliable, up-to-date IT therefore represents an important competitive advantage – also from a cost perspective. We are now well positioned in this area, and we are very pleased about that.

In parallel with the IT transformation, the bank has started collaborating with nCino, which offers an application that supports end-to-end loan processing. What are the advantages of the new system?
CS Thanks to nCino – a publicly listed company based in the US – we can control and monitor our credit process from start to finish, from the first customer contact to the final credit decision, including the necessary reporting. nCino is therefore a key application which provides a high level of transparency on our core business. Incidentally, we are the first bank in Germany to implement the system, which is already fairly widespread in the US and UK.

Will HCOB’s customers also benefit from the advances in the IT landscape?
CS Naturally, our goal is to use today’s technology to better serve our customers. We want to become even faster and more efficient, and this will also benefit our customers. In addition, we are currently examining a number of ways to provide better technical support for processes so we can minimize effort on the customer side. Customers should feel that they are dealing with a modern bank.

With the IT transformation and nCino, two important projects are well on their way to completion. Are there other projects designed to optimize processes and increase efficiency at the bank?
CS The major changes and investments of recent years have created new opportunities for us. This year, we will be looking to make the most of these opportunities so we can make our processes faster and more efficient. To achieve this, we’ve set up the Fast & Accurate initiative. The focus here is on our credit processes and using the new technology. Perhaps we will also discover aspects that we can optimize in the new IT landscape. The goal, clearly, is to fully leverage our investment in the IT landscape. Our aspiration is to be a bank with reliable technology that is highly efficient and technically advanced. We will continue to work on achieving this goal in 2023.

New Hires at HCOB

Marco Schweer, Project Finance
“I’m based in the bank’s small but very dynamic London office. Despite the distance, I had a successful start, not only because I quickly had the chance to get to know my colleagues in the Hamburg office personally. As a native of Northern Germany, I find the bank’s combination of international flair and Hanseatic origins particularly appealing. The opportunities and prospects offered by the bank and my workplace in London are a terrific motivation, as are the positive and satisfying developments.”

Barbara Besendahl, Audit Center Steering & Governance & IT
“What really blew me away right from the start was the bank’s efficiency. The contract was ready just one day after my interview. That first impression has remained. I also find the bank’s decision to move its IT to the cloud very exciting. Of course, there were some initial hiccups, but that’s normal. Nevertheless, the decision shows the bank’s resolve. And that it is taking a clear path.”

“Our portfolio has proven to be very robust so far”

Dr. Thomas Dohrmann
Credit Officer & Head of Credit Risk Center
and General Representative

The economic and political environment was extraordinarily difficult in 2022. How do you see the year?
TD The past year was characterized by a complex “risk cocktail” consisting of high inflation, rising interest rates, an energy crisis, disrupted supply chains and, of course, the geopolitically very tense situation following Russia’s invasion of Ukraine, some elements of which are still being felt. We have not had a combination of challenges of this magnitude in over a decade. I would say there hasn’t been a comparable scenario since 2008, the year of the major financial market crisis, when the underlying conditions were negative in a different way, but similarly toxic.

How has this difficult situation affected Hamburg Commercial Bank’s portfolio?
TD Our portfolio has proven to be very robust so far. We have even been able to reduce the portfolio of non-performing exposures (NPEs) by €62 million year-on-year to €405 million; the NPE-ratio has fallen from 1.4 to 1.2 percent. This was achieved because very few NPEs were added in 2022 and, in parallel, we reduced NPEs totaling €150 million.

Are there further risks that will be reduced in 2023?
TD Yes, we have also set up an NPE action plan this year. We plan to reduce defaulted loans to the amount of €215 million euros. These are loans that we believe we can either successfully restructure or sell, for example. In general, the bank has set aside a high allowance for losses on loans and advances. As of Dec. 31, 2022 we had an NPE coverage ratio of 69 percent, and that was solely from risk provisioning, excluding the collateral that is added – so we are in a very good position.

Why did Hamburg Commercial Bank’s portfolio prove so stable during the crisis, and what distinguishes it?
TD One reason for the low losses is that we were very careful when concluding transactions, and we have many good commitments in our portfolio that were not strongly affected by the crisis or even benefited from it. I am thinking, for example, of renewable energies, but also of shipping, where rates for container ships in particular were very high. Among other things, ships were backed up at ports, which led to a shortage. In Commercial Real Estate, however, higher interest rates and higher construction costs could have a negative impact this year – that’s the reason why we didn’t do one or two deals in this area in 2022. In Corporates, we focused on what we do best as a specialist financier: individually structured financing. The bank also used 2022 to internationalize itself in the Corporates business as well as Commercial Real Estate. We are active in Western and Northern Europe, as well as in the UK and US. This serves to diversify our loan portfolio, which in turn helps to make it even more robust.

How important is the diversification of risks?
TD Very important, because that’s how we spread the risks. Diversification takes place on several levels for us. One is being active in different markets in different countries. Our diversification also extends to classes and subclasses of assets, and we have clearly defined upper limits for individual and group exposures. Through this strategy, we prevent cluster risks. And we ensure a high level of granularity in our funding.

How does HCOB make sure that it has sufficient knowledge of the local market when it invests abroad?
TD It’s important to have a good understanding of the local conditions, including the legal systems. That’s why we work with local partners or participate in existing financing arrangements.

What do you expect for 2023?
TD Some effects from the macroeconomic risks may not hit until this year – for example, some companies still have to repay the aid they received during the pandemic, and high interest rates and inflation could gradually have a negative impact. In a number of sectors, cash flows are not yet as strong as they were before the pandemic – so 2023 may be challenging for some companies. As a bank, we can never say with absolute certainty that we won’t face loan defaults. But we can be very careful and prudent when it comes to new business, and we can make good risk provisions to ensure we’re prepared and protected – and that’s what we’re doing.

New Hires at HCOB

Chuong Tran, Risk Control – Scenario Analysis
“HCOB’s compelling story and the rapid pace at which the bank is developing were the main reasons I started here. Dynamic developments help us leave our comfort zone. That’s the way it is here, and I like that. I enjoy the supportive team spirit and the flat hierarchies. And the patience of my colleagues: My native language is Vietnamese, and I’m still learning German. But everyone is great at dealing with that.”

Sonja Eder, Project Finance
“The bank’s success story was a key reason why I joined HCOB. I like the clear commitment to sustainability. Personally, I find it meaningful to work on sustainable, green projects – that makes me proud. Perks like the women’s network and the open working culture helped me a lot when I first started. There’s also plenty of fun to be had. The weekly team run around the Außenalster at lunchtime is just one example."

“We can offer many attractive positions and promote diversity”

Judith Steinhoff
Global Head of Human Resources

In 2022, the bank hired 125 new employees, after having cut staff before that. Was 2022 a turning point?
JS In 2022, we continued the ongoing realignment of the bank. The transformation laid the foundation for our sustainably successful business activities. We are one of the most successful banks in Europe. We are growing and can offer many attractive jobs and promote diversity. We have now left the days of downsizing behind us.

Why did the bank hire so many employees?
JS We have strengthened our market and back-office functions primarily to achieve our earnings targets. And we want to develop other markets and business areas. That’s why we have expanded our locations in London and Luxembourg. This increases the need for resources in the back-up functions. In addition, we have added highly specialized employees in many areas and have invested in young people. That means we have much more quality in terms of expertise, as well as the potential offered by new talent.

Are there any other hires planned for 2023?
JS Yes, we are planning around 150 additional hires. In particular, we will focus on bringing female employees on board. The advancement of women, especially their development as senior experts and managers, is very important to us.

Will the total number of employees increase?
JS Yes. The past few years were characterized by departures planned during the transformation phase and former downsizing programs. That is over. With the planned new hires, the number of employees will increase.

The bank wants to grow moderately. Does it need employees with special profiles to achieve this?
JS We are looking for relationship managers and credit analysts with expertise in digital infrastructure, for example. As we continue to internationalize, we will also need people with experience in our foreign markets. We aim to be a data-driven company. We are also looking for personnel to meet that goal. In addition to acquiring expertise, we are looking for new employees who enjoy a highly dynamic environment and a workplace that allows them to help shape things and that constantly develops them by posing new challenges.

The labor market seems to be very competitive. How did you manage to recruit so many new employees for the bank?
JS New employees can quickly take on responsibilities at HCOB. We are the first privatized bank in Germany to complete its transformation and we have very good figures to show for it. We are part of an extremely exciting story in the German banking market. This is very attractive for people who enjoy entrepreneurship, personal responsibility, and a high standard of professionalism. Apart from remuneration in line with the market, we offer attractive benefits. We also focus on training young people. Our business model allows us to offer students in work-study programs exciting responsibilities and development opportunities right from the start. Our own trainee program is also popular. Another important aspect is that we are very happy to hire trainees once they have completed their training. And finally, we have expanded our recruiting beyond Germany’s borders. We hire at our sites abroad and recruit internationally for our headquarters in Hamburg.

What do employees expect from an employer today?
JS First and foremost, a working environment in which performance is recognized and in which employees can develop their potential. Managers play a central role in this. Employees expect that there will be an exchange of ideas among equals and that their expertise will be put to use. Modern, flexible working conditions and state-of-the-art technology are also important. Remuneration and attractive benefits that take mobility, health promotion, in-office refreshments and a modern working environment into account are also standard these days. We offer all of this.

Has the culture at the bank changed in recent years?
JS We are a very open organization. That starts with our lean organizational structure. Our managers are involved in operational issues and work closely with employees. We operate across departments and hierarchies. We constantly review our working methods and processes. Employees tackle new topics and tasks unbureaucratically and quickly assume responsibility for them. This makes us a very flexible and dynamic company.

New Hires at HCOB

Dr. Thomas Scheffel, Banking & Capital Markets Law
“The really thorough onboarding I received from HR and my colleagues provided me with deep insight into the bank – that was a very good start. I like the fact that my job here is very challenging and varied. No two days are the same. The atmosphere in our area and the bank in general is characterized by a high level of professionalism and a good team spirit. Everyone pulls together, which is a lot of fun.”

Sören-Alexander Klose, Loan & Collateral Operations II
“I like the colorful, diverse and modern working environment at the bank. And that you can quickly take on responsibility here. That gives you a lot of leeway. I find the people very open, communicative and helpful, which made it easy for me right from the start. I’m a fan of the band Wir sind Helden (We Are Heroes) and I’d like to quote one of their songs because I think it applies to me: ‘I’ve come to stay.’”

Report of the Supervisory Board

Juan Rodríguez Inciarte, Chairman of the Supervisory Board of Hamburg Commercial Bank since November 2018

2022 annual financial statements and Group financial statements of Hamburg Commercial Bank AG

Report of the Supervisory Board on the 2022 financial year

The Supervisory Board performed its duties under the law and the Articles of Association during the 2022 financial year. In particular, it monitored the management of the company and provided advice to the Management Board in matters relating to corporate governance.

In the 2022 reporting year, the Management Board provided the Supervisory Board with regular, timely and comprehensive information on the Bank's business policy and other fundamental issues relating to corporate governance and planning, financial development, operating performance and the Bank's risk, liquidity and capital management, as well as on major legal disputes, compliance issues and transactions and events of fundamental significance to the Bank.

Hamburg Commercial Bank can look back on a very successful 2022 in which it impressively continued its success story. Thanks to a strong business model, characterized above all by good customer business combined with a continued consistent risk policy, the bank's key financial ratios improved further. The now multi-year track record is also reflected in the rating development. For example, after the end of the reporting period, in February 2023, the bank's long-term issuer rating was upgraded to the A range, as previously envisaged. The Group net income for fiscal year 2022, which significantly exceeded expectations, is evidence of the operational strength as well as the sustainable profitability of Hamburg Commercial Bank. On the basis of the distribution policy adopted for the 2022 financial year, the Management Board and Supervisory Board of Hamburg Commercial Bank AG intend to propose to the Annual General Meeting that a dividend payment of EUR 1.5 billion be resolved for the 2022 financial year.

Riskconscious action, consistent diversification of business activities, a high level of cost awareness, and modern technical infrastructure form the foundation for the bank's long-term success. This is particularly relevant in these times, which are strongly characterized by geopolitical and economic uncertainties. In 2022, the bank recruited a large number of employees and plans to make further strategic hires in 2023. The Supervisory Board dealt in depth with the issues relevant to the bank and received detailed reports on these throughout the year. In the 2022 financial year, particular attention was paid to the risk policy, which continues to be pursued very consistently and has led, among other things, to a further reduction in the NPE ratio to 1.2 percent (previous year: 1.4 percent). In addition, there was a focus on the successful implementation of the diversification strategy consistently pursued by the bank as part of its moderate growth plan on both the asset and liability sides of the Group balance sheet, which among other things increases the resilience of the loan portfolio. In its business activities, the bank has integrated a clear approach to embedding ESG criteria (environmental, social and governance). Specifically, this means, among other things, that it has defined binding sustainability criteria in its guidelines for the lending business; at the same time, an integrated sustainability framework is anchored in the bank's strategy architecture.

The Supervisory Board was kept informed about the status of major milestones and - where necessary - adopted appropriate resolutions.

The Supervisory Board was involved in decisions of material importance to the Bank.

The Supervisory Board sought legal advice where necessary.

The Chairman of the Supervisory Board and the Chairmen of the Risk and Audit Committees were also informed by the Management Board about important issues and upcoming decisions, including between the scheduled meeting dates.

For example, the Chairman of the Supervisory Board and his Deputy, as well as the Chairmen of the Risk and Audit Committees, received weekly updates on the status of key figures for monitoring the impact of the COVID-19 pandemic and the war in Ukraine on the bank via the "Crisis Dashboard". Also, the Chairman of the Audit Committee has direct access to the Bank's legal advisors in the case of the Cum/Ex investigations by the Cologne Public Prosecutor's Office against (former) employees of HCOB. In this matter, the Supervisory Board and the Audit Committee are also informed promptly and regularly by the Management Board about the current status of the investigations, which are fully supported by Hamburg Commercial Bank. In addition, the Chairman of the Supervisory Board receives the monthly management report and daily reports on asset liability management, liquidity risk and market risk.

Furthermore, with regard to the Bank's comprehensive IT transformation, the implementation of which is closely monitored by the Supervisory Board and the IT Transformation Committee of the Supervisory Board, the consultant engaged by HCOB to support the Bank's IT transformation continued to report directly to the Chairman of the Supervisory Board and the Chairman of the Audit Committee in 2022, in addition to reporting to the Chairman of the Management Board. The consultant was also a regular guest at the IT Transformation Committee meetings in 2022. This enabled a high level of information to be provided on this important project on an ongoing basis. Another important project at the bank is the change of payment service provider, which, like the IT transformation, was closely monitored by the Audit Committee and its Chairman.

Where resolutions were also required between meetings, the Supervisory Board adopted them by written procedure.

Meetings of the Supervisory Board

Nine meetings of the Supervisory Board were held in the 2022 financial year, three of which were convened extraordinarily. Furthermore, the Supervisory Board held a strategy workshop with the Management Board on November 9, 2022. In addition, on February 9, 2022, against the backdrop of the Supervisory Review and Evaluation Process (SREP) 2021, the Supervisory Board met for informal discussions with the ECB's top management and representatives of the Joint Supervisory Team. Due to the COVID-19 pandemic, most of the Supervisory Board meetings were held on a hybrid basis, i.e., both in person and via video conference. Exceptions were the meeting on February 9, 2022, and the extraordinary convened meetings, which were held exclusively virtually.

The Management Board regularly informed the Supervisory Board about the Bank's situation. In this context, it informed the Supervisory Board on the basis of the quarterly figures available in each case, in particular about: the current economic situation, the course of business overall and in the individual business areas (also in relation to the current business plan), the risk situation, the development of capital, and the liquidity and funding situation. In addition, the Supervisory Board was regularly provided with an outlook for the following quarters and the year as a whole. Management of the effects of the COVID-19 pandemic and the war in Ukraine, as well as HR information and regulatory issues, i.a., the Supervisory Review and Evaluation Process (SREP) 2022, also formed an important part of the reporting on the situation of the bank. Furthermore, the Management Board regularly reported to the Supervisory Board on the status of strategic projects, such as in particular the comprehensive IT transformation, the change of payment service provider, and the integration of ESG criteria into business activities.

The Supervisory Board critically reviewed the reports and in some cases requested additional information and documents, which were always provided promptly and to its satisfaction. Furthermore, the Supervisory Board dealt with various Management Board matters.

The auditor regularly attended the Supervisory Board meetings and was available to the Supervisory Board to provide additional information.

In addition, the Supervisory Board is informed at the beginning of each month about the preliminary key figures for the previous month-end.

In addition, the Supervisory Board was informed in writing about significant matters between meetings. For example, the Chairman of the Management Board informed the Supervisory Board about significant project milestones, such as the status of the go-live of SEPA payments on the new payment system. In addition, the Supervisory Board was provided with current important internal communications as well as rating and press information. These included publications on financial results and HCOB's being awarded the Euromoney Award for Excellence 2022 in the global category "World's Best Bank Transformation" (July 2022) and HCOB's placement in The Banker's ranking of the world's top 1000 banks (September 2022).

In its meetings, the Supervisory Board also focused on the following topics:

At the meeting on February 9, 2022, as part of the usual report on the Bank's situation, the Supervisory Board discussed the preliminary Group net result for 2022, which was published in a press release on February 10, 2022 . In addition, the Supervisory Board received overviews of the ancillary activities of the Management Board and the significant donations made by HCOB (donation amounts > EUR 10 thousand) in 2021. Finally, the Supervisory Board was informed about the status of the Cum/Ex investigations by the public prosecutor.

The subject of the meeting held on April 6, 2022 (annual financial statements meeting) was primarily the presentation of the results of the audit of the 2021 annual and Group financial statements by the auditor and the report of the Audit Committee on the audit of the 2021 annual and Group financial statements. Following Supervisory Board's own assessment and prior discussion with the auditor, and based on the recommendation made by the Audit Committee, the annual financial statements for 2021 were adopted and the Group financial statements for 2021 were approved. In addition, the usual resolutions to be passed on recommendations to the Annual General Meeting were adopted, as well as a resolution on the upper limit of variable annual compensation for employees in connection with the so-called "Long Term Incentive Program 2" of HCOB.

In connection with the annual and Group financial statements for 2021, the combined separate non-financial report ("CSR Report") for 2021 pursuant to Sections 315b, 315c in conjunction with 289b to 289e HGB (German Commercial Code) was also reviewed and approved.

In addition, the usual resolution was adopted on the recommendations to the Annual General Meeting on the election of the auditor for the financial year 2022.

In the absence of the Management Board, the Supervisory Board also discussed the Management Board's target achievement for the 2021 financial year and the target agreements for the 2022 financial year and took note of the report of the Remuneration Committee in this regard. The Supervisory Board postponed the resolution on target achievement in 2021 and the target agreements for 2022 to an extraordinary meeting on April 13, 2022 to consider further aspects.

At its meeting on April 13, 2022, the Supervisory Board conclusively discussed the target achievement of the Management Board for the 2021 financial year and the target agreements for the 2022 financial year and adopted a resolution in accordance with the resolution recommendation of the Remuneration Committee.

At the meeting on June 9, 2022, the Supervisory Board discussed the Bank's distribution policy in addition to the usual reports from the Management Board. The resolution on the distribution policy was subsequently adopted by written resolution (June 2022), taking into account the aspects discussed by the Supervisory Board. Furthermore, the Supervisory Board resolved to establish a (regulated) branch in London, UK, and adopted target quotas for the underrepresented gender (currently: women) on the Supervisory Board and the Management Board.

At the meeting on August 17, 2022, the Supervisory Board dealt with the interim financial statements as of June 30, 2022, and current developments. The Supervisory Board was also provided with a presentation on the 2022 strategy process. The Supervisory Board was also informed about the status of the D&O insurance policy. In the absence of the Management Board, the Supervisory Board discussed the future composition of the Management Board. Following the discussion on this matter, the Supervisory Board issued a press release on August 18, 2022 concerning the resignation of the CEO, Stefan Ermisch, as of September 30, 2022 and the intended appointment of Ian Banwell as CEO of HCOB as of October 1, 2022.

On September 6, 2022, the Supervisory Board, in the absence of the Management Board, held a final discussion of the material considerations for the reorganization of the Management Board of HCOB and resolved the following: Ian Banwell is appointed as CEO of HCOB, effective October 1, 2022. Stefan Ermisch will resign from the Management Board effective September 30, 2022. Furthermore, Marc Ziegner will be appointed as CFO to the Management Board of HCOB effective October 1, 2022.

On November 9, 2022, in the joint strategy workshop with the Management Board, the Supervisory Board additionally received the ordinary report on the Bank's situation and also dealt with formal Management Board matters as a result of the reorganization of the Management Board.

In extraordinary meeting on November 22, 2022, the Supervisory Board discussed in detail the termination of Standard & Poor's rating of HCOB and resolved in line with the recommendation of the Risk Committee.

The last ordinary meeting of the year was held on December 8, 2022. At this meeting, in addition to the usual reports on the Bank's situation, the Supervisory Board dealt with the results of its own efficiency review pursuant to Section 25d of the German Banking Act (KWG) and the evaluation of the Management Board. The Supervisory Board also discussed and approved the medium-term planning for 2023 - 2025. Furthermore, in line with the recommendation of the Risk Committee, the Supervisory Board approved the regulatory changes to the lending guideline with effect from January 1, 2023. In addition, following the recommendation of the Risk Committee, the Supervisory Board approved the adjustment of the Related Party Transactions Policy as a result of changed external requirements following the BdB entry of HCOB. Finally, the Supervisory Board received an update from the Chief Compliance Officer of HCOB on its duties regarding the mandate situation and potential conflicts of interest.

In the reporting year, the Supervisory Board also adopted three resolutions by written resolution procedure.The resolutions concerned the appointment of a new compliance officer effective February 1, 2023 on December 14, 2022, and Management Board and Supervisory Board matters. The latter concerned at the beginning of 2022 agreements on remote work by the Management Board outside the HCOB headquarters in Hamburg and, at the end of June 2022, the resolution on HCOB's distribution policy. In addition, the Supervisory Board received the Remuneration Monitoring Report for 2022 on November 30, 2022.

In the past year, the Supervisory Board again dealt in depth with various current topics relevant to the financial sector, such as regulatory developments, outsourcing management and ESG, among others.

Where individual members of the Supervisory Board were affected personally or by virtue of their function by resolutions of the Supervisory Board or its committees, or where other potential conflicts of interest arose, they did not participate in the deliberations and resolutions of the relevant body. The number of other significant directorships held by members of the Supervisory Board can be found in the Corporate Governance Report in this Annual Report.

All members of the Supervisory Board attended well over half of the meetings of the Supervisory Board and its committees to which they belong.

Committees of the Supervisory Board

The Supervisory Board has formed five committees from among its members to support it in its work.

The *Nomination Committee* met three times last year. The Nomination Committee prepared the resolutions for the Supervisory Board in accordance with the Rules of Procedure for the Supervisory Board. Together with the Management Board, the Nomination Committee also supports the Supervisory Board with regard to long-term succession planning. Where necessary, it adopted its own resolutions or made recommendations to the Supervisory Board for its approval. In addition, the Nomination Committee approved minutes of past meetings by written resolution in mid-March 2022.

The *Risk Committee* met a total of six times in the 2022 financial year, four of which in ordinary session. In the reporting year, the Risk Committee also adopted three resolutions by way of written resolution procedure.

Representatives of the auditor also regularly attended the meetings.

The Risk Committee dealt intensively with the bank's risk situation and risk management. In this context, it dealt with the update of the Strategic Risk Framework, which represents the risk framework for business strategy and planning.

At all its meetings, the Committee was kept informed of current events and developments and their impact on the risk situation, particularly against the background of the COVID-19 pandemic and the war in Ukraine. The Risk Committee regularly considered the status of strategic risk issues at the bank, particularly with regard to NPL/NPE and funding, i.a., with the termination of the Standard & Poor's rating of HCOB, and received reports on topics such as the diversification of the bank's portfolio and pension management.

The Risk Committee also obtained information on current regulatory topics and the status of supervisory inspections. Among other things, the Risk Committee discussed in detail current developments with regard to the ICAAP and ILAAP regulatory requirements (Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process).

The Risk Committee also discussed individual exposures of significance to the Bank and received reports on the progress made in reducing the non-performing loan (NPL) portfolios. The Risk Committee discussed all lending business guidelines and business transactions subject to submission and resolved the business transactions requiring approval in accordance with the law and the HCOB Related Party Transactions Policy.

In addition, the Risk Committee received regular reports on compliance, information security and the effectiveness of the internal control system. In addition, the Risk Committee was regularly informed by Internal Audit on the basis of excerpts from its quarterly reports and by the Legal department about significant legal disputes.

In a joint meeting with the Remuneration Committee, the Risk Committee further reviewed the Bank's remuneration systems to determine whether the incentives set by the remuneration systems appropriately take into account the Bank's risk, capital, and liquidity structure as well as the probability and maturity of income.

The *Audit Committee* met five times in the past financial year. In the reporting year, the Audit Committee also received the 2021 Annual Report of Internal Audit by way of written information in advance of the ordinary meeting on April 5, 2022.

Representatives of the auditor attended all meetings.

The members of the Audit Committee discussed the bank's annual and Group financial statements for 2021 and the corresponding audit reports with the auditor PwC. The committee reviewed the independence of the auditor in accordance with the requirements of the German Corporate Governance Code on the basis of the auditor's declaration of independence and prepared the appointment of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as auditor for the 2022 financial year. Furthermore, the Audit Committee for the first time assessed the quality of the audit of the annual financial statements in accordance with section 107 (3) of the German Stock Corporation Act (AktG) and confirmed it as adequate.

The auditor reported regularly to the Audit Committee on the latest results of its audit and presented the current status of planning for the audit of the annual and Group financial statements. The committee was also informed about the engagement of the auditor for non-audit engagements (independence compliance process).

The Committee obtained assurance of the effectiveness of the risk management system - in particular the internal audit and internal control systems - by discussing the relevant reports. In addition, the Committee dealt with the results of the audit of securities accounts and the audit of securities services transactions in accordance with the German Securities Trading Act (WpHG). Finally, the Audit Committee regularly dealt in detail with the status of the IT transformation on the basis of reports from the Bank, the IT Transformation Committee of the Supervisory Board, and the auditor PwC. Furthermore, reports on the change of payment transaction service provider and the status of the Cum/Ex investigations by the Cologne Public Prosecutor's Office supplemented the topics discussed at the meetings.

The *Remuneration Committee* met six times in the reporting year, twice in extraordinary meetings and once in partial joint meetings with the Risk Committee.

It dealt in depth with Management Board remuneration issues. In particular, the Remuneration Committee dealt with the Remuneration system as well as target agreements and target achievement for members of the Management Board. It also dealt with the Bank's remuneration system for employees and the appointment of women to management positions. Furthermore, the Remuneration Committee received regular reports on the status of implementation of the requirements of the Remuneration Ordinance for Institutions (IVV). In addition, the Remuneration Officer reported to the Remuneration Committee on the results of his control activities and presented his annual Remuneration Monitoring Report to the Committee. The Chairman of the Remuneration Committee also regularly exchanged views with the Remuneration Officer on relevant topics outside of meetings.

The *IT Transformation Committee* of the Supervisory Board met five times in the 2022 financial year.

Its meetings were regularly attended by the external IT consultant engaged by the Management Board to support the IT transformation.

At its meetings, the Committee received reports on current issues and progress in the Bank's IT transformation, the change of payment transaction service provider, and vendor management, and discusses these topics in detail with the Management Board.

The chairpersons of the committees regularly reported to the Supervisory Board on the work and results of the committees' deliberations at the respective subsequent plenary meetings.

Audit and adoption of the 2022 annual financial statements and Group financial statements

The accounts, the annual financial statements, and the Group financial statements, including the combined management report, for 2022 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, which had been appointed as the auditor of the annual and Group financial statements by the ordinary Annual General Meeting held on May 18, 2022. The audits led to an unqualified audit opinion being issued in each case.

The financial statement documents and the audit reports, together with all appendices, were sent to all members of the Supervisory Board prior to the meetings. The auditor of the annual financial statements initially reported on the performance and principal findings of its audit to the Audit Committee at the latter's meeting held on March 28, 2023. On this basis, and on the basis of its own review, the Audit Committee discussed the results in detail with the auditor. The Chairperson of the Audit Committee informed the Supervisory Board of the outcome of its deliberations in the Audit Committee at the Supervisory Board meeting held on March 29, 2023. The auditor also attended the meeting of the Supervisory Board and reported on the main results of its audit. On the recommendation of the Audit Committee, the Supervisory Board finally approved the results of the audits, after examining the reports of the auditor and in-depth discussion, and concluded that no objections could be raised even after the final result of the own investigations. The Supervisory Board approved the 2022 annual financial statements drawn up by the Management Board, meaning that they have been formally adopted, and approved the 2022 Group financial statements. It also approved the Report of the Supervisory Board for the 2022 financial year.

Personnel matters

There were no changes to the Supervisory Board in the reporting year 2022.

There were the following changes to the Management Board in the reporting year 2022.
Stefan Ermisch stepped down from the Management Board at the end of September 30, 2022.
Effective October 1, 2022, Ian Banwell was appointed CEO and Marc Ziegner was appointed CFO.

The Supervisory Board would like to thank the Management Board and all of the Bank's employees for their considerable personal commitment and performance.

Hamburg, March 29, 2023

The Supervisory Board

Juan Rodríguez Inciarte
Vorsitzender des Aufsichtsrats der
Hamburg Commercial Bank AG

Corporate Governance

All statements contained in this Corporate Governance Report reflect the situation that prevailed on March 21, 2023 in the absence of any references to the contrary.

As an unlisted company, Hamburg Commercial Bank has been recognising the German Corporate Governance Code (GCGC) voluntarily since 2005. Corporate governance at Hamburg Commercial Bank (HCOB) is also principally based on the provisions of the German Stock Corporation Act, the German Banking Act and internal rules such as the Articles of Association and the Rules of Procedure that apply to the Management Board and the Supervisory Board, as well as the Code of Conduct of Hamburg Commercial Bank. By presenting the system of corporate governance and control and with the transparent reporting on conformity to the recommendations of the Code, the aim is to strengthen the confidence that investors, clients and employees, as well as the general public, have in Hamburg Commercial Bank.

Declaration in accordance with Section 161 of the German Stock Corporation Act

In accordance with Section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of listed companies must publish an annual declaration of how their management and supervision systems conform to, or deviate from, the recommendations set out in the German Corporate Governance Code. The Bank's aim is to conform to the GCGC as fully as possible even as a non-listed company. As a result, in March 2023, the Management Board and the Supervisory Board of Hamburg Commercial Bank (HCOB) voluntarily issued the Declaration of Conformity set out below, in which the deviations from the GCGC recommendations are disclosed.

Declaration of Conformity

On April 28, 2022, the "Government Commission on the German Corporate Governance Code" presented a new version of the German Corporate Governance Code, which entered into force on June 27, 2022 when it was published by the Federal Ministry of Justice and Consumer Protection in the official section of the German Federal Gazette. The new version restricts the applicability of the Code's recommendations to credit institutions such that the recommendations only apply to them to the extent that there are no statutory provisions to the contrary. Hamburg Commercial Bank's last Declaration of Conformity was issued on April 6, 2022.

The Management Board and Supervisory Board of Hamburg Commercial Bank declare that Hamburg Commercial Bank has complied with the GCGC recommendations with the exception of the aspects listed below:

According to Recommendation B.2, the Supervisory Board should work together with the Management Board to ensure long-term succession planning; the procedure should be described in the corporate governance statement.
The Supervisory Board, in which all of HCOB's institutional private investors are represented and an appropriate number of independent shareholder representatives are members, works together with HCOB's Management Board to ensure long-term succession planning; there is no description of the procedure in the Corporate Governance Statement.

According to Recommendation B.5, an age limit should be set for members of the Management Board and stated in the Corporate Governance Declaration.
To date, no age limit has been specified and no corresponding information is provided in the Corporate Governance Statement. The Management Board of HCOB currently has an average age of around 54.

According to Recommendation C.1, the Supervisory Board should determine specific objectives regarding its composition, and prepare a profile of skills and expertise for the entire Board while taking the principle of diversity into account. Proposals by the Supervisory Board to the Annual General Meeting are to take these objectives into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board. The status of implementation is to be published in the Corporate Governance Declaration. This is also to provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members.
No publication has been made in the Corporate Governance Declaration. As part of its annual efficiency review, which was conducted in December 2022, the Supervisory Board looked at the skills, competencies and experience within the Supervisory Board and updated its competence profile, which was prepared in 2021 (see 2022 Corporate Governance Report and Report of the Supervisory Board 2022). The shareholder representatives on the Supervisory Board consider the number of independent shareholder representatives to be appropriate. The names can be found in the 2022 Corporate Governance Report.

According to Recommendation C.2, an age limit should be specified for members of the Supervisory Board and disclosed in the Corporate Governance Declaration.
According to the Rules of Procedure for the Supervisory Board, members of the Supervisory Board should generally not be older than 68 when they start their term of office (see 2022 Corporate Governance Report). No publication on the age limit has been made in the Corporate Governance Declaration.

According to Recommendation C.3, the term of Supervisory Board membership should be disclosed.
The term of membership of the Supervisory Board has not been disclosed. The Supervisory Board has deliberately decided against setting a limit for the term of membership, which is why is does not report this at present (see 2022 Corporate Governance Report).

According to Recommendation D.1, the Supervisory Board shall adopt Rules of Procedure and publish them on the company's website.
The Supervisory Board of Hamburg Commercial Bank AG, in which all of HCOB's institutional private investors are represented, has adopted Rules of Procedure. The Rules of Procedure for the Supervisory Board form part of HCOB's written rules. The Rules of Procedure for the Supervisory Board have not been published on the website of Hamburg Commercial Bank AG.

According to Recommendation D.2, depending on the specific circumstances of the enterprise and the number of Supervisory Board members, the Supervisory Board should form committees of members with relevant specialist expertise. The respective committee members and the committee chairs should be provided in the Corporate Governance Declaration.
The Supervisory Board's committees and the respective committee members as well as the committee chairs can be found in the notes to the annual financial statements and the notes to the 2022 Group financial statements. Moreover, this information is published on the HCOB website. No publication has been made in the Corporate Governance Declaration.

According to Recommendation D.5, the Supervisory Board is to form a Nomination Committee, composed exclusively of shareholder representatives, which names suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting.
The Nomination Committee of HCOB's Supervisory Board is currently composed of three shareholder representatives and one employee representative. Nevertheless, in accordance with the Rules of Procedure for the Supervisory Board, only the shareholder representatives on the Nomination Committee propose suitable candidates to the Supervisory Board for its election proposals to the Annual General Meeting.

According to recommendation D.7, the report of the Supervisory Board shall state how many meetings of the Supervisory Board and the committees were held in person or as video or telephone conferences and how many meetings of the Supervisory Board and the committees were attended by the individual members in each case.
A list of the number of meetings attended by individual Supervisory Board members has not been provided in the current Report of the Supervisory Board. The members of the Supervisory Board all attended the meetings of the Supervisory Board and the committees with only very minor and well-justified exceptions. Against the background of the COVID-19 pandemic, the meetings in 2022 were mainly held both in person and by video conference (hybrid).

According to recommendation D.12, the Supervisory Board shall regularly assess how effectively the Supervisory Board as a whole and its committees perform their duties. In the Corporate Governance Statement, the Supervisory Board shall report whether and how a self-assessment has been carried out.
The Supervisory Board of HCOB regularly assesses the efficiency of its work as a whole and that of its committees (see Corporate Governance Report and Report of the Supervisory Board 2022). There is no report on this in the Corporate Governance Declaration.

According to Recommendation F.2, the Group financial statements and the group management report should be publicly accessible within 90 days of the end of the financial year, and the mandatory interim financial information within 45 days of the end of the reporting period.
Hamburg Commercial Bank's Group financial statements and group management report for fiscal year 2021, as well as its interim report for 2022, were only very slightly not made publicly available within the recommended deadlines (April 6, 2022 and August 17, 2022, respectively).

Hamburg Commercial Bank has complied with the recommendations of the Code to the extent that this is reasonable for an unlisted stock corporation.

Hamburg, March 29, 2023

For the Management Bord	For the Supervisory Bord
Ian Banwell	Juan Rodríguez Inciarte

Supervisory Board

Composition
In accordance with the Articles of Association, the Supervisory Board of Hamburg Commercial Bank currently consists of 18 members. In line with the one-third participation system, the Supervisory Board is composed of twelve shareholder representatives and six employee representatives.

The Supervisory Board has specified concrete objectives for its composition in its Rules of Procedure. Based on these Rules of Procedure, the following aspects are to be taken into account: the company's international activities in the context of the company-specific situation, preventing potential conflicts of interest, the number of independent Supervisory Board members, the setting of an age limit for Supervisory Board members and a standard limit for the term of Supervisory Board membership, as well as diversity. The latter objective shall, in particular, provide for an appropriate degree of female representation. Information on the ratio of women can be found in the Corporate Governance Statement pursuant to Section 289f (4) of the German Commercial Code (HGB) in the combined Management Report of HCOB.

The Supervisory Board of Hamburg Commercial Bank has deliberately refrained from setting a limit on the term of membership of the Supervisory Board. The Supervisory Board considers it difficult to determine an ideal term of membership and consequently to define this sort of standard limit. This is also because the Supervisory Board considers it important to be able to retain existing expertise on the Supervisory Board in HCOB's transformation and future positioning.

With regard to Recommendation C.6 GCGC, the Supervisory Board is to include what it considers to be an appropriate number of independent members from the group of shareholder representatives, thereby taking into account the shareholder structure. Within the meaning of this recommendation, a Supervisory Board member is considered independent if he/she is independent from the company and its Management Board, and independent from any controlling shareholder. With regard to Recommendation C.7 GCGC, more than half of the shareholder representatives should be independent from the company and the Management Board. Supervisory Board members are to be considered independent from the company and its Management Board if they have no personal or business relationship with the company or its Management Board that may cause a substantial – and not merely temporary – conflict of interest. As at December 31, 2022, four of the twelve shareholder representatives on the Supervisory Board were classified as independent: Juan Rodríguez Inciarte, Klaus Heinemann, Chad Leat and Stephan Wilcke. The shareholder representatives on the Supervisory Board consider the number of independent shareholder representatives to be appropriate.

Procedure
The Supervisory Board has issued Rules of Procedure for itself and its committees. It has also set out Rules of Procedure for the Management Board. The Supervisory Board appoints, monitors and advises the Management Board and is involved in fundamental decisions made by the Bank. The Management Board informs the Supervisory Board regularly and in good time of the proposed business policy and other fundamental matters during the meetings and also orally, particularly in conversations between the Chairman of the Management Board and the Chairman of the Supervisory Board.

Section 25d (11) sentence 2 no. 3 of the German Banking Act (KWG) requires the Supervisory Board to evaluate the structure, size, composition and performance of the management and supervisory body on a regular basis, at least once a year. For this purpose, the Supervisory Board, as in the previous year, used questionnaires not only to evaluate various aspects of its own work, but also to evaluate the work of the Management Board. The efficiency review conducted at the end of 2022 revealed that the Supervisory Board is satisfied with the efficiency of its activities on the whole.

In order to ensure that the Supervisory Board always has up-to-date technical and specialist expertise, training courses are held for the Supervisory Board both when new Supervisory Board members are appointed and on special topics. Further information on the contents of the training can be found in the Report of the Supervisory Board.

Other mandates
In order to be able to perform their Supervisory Board duties properly, the Supervisory Board members have to devote sufficient time to these activities. This means that the individual Supervisory Board members can only have a limited number of other duties over and above their Supervisory Board activities for HCOB. The Supervisory Board members of Hamburg Commercial Bank have the following number of other Supervisory Board mandates at other companies:

Supervisory Board member	**No. of other mandates** (as at: 20 March 2023)
Juan Rodríguez Inciarte	1
Manuel González Cid	2
Frederick Haddad	1
Chad Leat	4
Dr. Ilinca Rosetti	2
Stephan Wilcke	4
Peter Yordán	3

Further information on diversity can be found in the combined management report and the CSR Report. Detailed information on the Supervisory Board activities in 2022 can be found in the Report of the Supervisory Board.

Remuneration
The remuneration paid to the members of the Supervisory Board is disclosed individually in the notes to the annual financial statements and the notes to the Group financial statements.

Management Board

Composition
In March 2023, the Management Board of Hamburg Commercial Bank consists of four members and is divided into the following areas of Board responsibility: CEO (Chief Executive Officer), CRO (Chief Risk Officer), CFO (Chief Financial Officer) and CIO (Chief Investment Officer). When selecting new Management Board members, the Supervisory Board must adhere to the relevant legal requirements. The German Corporate Governance Code expects the appropriate consideration of women in particular. The German Banking Act requires the consideration of balance and diversity regarding the knowledge, skills and experience of all Management Board members. The Rules of Procedure for the Supervisory Board also contain requirements that the Supervisory Board and/or the Nomination Committee has to take into account when identifying applicants to fill a Management Board position. This means that the Supervisory Board looks at the Management Board position to be filled on a case-by-case basis and selects Management Board members taking into account the requirements of the position in question and the competencies already represented on the Management Board based on an individual job profile.

Procedure
The Management Board is responsible for the management of the Bank and works with Hamburg Commercial Bank's other corporate bodies and with the employees' representatives on a basis of mutual trust in the Bank's best interests. It defines the Bank's strategic alignment in consultation with the Supervisory Board. The Chairman of the Management Board represents the Management Board as a collegial body, presides over its meetings and coordinates its work. The Management Board largely met once a week during the period under review. The members of the Management Board are jointly responsible for running the Bank's business. Their duties and responsibilities are laid down in the Rules of Procedure for the Management Board, as supplemented by the business allocation plan.

Other mandates in management or supervisory functions
One member of the Management Board holds one mandate on the supervisory board of a subsidiary of the Bank. Other than this, the Management Board members do not perform any management or supervisory functions at other companies.

Remuneration
Details of the remuneration system for, and the remuneration paid to, the Bank's Management Board members can be found in the notes to the annual financial statements and the notes to the Group financial statements.

Shareholders, Annual General Meeting

The shareholders of Hamburg Commercial Bank exercise their rights at the Annual General Meeting. The Annual General Meeting is held once a year and is convened by the Management Board, stating the agenda and enclosing the necessary reports and documents.

The Annual General Meeting in May 2022 dealt – in addition to the agenda items required by law for an Annual General Meeting – with a proposed resolution regarding the cap on variable compensation for employees in connection with HCOB's so-called "Long Term Incentive Program 2".

According to Principle 24 GCGC, the Annual General Meeting should generally adopt advisory resolutions concerning the approval of the remuneration system for Management Board members, prepared by the Supervisory Board, as well as proposing resolutions on the approval of the remuneration report for the preceding financial year. As an unlisted company and given that HCOB's institutional private investors are represented on the Supervisory Board, the Bank opts not to have the Annual General Meeting address the remuneration report and the remuneration system for the members of the Management Board, prepared by the Supervisory Board, in greater detail.

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Information on the combined management report

To improve the clarity of presentation, the management reports of Hamburg Commercial Bank AG and the Hamburg Commercial Bank Group have been combined in accordance with Section 315 (5) of the German Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The annual and Group financial statements of Hamburg Commercial Bank (including the combined management report) will be jointly submitted to the operator of the German Federal Gazette and published in the Federal Gazette. In addition, the annual and Group financial statements of Hamburg Commercial Bank are available on the Internet at www.hcob-bank.com. The following information in the combined management report relates to the Hamburg Commercial Bank Group as a general rule; in the event of material differences with regard to Hamburg Commercial Bank AG, separate explanations are provided.

Basis of the Group

Business activities

Headquarters, regional focus, clients and products

Hamburg Commercial Bank (HCOB) is a private commercial bank and specialist finance provider with its headquarters in Hamburg. It is managed in the legal form of a German public limited company.

HCOB offers its clients a high level of structuring expertise in real estate financing and has a strong market position in international shipping. The Bank is one of the pioneers in Europe-wide project financing for renewable energies and digital infrastructure. The Bank offers individual financing solutions for international corporate clients, as well as a focused corporates business in Germany. Reliable and timely payment transactions and products for foreign trade round off the Bank's range of services. HCOB ensures its actions are consistent with established ESG criteria.

Segments and locations

Hamburg Commercial Bank's operating business activities are divided into four market-oriented segments, Real Estate, Shipping, Project Finance and Corporates (collectively referred to as "lending units"), as well as the Treasury & Group Functions segment. The latter segment includes the Bank's capital market activities, as well as the other staff and service functions. With regard to the adjustments made to the segment reporting in the reporting year, we refer to the section "Segment results" in this combined management report and to Note 48 to the Group financial statements.

The structure of the segments, a description of the business areas they contain and the business strategies pursued in the segments are described in this chapter in the section entitled "Strategic direction for the business areas". The chapter "Segment results" contains information on the development of results in the segments.

The Bank has branches abroad, namely in Athens and Luxembourg, as well as a representative office in London in line with its focused direction. In the Athens branch, the Bank serves international shipping clients. The focus of the Luxembourg branch is on the International Corporates division. In Germany, the Bank has offices not only in Hamburg, but also in Berlin, Düsseldorf, Kiel, Frankfurt am Main, Munich and Stuttgart.

The branches listed above are of secondary importance for understanding the Group situation.

Equity holdings and scope of consolidation

In addition to the parent company HCOB AG, the scope of consolidation for the Group financial statements comprised 14 fully consolidated subsidiaries as at the reporting date (31 December 2021: 13). There were two additions to the group of fully consolidated companies in the reporting period, offset by one disposal.

Two special funds were included in the scope of consolidation as subsidiaries for the first time: the special credit fund Apollo Alster Lending Fund (Lux) SCSp, Luxembourg, as well as special securities fund HI-Hafen Global Fonds, which has its registered office in Frankfurt am Main. HCOB uses these special funds to diversify its activities in the international corporates business. The business purpose of the Luxembourg fund is to invest in receivables from third parties with a focus on North America and western Europe. The primary business purpose of HI-Hafen Global-Fonds is to invest in corporate bonds, again with a regional focus on the North American and European market. The company that left the scope of consolidation is RESPARCS Funding II Limited Partnership, St. Helier. This company, which originally served as a refinancing vehicle for a capital market transaction, was deconsolidated due to its liquidation in the reporting year.

Further details on changes in the scope of consolidation can be found in Note 6 (Scope of consolidation) in the notes to the Group financial statements.

Shareholder structure

Since 28 November 2018, Hamburg Commercial Bank has been owned by renowned, globally active, institutional private investors that have a high level of expertise in the banking business, in particular. The shareholder structure is as follows (percentages rounded):

Shareholder structure

Several funds initiated by **Cerberus Capital Management, L.P.**			One fund advised by **J.C. Flowers & Co. LLC**	One fund initiated by **GoldenTree Asset Management LP**	**Centaurus Capital LP**	**BAWAG P.S.K.** (incl. P.S.K. Beteiligungsverwaltung GmbH) Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft	**HCOB** Current and former Management Board Members (who are or were in office from November 2018)
Promontoria Holding 221 B.V. 9.87%	Promontoria Holding 231 B.V. 13.86%	Promontoria Holding 233 B.V. 18.69%	JCF IV Neptun Holdings S.à r.l.	GoldenTree Asset Management Lux S.à r.l.	Chi Centauri LLC		
42.41%			34.93%	12.47%	7.48%	2.49%	0.20%

Changes in the Management Board of Hamburg Commercial Bank AG

At its meeting on 17 August 2022, the Supervisory Board of Hamburg Commercial Bank AG agreed to comply with Stefan Ermisch's request not to renew his contract as Chief Executive Officer (CEO), which expires at the end of 2023. Mr Ermisch was Chairman of the Management Board and CEO of the Bank until 30 September 2022.

On 1 October 2022, Ian Banwell took over as Chairman of the Bank's Management Board and assumed the role of CEO. Mr Banwell joined HCOB's Management Board as Chief Operating Officer (COO) back in 2019 and had been the Bank's Chief Financial Officer (CFO) since September 2020. The position of CFO was assumed on 1 October 2022 by Marc Ziegner, who was previously responsible for the Bank Steering business unit.

The Management Board of Hamburg Commercial Bank consists of: Ian Banwell (CEO), Ulrik Lackschewitz (Chief Risk Officer, CRO/Deputy CEO), Christopher Brody (Chief Investment Officer, CIO) and Marc Ziegner (CFO). Further information on the members of corporate bodies is set out in Note 61 (Related companies and parties).

Deposit Protection Fund

Hamburg Commercial Bank AG has been assigned to the Compensation Scheme of German Private Banks (*Entschädigungseinrichtung deutscher Banken GmbH*, EdB) since 1 January 2022. EdB is entrusted with the task of acting as the statutory compensation scheme for all CRR credit institutions assigned to it. The EdB generally protects deposits up to € 100,000 per Hamburg Commercial Bank AG depositor.

Since 1 January 2022, HCOB has also voluntarily participated in the Deposit Protection Fund of the Association of German Banks (*Einlagensicherungsfonds des Bundesverband deutscher Banken e.V.*) (ESF). In accordance with its By-laws, the ESF protects deposits of certain HCOB clients, subject to the exceptions provided therein. Protected deposits are essentially demand, time and savings deposits that have been accepted at a domestic head office or branch office. In the Deposit Protection Fund, the following protection ceilings per creditor have applied since 1 January 2023:

- For natural persons and foundations with legal capacity, these apply irrespective of the term of the deposit: € 5 million (from 1 January 2025: € 3 million and from 1 January 2030: € 1 million)
- For non-financial companies, non-profit organisations, associations and non-profit professional organisations, and other creditors referred to in Section 6 (3) of the By-laws of the Deposit Protection Fund: € 50 million (from 1 January 2025: € 30 million and from 1 January 2030: € 10 million)
- The maximum amount of the protection ceiling in any event is 15 % (from 1 January 2025: 8.75 %) of the Bank's own funds according to the calculation under the ESF By-laws.

For deposits protected until the end of 31 December 2022, the protection ceilings applicable at that time shall generally continue to apply until the deposit matures, is rolled over or can be cancelled by the client for the first time, or is transferred to a foreign branch or branch office. For deposits established or rolled over after 31 December 2022, the relevant new protection ceilings shall apply as of the above cut-off dates.

The compensation shall be based on the protection ceiling which has been notified to the Bank as the result of the assessment made by the Auditing Association of German Banks *(Prüfungsverband deutscher Banken e.V.)* and which is available on the internet at www.bankenverband.de. The protection ceiling shall be notified to the client by the Bank on request.

Not protected are, in particular, deposits of financial firms, public authorities including regional and local authorities, deposits that have arisen in connection with money laundering or terrorist financing, and bearer bonds. For non-financial companies, non-profit organisations and associations, deposits with a term of more than twelve months and liabilities from promissory notes loans, registered bonds and comparable debt instruments under foreign law shall not be protected.

Liabilities of banks that were protected until the end of 31 December 2022 in accordance with Section 6 of the version of the By-laws of the Deposit Protection Fund registered with the Register of Associations (*Vereinsregister*) on 18 November 2021 shall generally continue to be protected as provided for thereunder. Departing therefrom, liabilities of Hamburg Commercial Bank AG that existed before 1 October 2017 shall not be grandfathered, as the Bank was not a member of the ESF at that point in time. After 31 December 2022, the grandfathered status shall cease to apply as soon as the liability concerned falls due, can be terminated or otherwise reclaimed, or if the liability is transferred by way of singular or universal succession or is transferred to a foreign branch.

External influencing factors and processes

The following aspects are of particular relevance to Hamburg Commercial Bank's business: the development of the economy and the financial markets (including interest rate levels, inflation, EUR/USD exchange rate changes), developments in the relevant sectors such as the real estate market and shipping, regulatory requirements and discretionary decisions by the supervisory authorities, assessments by rating agencies and capital market participants and other stakeholders, such as the Association of German Banks (BdB).

The Bank has defined processes within its business organisation that form the basis for operating and managing the Bank as well as for its internal control system. Along the value chain, these processes can be divided into strategy/planning, sales, support and monitoring processes. The strategy process/planning processes form the basis for the sales processes, which essentially comprise the Bank's lending business and capital market activities. The main support processes include loan and collateral management, payment transactions and trade settlement. The key monitoring activities, as the main components of the ICS, are defined in the risk management and compliance processes, as well as in the overall bank management processes.

Objectives and strategy

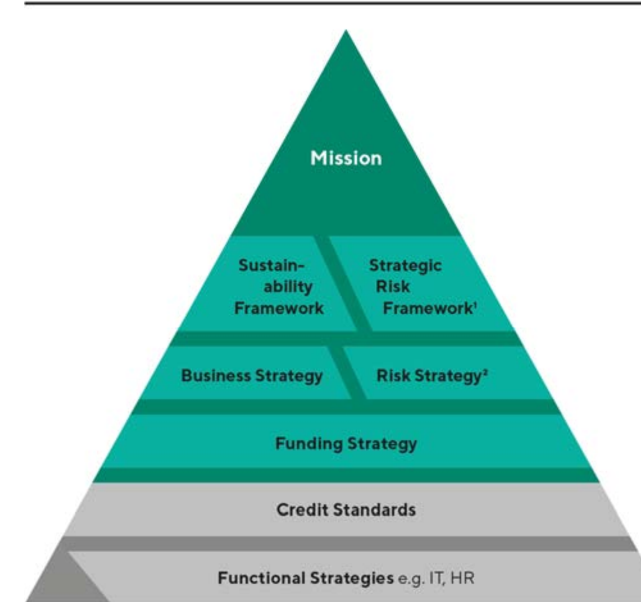
As a private commercial bank and specialist finance provider, Hamburg Commercial Bank makes clear, binding commitments and supports its clients in the long term. The Bank is committed to its clients and stands for reliability and honesty, taking decisive and timely action. A focussed and entrepreneurial approach, which creates value added for clients, the Bank and its employees, shareholders and society, is at the heart of our self-image and identity.

Looking ahead to the coming years, the Bank is aiming to achieve moderate and risk-conscious growth, with continued diversification that extends to its business activities as well as to regions and its earnings structure. In view of the demands placed on the Bank by a dynamically changing banking environment, Hamburg Commercial Bank continues to focus on a business model that is viable and agile in the long run based on the following strategic approaches. Within the strategic approaches, business opportunities that the Bank has identified as part of the opportunity management activities that form part of its strategy process are taken into account. The Bank's opportunity management is based on an analysis of the macroeconomic environment, the competitive conditions in the relevant markets and the banking environment, as well as the assessment of trends that allow business opportunities to be developed:

- **Growth in our core markets:** We use our in-depth asset expertise and comprehensive market knowledge to achieve profitable growth in Germany, as well as selected European and international markets that offer sufficient growth potential. Our focus is on attractive niche segments and financing structures in which we can apply our strengths and expertise in a profitable manner.
- **Focus on individual solutions:** We offer our clients tailor-made products and services and take an entrepreneurial approach to transactions, looking at the entire value chain. This allows us to strengthen long-term and reliable business relationships and support our clients with changing needs and challenges. We operate in key industries of the future and often have decades of experience in these areas, which we contribute in order to provide our clients with the best possible support in their business development.
- **Striving for efficiency:** We are continuously working on optimising our processes, technologies and organisation in order to boost client satisfaction and ensure our Bank's competitive standing. We want to use data-driven decisions and fast implementation as differentiators, both for our clients and for our own operational excellence.
- **Resilient and balanced risk profile:** Our strong capital position provides strategic flexibility. A balanced risk profile, selective portfolio growth and a high degree of diversification between and within asset classes provide resilience and form the basis of our business strategy.

Based on its mission statement, in which the objectives, strategy, purpose and values are combined in an appropriate framework, Hamburg Commercial Bank's strategy architecture includes the following central components:

Strategy architecture



[1] Incl. Non-Financial Risk Framework
[2] Incl. all sub-risk strategies according to the Strategic Risk Framework

The Strategic Risk Framework (SRF) describes the focus of risk management and forms the foundation for the Bank's risk culture. As a consistent guideline, it effectively brings the organisation and business operations into line with the key risk strategy principles. Details on the SRF and the bank-specific risk types are explained in the Risk Report.

The business strategy is defined by the Management Board and describes the overriding strategic direction with regard to the business model and business area portfolio. This transforms the mission statement into a concrete strategy. It describes the objectives for each key business activity and the measures to be taken to achieve these objectives.

Taking into account the business strategy, a consistent risk strategy is defined on the basis of the SRF. This takes into account the development of the Bank's main business activities, including risk strategy guidelines and liquidity aspects.

The funding strategy provides the framework for the refinancing of Hamburg Commercial Bank. It is a core component of the Bank's business strategy. As part of the definition process, the requirements regarding liquidity resources are geared towards sustainability to ensure that regulatory and rating requirements are met at all times. Risk and liquidity management is geared towards the optimisation of the liabilities side, taking profitability requirements into account.

Further functional strategies are defined based on the central business strategy, which also forms the basis for the Bank's multi-year corporate planning.

The stated objectives and strategies are basically aimed at ensuring the Bank's sustainable development. When it comes to defining and implementing them, the Bank's employees use fundamental rules of conduct summarised in the "Code of Conduct" as a guide. The "Code of Conduct" is a binding code of behaviour. As a normative basis, it provides employees with reliable guidance for responsible and risk-commensurate action that meets the statutory requirements, but also ethical and social standards. This allows economic, ecological and social aspects to be taken into account in a balanced way. The Bank made further progress in the area of sustainability in the year under review. The combined separate non-financial report (pursuant to Sections 315b, 315c in conjunction with Sections 289b to 289e HGB) is available on the Bank's website at https://www.hcob-bank.de/en/investoren/konzernberichterstattung/konzernberichterstattung/ and is not part of this combined management report.

Strategic direction for the business areas

Real Estate segment

HCOB is a renowned German real estate financier with strong market and client coverage. In addition to its presence in Germany, international activities are also being expanded with selected experienced and internationally active clients so as to achieve further diversification. The focus here is on European metropolitan regions and selective business in the US. The Real Estate segment mainly comprises the financing of existing properties, refurbishment projects and project developments in the commercial sector. Growth opportunities for HCOB arise, among other things, from supporting real estate clients in their ESG transformation. HCOB's product portfolio in the Real Estate segment is characterised by tailor-made and custom-fit services, with an entrepreneurial eye for deals and transactions that offer value enhancement potential. HCOB has experienced market specialists with in-depth knowledge and a high level of structuring expertise in the field of commercial real estate financing, allowing the Bank to achieve prices that are above the market level despite its risk-conscious orientation.

Shipping segment

HCOB is one of the leading institutions in global ship financing, with a focus on second-hand ship financing. The successful business model in the Shipping segment is based on comparatively short financing terms and high collateralisation ratios. This improves the risk profile on the one hand and ensures that HCOB can react promptly to changing market conditions on the other. The composition of the Shipping portfolio is characterised by a healthy mix of asset-backed and corporate financing. The broadly diversified portfolio mainly comprises the asset classes of container vessels, bulkers and tankers. The Bank operates worldwide in the Shipping segment, with a focus on mostly long-term cooperation with clients with strong

credit ratings from Greece, Germany and other European countries. The Bank is also, however, active in the US and Asia. By providing financing, HCOB consciously supports its clients from the maritime industry in their transition to more sustainable business practices, with ESG criteria playing a key role.

Project Finance segment
In the Project Finance segment, HCOB focuses on financing attractive projects in the areas of infrastructure (including the fast-growing market for digital infrastructure) and energy. The Energy segment comprises the financing of energy projects, mainly for renewable energies, and also includes the topics of energy transition and decarbonisation. The Bank is one of the pioneers in the field of renewable energies and plays a leading role among financing partners. The financing approaches have been adapted to reflect current market conditions and give HCOB significantly more flexibility while taking into account a balanced risk/return profile. Project financing has a positive impact on the Bank's sustainability objectives, and the geographical focus is on the markets in western, northern and southern Europe. In this segment, too, HCOB has a broad and diversified client base on which it generates sustainable business. Clients include project developers, PE/infrastructure funds, manufacturers, contractors, as well as utilities companies and independent power producers.

Corporates segment
In the Corporates segment, HCOB's diversification strategy is implemented through business relationships with national and international corporate clients. On the domestic market, the core region of northern Germany has traditionally been its focal point. The focus of the Bank's business activities is on lending and providing other services for medium-sized, often family-run, companies. HCOB has long-standing and established business relationships with many of these corporate clients. The focus of the Bank's business approach is on a high level of service and structuring expertise. In order to diversify its portfolio, the Bank is increasingly active in international markets in addition to its home market in Germany. The geographical focus of these activities is on western Europe and North America (especially the US). The Bank's international strategy is based not only on geography but also on a high degree of sector diversification and a broad product range. Among other things, indirect financing of North American corporate clients is offered via participation in securitisation transactions (in credit and securities format) and special funds, thus achieving higher granularity of the loan and financial investment portfolio. A highly qualified, lean and transaction-oriented team of experts with a broad network enables the Bank to promptly identify and exploit market opportunities in the international corporate client business.

Treasury & Group Functions segment
Activities in the Treasury & Group Functions segment focus on the management of strategic investments and the treasury function, including the central management of the Bank's liquidity and market price risks, the derivatives portfolio and the management of the cover pool. The Global Sales & Syndicate business area combines the sales activities for capital market-related products, as well as payment transaction products with an adapted future-oriented product range, syndication activities and also customer service for savings banks, banks and institutional clients.

Management system

Key value drivers and key indicator and ratio system

The Bank's integrated management system is aimed at the targeted management of key value drivers – profitability/income, efficiency/costs, capital, liquidity and risk – in line with the statutory requirements and the SRF. The Bank uses a risk-adjusted key indicator and ratio system for this purpose that ensures that the Group is managed in a uniform and effective manner. The Bank is managed mainly on the basis of figures for the Group prepared in accordance with the International Financial Reporting Standards (IFRS)/the relevant prudential rules and also takes the risk limits and guidelines defined in the SRF into account.

In addition, a multi-level contribution margin accounting system is also used to manage the individual business areas. Other components of the Overall Bank management system are the annual strategy, planning and forecasting process, plan/actual comparisons and targets agreement and assessment process. Further information on management is included in the Risk Report under "Risk management by central committee structure" and "Risk reporting and measurement systems".

Management indicators of the IFRS Group

The Bank's internal control system is based on key management indicators relating to the individual value drivers of the IFRS Group. In the Bank's external reporting, the development of these indicators is compared, on the one hand, against the previous year and the prior-year forecast for the reporting year ("Economic report" section). On the other hand, their expected development in 2023 is also described (chapter entitled "Forecast, opportunities and risks report"). The central key management indicators are based on the strategic objectives of the Hamburg Commercial Bank Group and comprise RoE after taxes, CIR, the CET1 ratio, the NPE ratio, LCR and the Bank's rating. Hamburg Commercial Bank's integrated management system ensures a comprehensive view of the key value drivers to an adequate extent. The most important key management indicators are defined as follows:

Definition of the most important management indicators

Financial key management indicators	
RoE after taxes (return on equity after taxes)	RoE after taxes is calculated as the ratio of Group net result to average reported equity and shows the return on capital. The risk-adjusted allocation of the average reported equity is determined on the basis of standardised regulatory capital backing (average RWA and CET1 ratio of 13 %).
CIR (Cost-Income Ratio)	The CIR is a cost efficiency ratio that measures administrative expenses as a percentage of total income plus the other operating result.
CET1 ratio (Common Equity Tier 1)	The CET1 ratio is defined as the quotient of common equity Tier 1 capital after deductions and the sum of the risk-weighted assets, expressed as a percentage.
NPE ratio (Non-Performing Exposure)	The NPE ratio measures the sum of the risk positions (EAD, exposure at default) of borrowers in default as a percentage of the sum of the Bank's risk positions.
LCR (Liquidity Coverage Ratio)	The LCR represents the security provided to the Bank in the event of a short-term acute liquidity stress scenario of more than 30 days by maintaining a liquidity buffer (short-term stress test ratio). The LCR is calculated as the ratio of highly liquid assets to net cash outflows over the next 30 days. It is calculated at Group level for the purposes of internal control. The LCR is calculated without taking the voluntary deposit guarantee into account, i.e. taking into account the limit on the deposit guarantee for client deposits of € 100,000 per client.
Non-financial key management indicators	
Rating	Credit ratings awarded by the rating agency Moody's in relation to the issuer rating (long-term).

The extent of the indicators used at Hamburg Commercial Bank for managing the Overall Bank goes far beyond the most important management indicators listed in this section. Management uses many other supporting key performance indicators for the purposes of managing and allocating financial resources in an effective and integrated manner. Shareholder value added (SVA) is an important internal parameter for managing and measuring investment performance (business policy decisions). SVA expresses the profit contribution made by each individual transaction after deducting income taxes and capital costs. This key figure makes an investment's contribution to the Bank's enterprise value transparent. The systematic focus on the SVA approach, which underpins the shift to a performance-oriented corporate culture, is aimed at achieving an optimal allocation of resources at all levels of the business, boosting enterprise value in the long term. Further details regarding the key figures and ratios used for risk management are set out in the Risk Report.

Hamburg Commercial Bank also updated and refined its recovery/resolution plans in accordance with the statutory requirements. The recovery and early warning indicators defined in the German Recovery and Resolution Act (*Sanierungs- und Abwicklungsgesetz,* SAG) and by the EBA (European Banking Authority) are regularly monitored and assessed in order to be able, where necessary, to implement targeted measures on a timely basis.

Economic report

Underlying economic and industry conditions

MACROECONOMIC CONDITIONS

2022 was dominated by the Russian invasion of Ukraine, the easing of restrictions associated with the COVID-19 pandemic across the board, except in China, as well as an increase in inflation due to energy prices, which prompted central banks to tighten the monetary policy reins significantly. This sent the global economy on a downward trend.

Major geopolitical developments

On 24 February 2022, Russia invaded Ukraine. The implications of this event have turned the global economic environment completely on its head. Whereas there were increasing signs in previous months that supply chains would return to normal as the threat associated with the COVID-19 pandemic started to wane and inflation gradually fell, the opposite happened to begin with: new supply chain bottlenecks triggered by the war and the sanctions imposed emerged and inflation accelerated.

The EU, the US and their allies reacted to Russia's invasion of Ukraine, which violates international law, by imposing several packages of sanctions. These range from a partial embargo on Russian energy supplies and sanctions against Russian banks to the freezing of foreign exchange reserves held by the Russian central bank with their counterparts in the West. At the same time, Russia imposed counter-sanctions, including a partial ban on natural gas exports to certain EU countries. With the alleged sabotage of the Nordstream 1 and 2 pipelines, responsibility for which has not yet been clarified, the gas infrastructure was also so severely damaged in September that no natural gas will flow through these pipelines until further notice.

In view of the uncertainty hanging over future natural gas supplies from Russia, the EU member states were successful in dramatically increasing their stocks of natural gas, meaning that in the autumn, some stocks in the EU were 100 % full, supported by an exceptionally warm October and effective efforts by industry and private households alike to save gas. This did, however, trigger considerable jumps in natural gas and electricity prices. The latter usually depend on the costs of the natural gas power plants, as they are what are known as the marginal suppliers. After natural gas prices on the Dutch ICE exchange exceeded the € 300 per kWh mark in August, prices have fallen considerably since then, reaching € 77 per kWh at the end of 2022. This is still, however, many times higher than the price of € 15.9 per kWh that formed the average for the period from 2017 to 2021.

Another focus of attention in 2022 was on China's zero-Covid policy, which did not deliver the desired results in the face of the highly contagious Omicron variant, but rather led to repeated lockdowns and had a negative impact on both China's and the global economy. At the beginning of December 2022, the Chinese government began to end its zero-Covid policy despite rising case numbers, likely also in response to the increasing protests by Chinese citizens against this policy. Based on reports from China, 18 % of the population is said to have contracted COVID-19 in the first three weeks of December, which appears to put the country's relatively weak hospital infrastructure at a high risk of being overwhelmed.

Geopolitically, the temporary escalation of the conflict between China and Taiwan also put nerves on edge, as the visit made by the then Speaker of the US House of Representatives, Nancy Pelosi, to Taiwan in August increased tension between the US and China. Public protests against the regime in Iran, which observers say have reached a new level, were also in the public eye.

Economic development by region

The three major economic areas, the US, the eurozone and China, were exposed to the changes in the global environment to varying degrees. The developments are also partly due to region-specific factors. Overall, the pace of growth was found to be much slower than in 2021 and individual economies are likely to have slipped into a recession.

US GDP increased by 2.1 % in 2022. An unusual trend by global standards was observed, as GDP declined in the first half of the year, also due to a massive reduction in inventories, but rose again in the second half. One striking development, however, is the consistent decline in construction activity in the residential sector, where higher interest rates proved to be a burden, while private consumption expanded robustly. The uninterrupted strong increase in employment is also consistent with this trend. Inflation peaked at an increase of 9.1 % (CPI, annual rate) in June before falling again. In December, the inflation rate was still sitting at 6.5 %.

Unlike the US, the **eurozone** showed consistent growth in the first three quarters of the year, which can be explained, among other things, by the fact that the COVID-19 restrictions that dominated 2021 have largely been lifted. Looking at the year as a whole, eurozone GDP is estimated to have expanded by 3.3 %, with growth momentum slowing over the course of the year, held back by the interest-rate-sensitive construction and real estate sectors, among others. Momentum in the service sector (including wholesale and retail, as well as tourism-related industries) also tapered off considerably over the course of 2022. It is possible that the EMU area entered a recession in the fourth quarter. Nevertheless, the feared gas shortage and resulting destabilisation of the economy failed to materialise. Inflation rose up until October, reaching 10.6 % (HICP, annual rate). It then declined and stood at 9.2 % in December.

China's economic growth came to 3 % in 2022, after GDP fell sharply in the second quarter and stagnated in the fourth quarter. This development can be traced back to the government's zero-Covid policy. It led to repeated lockdown measures in view of the highly contagious Omicron variant, but without these measures being able to control the spread of the virus. In addition, the expansion of the Chinese economy was slowed by the over-indebtedness of the real estate sector, as well as by weak global demand – in the second half of the year – that put pressure on the export industry.

In **Germany**, GDP expanded by 1.9 % in 2022. The marked weakness in construction investment was more than offset by a greater propensity to spend among private households. The latter was particularly noticeable in the accommodation and restaurant sector. Here, the fact that virtually all COVID-19 restrictions were lifted led to a particularly strong increase in demand. While consumers in this sector were not deterred by higher prices, the rise in retail inflation translated into a sharp decline in real sales. Given the slowdown in growth momentum over the course of the year, Germany is likely to have stagnated in the fourth quarter of 2022. The inflation rate reached 10.4 % (CPI, annual rate) in October. At the end of the year, it declined to 8.6 %, partly due to December's emergency relief for natural gas customers.

Monetary policy: strong interest rate hikes

Both the US Federal Reserve (Fed) and the European Central Bank (ECB) raised their **base rates** considerably in response to rising inflation, with a further tightening of monetary policy on the cards. The Federal Reserve raised the Fed Funds Rate from between 0 % and 0.25 % to between 4.25 % and 4.5 % in 2022, starting in March. This marks the strongest increase seen within the space of one year since 1980. The ECB started raising interest rates in July, increasing the main refinancing rate from 0 % to 2.5 %. The deposit rate rose accordingly from -0.5 % to 2.0 %. In the wake of these rapid rate hikes, **long-term yields** also increased. Ten-year Bund yields, for example, were still sitting at -0.18 % at the end of 2021, but had already risen to 2.56 % by the end of 2022. The corresponding T-notes yielded 3.88 % at the end of 2022 (end of 2021: 1.52 %), but at times reached a level as high as 4.25 %.

The **stock markets** saw losses in the face of an unexpectedly sharp rise in interest rates, geopolitical uncertainty and supply chain problems. The Dax lost 12.3 % over the course of the year, with the S&P 500 losing as much as 19.4 %. Technology stocks came under particular pressure. The NASDAQ index, for example, which is mainly made up of technology stocks, recorded price losses of 33.1 % over the course of the year.

The **euro** had lost around 13 % of its value against the US dollar in 2022 by the end of September, reaching a low of 0.96 US dollars. This movement was supported by relatively high global risk aversion, which tends to lead many investors to avoid the euro. Since then, however, the euro has been able to regain ground and closed the year at 1.07 US dollars, partly because the financial markets have calmed down somewhat and the search for a safe haven has become less important.

DEVELOPMENT IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK

Real estate markets

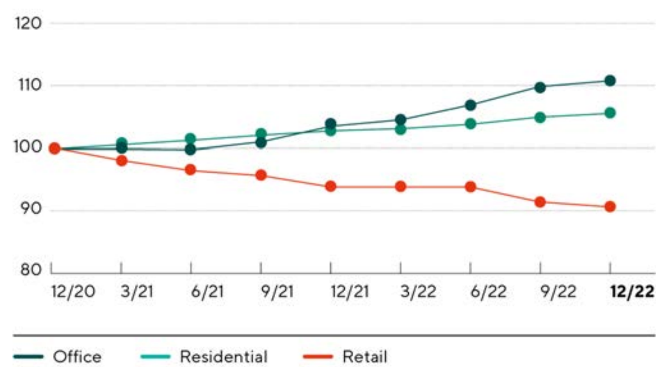
The German real estate markets showed varied development in 2022 in the investment and letting markets, and also depending on types of use. In the course of the year, the transaction volume on the commercial real estate investment markets, which had still been high until the spring, fell significantly, especially for office and logistics properties, which had previously been highly sought-after. In addition to the increased economic uncertainty due to the war, this was due primarily to the sharp rise in interest rates due to inflation. For investors, the rise in interest rates reduced the relative appeal of real estate investments compared to opportunistic interest rate investments, and for credit-oriented market participants, it made financing more difficult. This reduced the prices that potential buyers were willing to pay. These moved further away from the prices that sellers were asking for, not least project developers, which were also confronted with rising construction costs. Until the end of the year, the investment market remained in a pricing phase marked by fewer transactions, in which investors with strong equity resources were at an advantage and were able to achieve the first noticeable price concessions for commercial properties.

Construction activity was hampered by supply difficulties and price increases for building materials. The development of future projects was also made more difficult due to the higher interest rates, because planned sales prices no longer appeared feasible. As a result, the outlook for project developers and construction companies clouded over significantly. Quite a few projects were postponed or suspended, and some construction contracts were even cancelled completely. On the letting markets, on the other hand, what was initially still a robust economy had a positive impact, despite the inflationary burdens resulting from the war. In particular, the growth in the

number of employees, as well as partial consumption catch-up effects, such as in tourism, fuelled a recovery in demand.

Rents

(Indexed market average, 12/2020 = 100)



On the **housing markets**, rentals were stimulated by the noticeable increase in the number of people in employment, nominal income growth and the influx of refugees. With people moving for work and the arrival of refugees, demand in major cities is likely to have increased significantly. This trend was countered by a decline in construction activity. Although this related mainly to the construction of owner-occupied homes affected by subsidy cuts and less to that of multi-storey flats, the additional demand likely exceeded the low supply and resulted in vacancy rates, which were already very low, falling further. Given what are already high housing costs for households and the rent restrictions imposed in many cities, rents excluding utilities nevertheless rose only relatively moderately. Tenants and landlords alike were concerned about the very dramatic increase in energy costs, which leads to significantly higher service charges subject to a time lag. Although significantly lower transaction volumes were observed on the real estate markets, there was still hardly any loss in value, only a noticeable decline in price growth.

The **German office property markets** participated in the increase in the number of office employees, as the service sector continued to hire staff. Demand for space then rose sharply, especially in the country's largest cities, and almost matched the rise in office completions. As a result, vacancy rates, which were still low, barely increased and modern space remained scarce despite a large number of new buildings becoming available. Prime rents in the major cities, in particular, rose sharply. In secondary locations, on the other hand, rental growth remained rather moderate. The market values of office properties, however, declined noticeably due to the rise in interest rates.

Most **European office property markets** benefited from increased demand for space last year. As completions increased at the same time, vacancies often hardly changed and remained slightly elevated. In preferred locations, prime rents nevertheless increased significantly. Due to the rise in interest rates and the continued increased risk aversion shown by investors, market values fell noticeably, with an above-average drop in London, while in the Netherlands, losses remained slightly below the European average.

The **retail property markets** were hit by the very high inflation and the extreme uncertainty among consumers regarding the development of the economy and their incomes. Their sentiment deteriorated drastically and they became more frugal, meaning that retail sales fell in inflation-adjusted terms, and even in nominal terms in online retail. The food retail sector at least still managed to achieve nominal growth. By contrast, some bricks-and-mortar segments that experienced catch-up effects due to the pandemic, such as clothing or the building and furniture markets, achieved significant sales growth. Although nominal shop sales increased, rents fell noticeably in 2022, once again in city centre locations, but also for the first time in suburban locations dominated by retail parks. In view of the rise in interest rates, market values fell significantly yet again, with a marked drop for retail parks, too, for the very first time.

Industry, trade and logistics, infrastructure and renewable energy

German economic output rose by 0.4 % (adjusted to reflect price, seasonal and calendar effects) in the third quarter of 2022 compared to the second quarter of 2022. Compared to the fourth quarter of 2019, i.e. before the start of the COVID-19 crisis, economic output was 0.3 % higher, putting it above the pre-crisis level again for the first time. Over the year as a whole, German gross domestic product (in real terms) increased at a rate of just under 2 % compared to 2021. The Russian invasion of Ukraine in February 2022 and its knock-on effects (particularly the development in energy prices), as well as the ongoing COVID-19 pandemic, which led to lockdowns being imposed on key trade and economic centres in China as part of the government's zero-COVID policy, an approach pursued up until early December 2022, have created very challenging underlying conditions for the German economy. Even before these factors emerged, it was grappling with disrupted supply chains and rising prices. The German economy nevertheless proved to be exceptionally resilient over the year as a whole and the feared "crash" failed to materialise.

In the **manufacturing sector**, the production volume stagnated until into the fourth quarter of the year (January to October) and showed no growth (after calendar and seasonal adjustments); in the previous year, the production volume in this period was still up by 6 %. Trends varied considerably in the major industries in 2022: The food industry was only able to expand its production slightly, whereas the pharmaceutical industry achieved a significant increase in production of around 5 %, roughly on a par with the previous year. The mainstream construction industry also recorded a higher increase in its production volume of 2.5 %, while in the same period of the previous year, there had only been an expansion of less than 1 %. After a strong first quarter, however, production volumes weakened considerably in the following quarters, almost stagnating year-on-year, and orders fell sharply. Following a weak increase in the previous year, vehicle construction also achieved an increase of around 3 % in the first ten months of 2022; output in the automotive sector, which actually shrank in the previous year, increased by around 2 %. By contrast, the energy-intensive chemicals industry and the metal industry reported declining production volumes, with production in the chemicals sector falling by as much as almost 10 % after having increased by just shy of 7 % in the same period of the previous year.

After reporting revenue growth of 2.0 % in 2021 as a whole, **wholesale** companies reported real growth on a similar level, at 1.9 %, in the first ten months of 2022, which was only slightly weaker than in the same period of the previous year (2.2 %). By contrast, due in particular to the strong upward pressure on prices as a result of the Ukraine war, the retail sector only grew by just under 0.8 % in real terms in the first ten months of 2022, despite measures to contain the pandemic being initially eased and then largely lifted in the course of the year. Growth, however, which was at the same level as in the same period of the previous year, was less dynamic in the second and third quarters. While food sales reported declining sales of almost 4 % in the first ten months due to the stark increase in prices, **retail** sales of textiles, clothing, footwear and leather goods, which had contracted by around 14 % in the first ten months of 2021, increased by around 35 % as against the same period of 2022, further approaching the sort of sales levels seen before the COVID-19 crisis. Non-bricks-and-mortar retail, which had reaped particular benefits from the containment measures during the pandemic and the restrictions on bricks-and-mortar retail, recorded a drop in real sales of around 8 % in the first ten months of 2022 in a year-on-year comparison. In the same period of 2021, sales in this segment were still up by around 14 %.

Revenue in the **logistics sector** showed marked positive development (in real terms) – with increasing momentum – in the first ten months of 2022, increasing by 9.8 % compared to the same period of 2021, when revenue only increased by almost 5 %. The measured business climate in the German logistics industry had already deteriorated sharply in the course of the first half of 2022 and has fallen into negative territory. While at the end of the year, the business climate had improved slightly compared to the previous quarter, the surveyed business outlook remained at a weak level.

The global **project financing** volume increased significantly in the first nine months of 2022 and was up by 9 % on the volume seen in the prior-year period according to the financial market data provider "Refinitiv". This marks the highest volume for the first nine months witnessed since "Refinitiv" started its records. The trend did, however, vary considerably from region to region: the volume in North and South America showed a particularly strong increase (+52 %), with the project volume in the US doubling compared to the previous year. In Asia, on the other hand, the financing volume only increased by 2 %. The transport sector showed exceptionally strong growth (+115 %), making it the most significant growth driver. Bucking the global trend, project financing volumes in the Europe/Middle East/Africa region declined (-10 %).

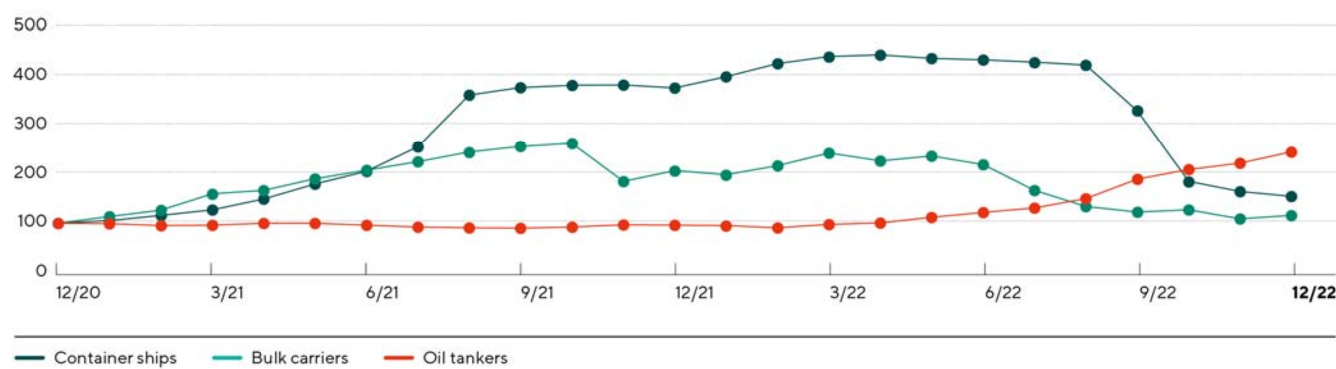
The expansion of **renewable energies** made further progress in both Europe as a whole and Germany at the beginning of 2022. In this context, the considerable slowdown in new wind energy construction (onshore) in Germany observed since 2018 had not yet evolved into any substantial upward momentum in the first nine months of 2022: In terms of installed (gross) capacity, and following a weak start to the year, new construction in the first nine months was 15 % higher than in the same period of 2021, and total installed capacity rose by 1.6 gigawatts (in gross terms) to 57.3 gigawatts. Nevertheless, this rate of expansion is too slow to reliably achieve the (first) interim target of 69 gigawatts set by the amended German Renewable Energies Act (EEG) for 2024. Of the onshore wind turbines in operation at the end of September 2022, 9 % of the installed capacity is now operated outside the EEG subsidy system. The expansion in the solar segment continued dynamically in Europe: In Germany alone, new installations in the photovoltaics segment came to around 5.5 gigawatts in the first ten months of 2022, up by 24 % on the prior-year period and already ahead of the level seen for 2021 as a whole. The need for alternative energy sources following Russia's war of aggression on Ukraine, more ambitious political climate targets and a stronger awareness of climate protection among the population at large are also likely to have a positive effect here in the short and medium term.

Shipping markets

All in all, average earnings on the shipping markets were higher than ever before in the past calendar year. This was due primarily to the consequences of the pandemic and the direct and indirect effects of the Russia-Ukraine war. These factors have made transport logistics more difficult, increasing the need for shipping capacity. For example, sanctions have lengthened the trade routes for many commodities, as EU imports of coal and oil, for example, now have to be sourced from more distant countries. On the other hand, however, the drastic increase in the price of energy put pressure on consumer purchasing power and, as a result, on economic output, which put a damper on demand for commodities and goods. This mixed situation had different consequences for the individual market segments.

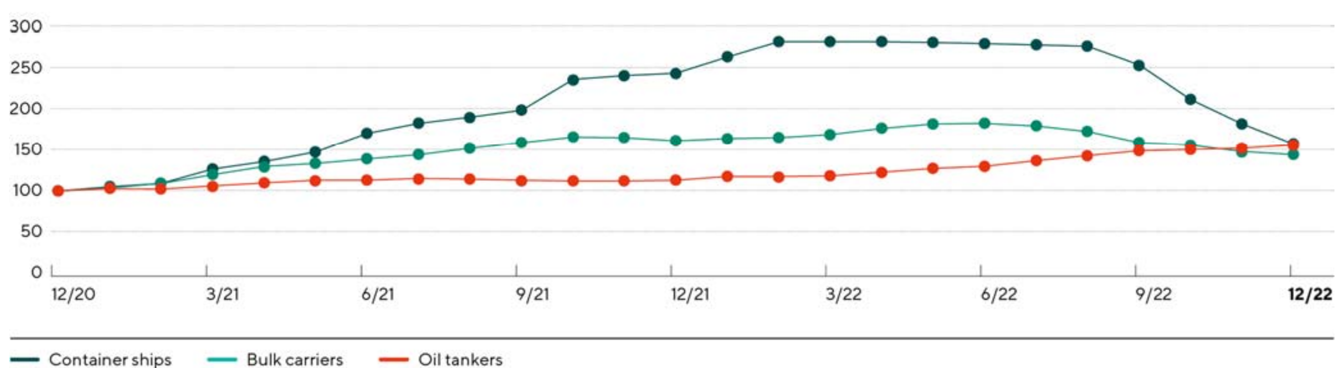
Time charter rates

(Indexed market average, 12/2020 = 100)



Secondhand prices

(Indexed market average, 12/2020 = 100)



The boom in the **container vessel** market set new records in 2022, but came to an abrupt end. After charter rates and second-hand prices had risen relentlessly for two years, they fell sharply from September onwards. Whereas it was previously the case that more ships were needed than available due to high transport demand and congested logistics, the pendulum swung due to a massive drop in trade volumes. Especially for the main routes from Asia to Europe and North America, restrained consumption and high inventory levels in destination regions resulted in weaker transport demand. In addition, the situation at the ports, where long queues had previously formed for handling, also eased as utilisation decreased. What is now higher fleet productivity is, at the same time, reducing the demand for ships. Since the shipping lines had stocked up on tonnage for the long term, it proved difficult to put the few ships that were freed up to use of late - and if they were put to use, then this was at significantly lower rates than before. Charter rates fell by more than 60 % from the high points reached, and second-hand prices had fallen by a good 50 % by December. Nevertheless, both remained well above pre-pandemic levels.

At the beginning of the second half of the year, the earnings situation for **bulkers** started to cloud over considerably. Freight rates fell from historically very high levels to long-term averages. Transport demand weakened noticeably, mainly due to the gloomier global economic outlook. High energy prices and the accompanying strong inflation sent steel production, in particular, on a downward trend across the globe. The demand for tonnage, on the other hand, was supported by the fact that the global demand for coal rose in this context, meaning that freed-up transport capacity could be used. However, improved efficiency in the ports and the resulting shorter waiting times ensured that fleet utilisation and, as a result, also the level of freight rates declined overall. The small number of deliveries of new ships, due to a very strong reluctance to place new orders in the past, continued to have a stabilising effect. This slowed fleet growth further despite low scrapping activity.

Oil tankers can look back on a strong 2022. The earnings situation has improved enormously, especially for medium-sized crude oil and product tankers. The dominant issue in the market was the war in Ukraine, which led to ever tougher sanctions being imposed by the EU and the US against Russian oil. It can currently only be sold to more distant markets. At the same time, the distances covered by EU imports also increased, increasing fleet utilisation significantly compared to the previous year. The longer trade routes tie up much more transport capacity, meaning that prices had risen sharply by the turn of the year. At the same time, the restraint in placing new orders was abandoned only very gradually. Moderate fleet growth provided further support to the market. Concerns about the general future of oil as an energy source in the wake of global climate efforts played only a minor role.

BANKING ENVIRONMENT: banking sector facing new challenges

The overall challenging market environment for banks in 2022 had its highlights and lowlights. While the high level of uncertainty regarding the economic implications of the Ukraine war, in particular the increasing inflation momentum and high market volatility, had a negative impact, rising central bank interest rates later in the year had an increasingly positive effect on bank earnings prospects. The highly volatile stock market quotations of banks in 2022 reflected these two poles, with the positive aspects of the rising interest rates outweighing what were gradually somewhat diminishing economic concerns at the end of the year.

Although bank refinancing costs rose at the same time, bank interest income should have already benefited from the new interest rate environment in 2022. At the same time, institutions' risk costs remained within limits despite the gloomy macroeconomic environment. On the one hand, this was because banks were able to draw on their relatively high reserves. In addition, political support measures for companies and households have also helped to keep loan defaults at a comparatively low level so far. The inflation environment, on the other hand, is likely to have a negative impact on bank earnings in the form of rising operating and personnel expenses. The latter are likely to place a particular burden on upcoming modernisation projects for bank IT infrastructures. This will make the road to higher profitability in the long run more of a challenge, especially for German banks.

Looking ahead, the question as to how individual banks will deal with these new challenges will play a decisive role with regard to their long-term market opportunities and ratings. A solid starting position in terms of capital, stringent cost management (taking into account the need to invest in IT and digitalisation), further business model development, as well as effective risk management are likely to be crucial factors in this respect.

As part of the SREP process, in addition to close monitoring with regard to COVID-19 and vulnerability to primary and secondary effects as a result of the war in Ukraine, the ECB once again devoted increased attention to reviewing risk management, with a focus on interest rate change risks. Other core topics addressed by the ECB as part of the SREP process were IT and cybersecurity, not least against the backdrop of the war in Ukraine, as well as sustainability. As far as sustainability is concerned, the focus was on the ECB "Climate Risk Stress Test" and "C&E Thematic Review" initiatives, among others.

Impact of the underlying conditions on the business of Hamburg Commercial Bank

The overall macroeconomic and industry-specific conditions described in the sections above also had an impact on the business performance of Hamburg Commercial Bank in the 2022 financial year.

In the Shipping segment, the Bank continued to benefit from the very positive economic situation in the container vessel and bulker market segments in 2022 as a whole. The good market development in the Shipping segment was reflected, among other things, in the significant increase in the net operating interest margin, a higher after-tax result and further decline in NPE volumes.

Despite the significantly gloomier macroeconomic outlook compared to the end of 2021, the Bank's key risk indicators continued to show positive development in the 2022 financial year. In the reporting year, for example, there were significantly fewer negative rating migrations than assumed in the conservative planning assumptions dating back to the end of 2021. In view of the low level of new defaults and the continued winding-down of risk positions, the NPE volume and the NPE ratio were reduced further during the year. Moderate negative effects resulting from specific loan loss provisions, especially in the Real Estate and Corporates segments, were more than offset by higher net reversals of general loan loss provisions.

On the financial and capital markets, a clear increase in market interest rates, a significant widening of credit spreads, falling prices on the stock markets and the depreciation of the euro against the US dollar were observed in 2022. In the fourth quarter, credit spreads narrowed again somewhat and the stock markets and the euro bounced back slightly. The aforementioned developments, in particular rising interest rates and wider credit spreads, were also reflected in the earnings situation of the HCOB Group according to IFRS. The increased interest rates had a positive effect on net interest income, especially from the fourth quarter onwards. In the result from financial instruments categorised as FVPL, the development in the parameters led to – partly contrary – negative and positive valuation effects, which were, however, moderate overall.

There were also slightly positive effects on IFRS equity (in OCI). This was because the noticeable increase in market interest rates compared to 31 December 2021 led to a significant reduction in the net present value of pension liabilities. The resulting positive effect exceeded the contrary valuation effects on plan assets and financial assets categorised as FVOCI,

which were also driven by interest rates and had to be recognised in OCI.

In contrast to the effects according to IFRS, the rising interest rate level put pressure on the Bank's earnings situation in the context of the financial statements of HCOB AG (individual institution) pursuant to the German Commercial Code (HGB). The main reason for this is that under the HGB, the effects from the revaluation of pension provisions and fund assets are not recognised in equity, but rather in the income statement, and pension obligations are discounted at the ten-year average interest rate (instead of the current market interest rate). As a result, the revaluation of the fund assets as well as the valuation of pension provisions had a marked negative impact on the other operating result in the reporting year. In addition, in the HGB financial statements, the increased interest rate level in the context of the application of the strict lower-of-cost-or-market principle meant that write-downs on securities in the liquidity reserve had to be recognised in profit or loss.

The Bank's business performance and position are explained in detail in the following sections.

Business development – significant developments and events in the 2022 reporting year

As explained in more detail in the previous chapter, the 2022 reporting year has been politically and economically dominated, since 24 February, by Russia's devastating war of aggression in Ukraine and its knock-on effects. The war in Ukraine has resulted in much gloomier underlying geopolitical conditions. The situation on the financial markets and economic development in 2022 were characterised by very high inflation rates, a sharp rise in interest rates and commodity prices, energy supply uncertainties and fears of recession/stagflation.

In this challenging and dynamic environment, HCOB's main task in 2022 was to successfully implement its moderate growth course, initiated with the successful completion of its transformation, as an efficient and profitable commercial bank, while at the same time reacting adaptively and proactively to the gloomier market conditions.

Based on the financial ratios at the end of 2022, which were once again very positive, Hamburg Commercial Bank has succeeded in further consolidating its position in the German banking market. The continuation of the increase in operating profitability as well as the further improvement in asset quality are particularly encouraging. In detail, the following developments and events are worth highlighting in the 2022 financial year:

Profitability: 20.8 % RoE after taxes – further increase in net operating interest margin in all market segments
Hamburg Commercial Bank can report a very good Group net result of € 425 million for the 2022 financial year, which corresponds to an RoE after taxes of 20.8 %. One-off effects, also relating to income tax expense, also contributed to the very good net result.

Business development also slightly exceeded expectations in operational terms. Despite slightly lower average total assets, net interest income increased significantly, namely by 19 %, year-on-year, as the net operating interest margin, in particular, increased again in all market segments and the optimisation of asset allocation continued. The steeper yield curve also had a positive impact on net interest income, especially from the fourth quarter onwards.

Risk: further improvement in risk ratios with NPE ratio of 1.2 % – little direct impact of war in Ukraine – risks from second-round effects are being monitored and addressed
Despite the gloomier outlook for the global economy, HCOB once again succeeded in improving its asset quality compared to the end of the previous year, which is reflected primarily in a further reduction in the NPE volume, a decrease in the NPE ratio to 1.2 % and slightly positive total loan loss provisions. Only a small number of new defaults were recorded in the reporting period thanks to the Bank's stringent risk management, as well as the comparatively lower vulnerability of the loan portfolio to the current crises. With the reduction in the NPE ratio, the Bank has also further improved its asset quality positioning in the German and European banking market.

Given that Hamburg Commercial Bank has no significant exposure in Russia or Ukraine, and only has a negligible exposure to the Central and Eastern European countries in the narrower sense of the term (see the explanations and information in the table in the Risk Report in the section entitled "Default risk"), the knock-on effects of the war in Ukraine have only had a limited direct impact on the Bank.

With regard to the indirect impact (and what are known and second-round effects), HCOB identified a limited number of borrowers whose business models could potentially be negatively affected by the impact of the war in Ukraine. The development of these borrowers is being closely monitored using a credit watchlist.

Normalisation of capital resources: the Management Board and Supervisory Board of HCOB AG are proposing to the Annual General Meeting that dividend payments of € 1,500 million be made from the HGB accumulated profit for 2022
In the course of its privatisation and the restructuring of its business model in recent years, HCOB had maintained the necessary capital buffers due to the risk situations prevailing at the time. As already announced in the half-year financial report as at 30 June 2022, HCOB is aiming to normalise these capital buffers once the transformation process has been successfully completed. Initially, the strategic target of a CET1 ratio above 17 %, with simultaneous business growth as assumed in the current corporate plan, applies. The normalisation of these capital buffers is to be achieved by distributing parts of the HGB accumulated profit for the 2022 financial year to the shareholders of HCOB AG in 2023.

In its annual financial statements in accordance with the German Commercial Code (HGB), HCOB AG is reporting net income for the year of € 2,385 million for the 2022 financial year. From the net profit for the year, the Management Board and Supervisory Board of HCOB AG transferred an amount of € 795 million to other retained earnings within the scope of their authority under the Articles of Association, leaving an accumulated HGB profit of € 1,590 million.

The main driver behind the high HGB net income for the year compared to the IFRS net result is the partial reversal of funds for general banking risks. For more detailed information on the earnings situation according to the German Commercial Code (HGB), please refer to the chapter "Comment on the annual financial statements of Hamburg Commercial Bank AG in accordance with the German Commercial Code (HGB)" at the end of this combined management report.

In accordance with the distribution policy adopted in the reporting year, the Management Board and Supervisory Board will propose to the Annual General Meeting scheduled for April 2023 that dividend payments of € 1,500 million (equivalent to € 4.97 per share) be made from the HGB accumulated profit and that the remaining portion be allocated to retained earnings.

Total assets increased as planned – diversification strategy successfully continued

In the 2022 financial year, total assets increased as planned by around 5 % to € 31.8 billion in line with the Bank's moderate growth course. In line with this trend, the exposure at default (EaD) increased by 4 % to € 34.4 billion.

In tandem with growth, the diversification strategy was continued. In addition, short-term liquidity was strengthened with a corresponding increase in the cash reserve. Diversification is reflected in the balance sheet structure itself, but also within the main asset items, loans and advances to customers and financial investments.

In loans and advances to customers, the relative shares attributable to the national Real Estate and Corporates portfolios, as well as the Shipping portfolio, decreased moderately, while the share of the loan book in Corporates International increased. In addition to the active management of conventional client business, "diversifying" products are increasingly contributing to the further development of the loan portfolio. Within loans and advances to customers, these include, in particular, the participations in special loan funds, which were expanded in 2022, as well as investments in contractually linked instruments and what are known as "loan-on-loan" structures, which are each characterised by a high degree of granularity and good to very good asset quality.

The degree of diversification has also increased in the financial investment portfolio. Granular investments in investment-grade securitisation structures (collateralised loan obligations and agency mortgage-backed securities) and, to a lesser extent, investments in special securities funds contributed significantly to this trend.

The Bank is using the aforementioned products within loans and advances to customers and financial investments to increase its exposure to the North American and western European regions and to boost the granularity and sectoral reach of its loan and financial investment portfolio. As at 31 December 2022, the aforementioned products collectively accounted for approximately 9 % of the HCOB Group's total EAD.

Gross new business volume up year-on-year with good level of new business profitability

New business development was satisfactory overall. The gross volume of new business contracted in the 2022 business year amounted to € 5.6 billion, up on the level seen in the previous year (€ 5.4 billion). The positive development in new business profitability was in line with expectations.

In managing its new business, the Bank has proactively responded to changes in the macroeconomic environment and their repercussions on the individual market segments. Key aspects of this adjustment include a reduction in concentration risks in the more cyclical asset classes in favour of further diversification. The biggest adjustments relate to the business volume in the national real estate business. In this area, the Bank has proactively reduced its new business targets in view of the increasing risks, and has weakened the growth momentum in this respect. Nevertheless, gross new business in the Real Estate segment was maintained at the previous year's level. Although demand for shipping transport services remained high in the year under review, loan demand was dampened by the liquidity available in the market, meaning that gross new business in Shipping remained down on the prior year. In the Project Finance segment, loan demand and gross business concluded remained stable at a good level. New business development in the Corporates segment was characterised by the planned increase in gross new business in the high-margin Corporates International segment.

Funding: five benchmark issues with a total volume of € 2.5 billion placed on the capital market

HCOB further strengthened its funding structure in the reporting year, with the scheduled increase in deposits but also funding via the capital market contributing significantly to this development. In the 2022 financial year, five benchmark issues with a total volume of € 2.5 billion were successfully placed on the capital market.

The issues include three mortgage Pfandbriefe, one ship Pfandbrief (the first in benchmark format since privatisation) and one bond in senior non-preferred format. The issues each have a volume of € 500 million and have maturities of two to just over five years.

In connection with the issue of the senior non-preferred bond, investors in an outstanding bond of the same instrument class were offered the opportunity to exchange it for this new bond.

With these five benchmark issues, Hamburg Commercial Bank successfully continued its regular issuing activities even in a difficult capital market environment.

Implementation of strategically important IT projects

The 2022 financial year was also characterised by very intense project activities for HCOB. IT-related projects remained a focus. The milestones achieved in the reporting year include:

- April 2022: Go-live of SAP S4/HANA Banking for Complex Loans (the Bank's central lending system),
- May 2022: Go-live of SEPA payments on the payment transaction system of the new payment transaction provider, Broadridge,
- July 2022: Switch of the general ledger to the new SAP S/4 HANA Finance platform,
- September 2022: Go-live of nCino (cloud-based software for front-to-end process support in the lending business).

In addition to cost advantages, the Bank expects the launches to lead to enhanced (process) efficiency and improved data management, which will strengthen its competitive position, also with regard to digital, timely and efficient interaction with clients. HCOB also expects the payment transaction system changeover to improve its ability to implement its strategic growth targets in the area of payment services. HCOB's ambition is to establish itself, for the long term, as one of the leading institutions in terms of cost efficiency, as measured by corresponding rankings for German and European banks.

Earnings, net assets and financial position

Group key management indicators	Actual figures 2021	Forecast for 2022 (according to 2021 Forecast report)	Actual figures 2022
RoE after taxes (%)[1]	18.4	~11	20.8
CIR (%)	50	46	44
NPE ratio (%)	1.4	1.8	1.2
CET1 ratio (%)	28.9[2]	>20	20.5[3]
LCR (%)	164	>140	197

[1] The RoE after taxes shown is based on standardised regulatory capital backing (average RWA and CET1 ratio of 13 %).
[2] Profits were not included on a voluntary basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.
[3] The proposed dividend payment of € 1.5 billion in 2023 was taken into account with the effect of reducing Common Equity Tier 1 capital; the dividend payment is subject to the approval of the Annual General Meeting.

Group performance significantly ahead of expectations overall

The following aspects, in particular, contributed to development in the Bank's financial ratios that was well ahead of expectations overall in the 2022 financial year:

- The Group net result (net income after taxes) amounted to a very good € 425 million, more than 20 % higher than what was already a good level in the previous year (€ 351 million) despite the challenging external underlying conditions. Based on standardised regulatory capital backing, the return on equity after taxes (**RoE after taxes**) came to 20.8 % (31 December 2021: 18.4 %). This means that the Bank has exceeded its forecast for the after-tax result and RoE after taxes published in the combined management report for the 2021 financial year by a very wide margin. The decisive factors in the Bank's ability to exceed its plan were the profitability improvements in net interest income, one-off effects from taxes and in the other operating result, as well as the positive development in loan loss provisions. The Bank had already considerably raised its expectations for income after taxes to approximately € 350 million by the mid-point of 2022. Given the ongoing positive business development in the second half of the year, with increasing tailwind from the rising interest rate environment, this outlook was also exceeded at the end of 2022. The following significant developments occurred compared to 2021 as a whole: In view of total income that outstripped expectations (€ 673 million, previous year: € 642 million), the encouraging development in net interest income, which was higher than planned, is particularly noteworthy. In line with a further increase in the net operating interest margin, this figure was up by around 19 % on the previous year's level (€ 526 million) at € 627 million. After significant reversals of impairment losses in the last quarter of the reporting year, accompanied by the recovery from what had, to date, been a difficult environment on the capital markets, HCOB reported a moderately positive FVPL result for 2022 as a whole (€ 9 million, previous year: € 37 million). At € 3 million, the result from the disposal of financial assets classified as AC was, as planned, considerably lower than in the previous year, when it still totalled € 37 million, supported by earnings contributions from early repayments and sales of receivables. As in the previous year (€ 32 million), loan loss provisions made a positive contribution of € 11 million to the Group net result. This was helped along by the fact that there were only a small number of new defaults. The moderate net additions to Stage 3 overall, mainly attributable to the Real Estate and Corporates segments, were more than offset by net reversals at Stages 1 and 2 (incl. model overlays), which correlate with improved portfolio quality. Thanks to stringent cost management, expenses (administrative expenses, regulatory expenses and restructuring/transformation expenses) remained stable as against the prior-year period at € 396 million in total (previous year: € 389 million), with additional expenses for projects and investments and despite the general inflationary pressure. At € 75 million, the other operating result was significantly more positive than in the previous year (€ 14 million) thanks to the reversal of provisions and the absence of negative one-off effects. At € 363 million, net income before taxes was around 21 % above the previous year's level (€ 299 million). The increase in net income before taxes is mainly due to a significant increase in sustainable income, especially the 19% increase in net interest income, while the other significant income items (FVPL result, result from the disposal of financial assets classified as AC and other operating result) were almost at the same level as in the previous year. Due to positive one-off effects from taxes for previous years and income from deferred taxes, income tax expense also made a marked positive contribution of € 62 million (previous year: € 52 million) to the Group net result. In the previous year's earnings forecast, a moderate tax expense was assumed. For information on the individual other drivers behind the development of the income statement items, we refer to the explanatory information in the next section of this chapter, "Earnings situation".
- The above-target development in the earnings base (including other operating income), combined with the stable cost base, ensured that the **cost-income ratio (CIR)**, as a measure of cost efficiency, was reduced further. At 44 % as at 31 December 2022, it was 6 percentage points below the 2021 level and also slightly below the previous year's forecast of 46 %.
- Asset quality developed more positively in the 2022 financial year than assumed in the 2021 year-end forecast. This was due to an overall improvement in portfolio quality as well as the low level of new defaults. Despite the challenging macroeconomic environment, the **NPE ratio** was further reduced from 1.4 % at the end of the previous year to a good 1.2 %. This value is consistent with the expectations that had been raised at the half-year point, while the previous year's forecast had still assumed an increase to 1.8 %. The NPE volume decreased by around 13 % year-on-year to € 405 million, with EaD slightly up by 4 % to € 34.4 billion. The reduction in the NPE volume was due primarily to net reductions in NPEs in the Shipping segment. The development set out above underlines the resilience of Hamburg Commercial Bank's loan portfolio.
- The **CET1 ratio** has fallen from the exceptionally high level seen on 31 December 2021 (28.9 %), as announced in the half-year financial report as at 30 June 2022. This can be traced back to the implementation of the Bank's distribution policy, as adopted in 2022, which provides for a normalisation of the capital buffers required until the successful completion of the transformation process now that this process is complete. Against this backdrop, the CET1 ratio remained at the high level of 20.5 % as at 31 December 2022. This value is in line with the Bank's CET1 capital forecast of >17 %, which was updated in the half-year financial report to reflect the previously adopted distribution policy. In detail, the following drivers were decisive for the development in the CET1 ratio: Aggregate RWA increased by € 1.4 billion year-on-year from € 14.0 billion to € 15.4 billion. The increase is based almost exclusively on higher risk-weighted assets for credit risks (increase from € 10.6 billion to € 13.6 billion). As expected, this increase resulted in particular from the change in the rating model landscape, a move that was completed in the reporting period (changeover from IRB-A to the Credit Risk Standardised Approach and IRB-F). To a lesser extent, the depreciation of the euro against the US dollar also led to an increase in RWA for credit risks. The other components of aggregate RWA (market risks, operational risks and other RWA) have not changed significantly in total. CET1 capital decreased significantly from € 4.1 billion to € 3.2 billion, mainly due to the proposed dividend payment and its inclusion in CET1 capital in advance.
- The liquidity position was strengthened in the reporting year in view of the highly uncertain market environment. This is expressed, among other things, by the liquidity ratio **LCR**. As at 31 December 2022, the LCR stood at 197 %, which was considerably higher than the level at the end of the previous year (164 %) and exceeded the Bank's forecast. At the value reported, the LCR remained very clearly above the ECB's minimum requirements.
- Further details underlying the business performance are given below in the "Earnings, net assets and financial position" and "Segment results" sections.

Earnings

Statement of Income

(€ m)	2022	2021	Change in %
Interest income from financial assets categorised as AC and FVOCI	761	586	30
Interest income from other financial instruments	324	303	7
Negative interest on investments categorised as AC and FVOCI	-13	-16	-19
Negative interest on other cash investments and derivatives	-32	-79	-59
Interest expenses	-456	-365	25
Positive interest on borrowings and derivatives	43	97	-56
Net interest income	**627**	**526**	**19**
Net commission income	33	38	-13
Result from hedging	2	1	100
Result from financial instruments categorised as FVPL	9	37	-76
Net income from financial investments	-1	3	>-100
Result from the disposal of financial assets classified as AC	3	37	-92
Total income	**673**	**642**	**5**
Loan loss provisions	11	32	66
Total income after loan loss provisions	**684**	**674**	**1**
Administrative expenses	-332	-328	1
Other operating result	75	14	>100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-30	-32	-6
Net income before restructuring and transformation	**397**	**328**	**21**
Result from restructuring and transformation	-34	-29	-17
Net income before taxes	**363**	**299**	**21**
Income tax expense	62	52	-19
Group net result	**425**	**351**	**21**
Group net result attributable to Hamburg Commercial Bank shareholders	425	351	21

Net interest income up by 19 % year-on-year as a driver of total income

Hamburg Commercial Bank generated total income of € 673 million in the year under review (previous year: € 642 million), well ahead of its annual target for total income. This item was dominated by net interest income, which, at € 627 million, was 19 % higher than in the previous year despite slightly lower average total assets. Net commission income once again made a solid contribution to total income. The FVPL result, which was still negative at the end of the first half of the year, was moderately positive in the fourth quarter after impairment losses were reversed. In line with the Bank's forecasts, the contributions to the total income made by the disposal of financial assets classified as AC were lower than in the previous year. Developments in the individual items making up total income and their causes are presented below:

As a result of the interest rate turnaround initiated by the central banks, **net interest income** was characterised by rising interest income on the assets side and rising funding costs across the board. Hamburg Commercial Bank increased its net interest income considerably in the 2022 financial year to € 627 million, i.e. by € 101 million compared to the previous year (corresponds to around 19 %). The increase is attributable to operating net interest income, i.e. the sustainable net interest income adjusted to reflect certain one-off effects. This was achieved with slightly lower average total assets than in the previous year, as the net operating interest margin was increased again in all lending units. Margin development in the Corporates and Shipping segments was particularly encouraging. In addition, the ongoing optimisation of asset allocation, in the context of which the proportion of the high-margin international corporates business in relation to the loan book increased further, also had a positive effect.

Refinancing via the ECB's TLTRO programmes, the conditions of which were adjusted by way of an ECB decision effective from the end of November 2022, had an impact on net interest income of € -1 million in the reporting year (previous year: € 14 million).

Net commission income amounted to € 33 million (previous year: € 38 million). The slight decrease is due to the drop in net commission income in the lending business, as well as the fees paid to portfolio managers of the fully consolidated special loan funds, which are recognised in commission expenses.

The **result from financial instruments categorised as FVPL amounted to** € 9 million in a challenging and very volatile environment on the capital markets (previous year: € 37 million). The market environment was characterised, in particular, by an increase in interest rates (both in the US dollar and in the euro area), significantly widening credit spreads and a depreciating euro against the US dollar. The development of the aforementioned valuation parameters, the momentum of which slowed in the fourth quarter, led to positive and negative valuation effects in relation to the Bank's assets subject to the FVPL result, with the positive effects dominating in terms of the impact on total comprehensive income.

The interest rate-related positive valuation effects from the reduction of fair value adjustments on client derivatives more than compensated for the valuation losses incurred on FVPL assets, which were moderate due to successful portfolio management. FX effects also had an impact on the FVPL result, although these burdens were more than offset by offsetting effects in net interest income.

The **result from the disposal of financial assets classified as AC** came to € 3 million, much lower than in the previous year (€ 37 million) as was to be expected. The earnings position includes prepayment penalties for early principal repayments. Sales of receivables in the reporting year did not have any effect on earnings.

Loan loss provisions: net reversals at Stages 1 and 2 due to portfolio improvements more than compensate for moderate net additions at Stage 3

Loan loss provisions (income statement) were moderately positive in the reporting year at € 11 million. In the previous year, they contributed € 32 million to the Group net result, supported by recoveries on loans and advances previously written off in the amount of € 26 million.

The development in this item in the 2022 financial year shows that the increasingly weaker economic outlook - as a result of the war in Ukraine and a pandemic that is still not yet fully overcome - only led to loan defaults/negative rating migrations in the Bank's loan book to a very moderate extent. On the other hand, due to the further increase in portfolio quality and in line with a conservative loan loss provisions policy, the Bank had to partially reverse the model overlays that it had recognised.

The result is mainly due to the changes in loan loss provisions on loans and advances to customers/provisions in the lending business totalling € 17 million. The other components of the earnings item amounted to a total of € -6 million.

The change in loan loss provisions of € 17 million resulted from net additions to Stage 3 totalling € 38 million, which were offset by higher net reversals of € 55 million at Stages 1 and 2.

The net additions at Stage 3 were mainly attributable to the Corporates and Real Estate segments. In the latter case, the addition is attributable to a small number of real estate financing transactions in the shopping centre/retail segment.

The drivers for the net reversals at Stages 1 and 2 were improvements in portfolio quality in the Shipping and Real Estate segments, as well as the overall reduction in model overlays. In the Shipping segment, the recovery of charter rates in 2021 and 2022 led to an improvement in ratings. In Real Estate, a reassessment of risk parameters for larger clients led to significant reversals. In addition, a large part of the decrease in loan loss provisions at Stages 1 and 2 was due to reduced model overlays. While overlays were lower for individual assessments of COVID-19-related cases, the hotel sub-portfolio and effects resulting from macroeconomic forecasts, additional overlays were necessary for individual cases related to the Ukraine war and the retail and tanker sub-portfolios. In addition, the overlays that were set up to reflect an adjustment of the Bank's internal credit risk models were reversed once the implementation process was complete.

For further details, particularly on the composition and development of the model overlays, we refer to Note 3 in the notes to the Group financial statements.

Administrative expenses stable, efficiency measures successfully counteracting investments and inflationary pressure

Administrative expenses were stable year-on-year, up by 1 % to € 332 million (previous year: € 328 million). In this context, the Bank's efficiency measures established in the past successfully counteracted the ongoing substantial investments in IT infrastructure/HR, as well as general inflationary pressures.

Personnel expenses, which increased to € 154 million (previous year: € 141 million), reflect, among other things, salary adjustments, new hires in the course of the moderate growth course (also at foreign locations) and the inflation compensation bonus that the Bank paid out to all employees. Information on the development of the number of employees in the Group, as well as other key employee figures can be found in the chapter "Employees of Hamburg Commercial Bank".

The increase in personnel expenses was partially offset in administrative expenses by the decline in operating expenses. Operating expenses (including depreciation of property, plant and equipment and amortisation of intangible assets) amounted to € 178 million in 2022 as against € 187 million in the previous year. The costs of ongoing operations ("run the bank" costs) decreased further from € 134 million to € 125 million, due in particular to lower IT provider costs, which account for about one-third of these costs. The decline demonstrates that the investments made in the transformation of IT systems

during the transformation process are increasingly paying off in the form of sustainable cost reductions. The forward-looking "change the bank costs" were on a par with the previous year at € 53 million. They were once again mainly attributable to Hamburg Commercial Bank's IT projects, including the changeover in the payment transaction system.

Other operating result made a marked positive contribution to the Group net result, also due to one-off effects
The other operating result of € 75 million (previous year: € 14 million) made a significantly higher positive contribution to the Group net result than in the previous year, as expected. As in the previous year, the earnings item was supported in particular by income from the reversal of provisions (€ 46 million, of which € 15 million were for litigation risks). The earnings item also includes further one-off effects in the form of net interest income from expected tax refunds (€ 29 million) and income from earn-out agreements in connection with subsidiaries sold in previous financial years (€ 16 million). In contrast to the previous year, there were no significant negative one-off effects. In the prior-year period, such effects arose in the context of deconsolidation losses (€ -16 million) and residual value-related value adjustments on a legacy leasing receivable (€ -13 million).

Further details on the composition of the other operating result can be found in Note 17 of the notes to the Group financial statements.

Regulatory expenses on a par with prior year
Expenses for regulatory affairs, Deposit Protection Fund and banking associations amounted to € 30 million, almost exactly the same level as in the previous year (€ 32 million). The main component of this item remains the bank levy at € 19 million (previous year: € 25 million). The decline in expenses for the bank levy is offset by higher expenses for the Deposit Protection Fund.

Result from restructuring and transformation dominated by expenses for project activities
As planned, the result from restructuring and transformation once again had a negative impact on earnings in the 2022 financial year amounting to € -34 million (previous year: € -29 million). The result from restructuring in the amount of € 24 million (previous year: € 0 million) includes reversals of restructuring provisions. Expenses from transformation of € 58 million (previous year: € 29 million) mainly related to project activities in the context of the switch to the new payment transaction system and the IT transformation process.

Income taxes made a marked positive contribution to the Group net result due to one-off effects for previous years and income from deferred taxes
Given the above-mentioned developments in the individual line items, net income before taxes amounted to € 363 million in the reporting year (previous year: € 299 million), outstripping the expectations according to the previous year's forecast.

Income taxes again made a clearly positive contribution to the Group net result in the reporting year at € 62 million (previous year: € 52 million). They include expenses from current taxes (€ 28 million), which were clearly offset by income from deferred taxes (€ 90 million).

Current taxes benefited from relief of € 66 million due to income for past assessment periods. This was due to the results of tax audits for the assessment periods from 2012 to 2015 (inclusive). The related interest income is reported in the Bank's other operating result.

Deferred tax income resulted from the change in deferred taxes on temporary differences (€ 127 million). By contrast, there was an expense from the change in deferred taxes on loss carryforwards in the amount of € 37 million, due to the utilisation of loss carryforwards.

Group net result clearly higher than expected
After income tax expense, Hamburg Commercial Bank reported a Group net result of € 425 million for the 2022 financial year (previous year: € 351 million). The earnings trend was characterised first of all by the continued positive trend in net operating interest income, increasingly helped along by rising interest rates. On the other hand, moderate development in loan loss provisions and, in particular, special effects in income tax expense led to Hamburg Commercial Bank clearly exceeding both its original earnings forecast for the year as a whole (> € 250 million) and the outlook as raised at the half-year point (around € 350 million).

Compared to the previous year, the increase in the Group net result by € 74 million results from the increase in the earnings base (total income plus other operating result) by a total of € 92 million. Lower income from disposals and the FVPL result was more than offset by higher net interest income, which now accounts for an increasing proportion of total income, and the other operating result. Overall, costs remained stable compared to 2021 (increase of € 7 million). Both loan loss provisions and income tax expense again had a positive impact on the Group net result, although the total amount was € 11 million lower in 2022.

Net assets and financial position

Material items on the statement of financial position

(€ m)	2022	2021	Change in %
Assets			
Cash reserve	4,974	3,261	53
Loans and advances to banks	777	1,236	-37
Loans and advances to customers	19,592	20,198	-3
Loan loss provisions	-414	-446	-7
Trading assets	441	689	-36
Financial investments	5,490	4,524	21
Non-current assets held for sale and disposal groups	-	10	-100
Deferred tax assets	697	616	13
Remaining assets	261	222[1]	18
Total assets	**31,818**	**30,310**	**5**
Liabilities			
Liabilities to banks	4,606	5,504	-16
Liabilities to customers	13,243	11,141	19
Securitised liabilities	7,065	6,704	5
Trading liabilities	335	289	16
Provisions	361	493[1]	-27
Subordinated capital	930	921	1
Equity	5,165	4,717	9
Remaining liabilities	113	541	-79
Total liabilities	**31,818**	**30,310**	**5**

[1] The previous year's amount was adjusted; for more details please refer to Note 2 to the Group financial statements.

Moderate growth in total assets as planned
The consolidated statement of financial position grew moderately in the 2022 financial year as planned. Consolidated total assets amounted to € 31,818 million at the year-end, around 5 % higher than the level at 31 December 2021 (€ 30,310 million). On the assets side, the increase is attributable to the cash reserve and to financial investments. On the liabilities side, the increase is mainly due to higher liabilities to customers compared to the previous year. In detail, the developments were as follows:

The liquidity positions were strengthened in the reporting year in view of a market environment marred by high levels of uncertainty and volatility. Against this backdrop, and also in view of the dividend payment proposed for 2023, the cash reserve as at the reporting date of 31 December 2022 increased noticeably compared to the reporting date of the previous year and amounted to € 4,974 million (31 December 2021: € 3,261 million).

Loans and advances to banks, on the other hand, declined compared to the end of the previous year, also in the context of lower cash collateral. As at 31 December 2022, these amounted to € 777 million (31 December 2021: € 1,236 million).

The loan book, reflected by the item in the statement of financial position loans and advances to customers, was down slightly as against 31 December 2021. As at the reporting date, the carrying amount of loans and advances to customers was € 19,592 million (31 December 2021: € 20,198 million). In terms of portfolio composition, the Bank's diversification strategy is increasingly making its mark. As planned, the share of loans in the high-margin Corporates International segment increased further, while the relative shares attributable to the national Real Estate and Corporates business, as well as Shipping, decreased moderately.

Total loan loss provisions (for items in the statement of financial position) were down as at 31 December 2022, largely due to utilisation, and amounted to € -414 million (31 December 2021: € -446 million). Within the loan loss provision stages, there was a reduction in loan loss provisions at Stages 1 and 2

and an increase at Stage 3. In conjunction with the slight reduction in the NPE volume, the risk shielding of the NPE portfolio, expressed by the NPE Coverage Ratio AC, increased to a very comfortable 68.9 % (31 December 2021: 55.8 %).

Trading assets were down on the end of the prior-year reporting period, falling by 36 % to € 441 million (31 December 2021: € 689 million). The decrease relates, in particular, to the carrying amount of positive fair values from derivative financial instruments. The market values from interest-related and currency-related transactions developed in opposite directions. The fair values of interest-related transactions decreased. This is because the netting volume on the assets side increased significantly compared to 31 December 2021. Conversely, but to a lesser extent, the positive market values from currency-related transactions increased, predominantly due to the appreciation of the USD against the euro.

Financial investments increased significantly by 21 %. As at 31 December 2022, their carrying amount came to € 5,490 million, compared to € 4,524 million as at the previous year's reporting date. The increase is mainly due to the implementation of the diversification strategy. Please also refer to the comments in the section entitled "Total assets increased as planned – diversification strategy successfully continued" in the chapter on "Business development".

The decrease in the carrying amount of non-current assets held for sale and disposal groups (€ 0 million, 31 December 2021: € 10 million) results from the sale of a customer receivable in the Project Finance segment, which was completed in the first quarter of 2022.

Due to the decrease in deferred tax liabilities combined with an increase in deferred tax assets (both before netting), deferred tax assets increased moderately to € 697 million (31 December 2021: € 616 million).

Within remaining assets (€ 261 million, previous year: € 222 million), current tax assets and, in particular, the balance sheet item other assets increased. The latter is due to the net asset position within plan assets. On the other hand, within remaining assets, there was a marked decline in the positive adjustment item from the portfolio fair value hedge, which showed a negative balance as at the end of 2022.

Liabilities to banks fell by 16 % to € 4,606 million (31 December 2021: € 5,504 million). Borrowings from the ECB under the TLTRO III programmes are also reported within this item, with drawdowns still amounting to € 1.55 billion on reporting date (31 December 2021: € 1.75 billion, nominal amount in each case).

In line with the Bank's funding strategy, which aims to increase the share of organic funding, liabilities to customers account for an increasing share of refinancing. These were up considerably by 19 % year-on-year from € 11,141 million to € 13,243 million. The increase is mainly due to the scheduled increase in deposits from € 7.7 billion to € 9.2 billion.

The development in securitised liabilities was characterised by the new Pfandbrief issues in the financial year under review. The carrying amount of the item increased moderately by 5 % from € 6,704 million to € 7,065 million, due in particular to a higher portfolio of ship Pfandbriefe.

Trading liabilities amounted to € 335 million (31 December 2021: € 289 million). The increase is due primarily to the increase in negative market values of interest-related derivative financial instruments.

Provisions came to € 361 million on the reporting date (31 December 2021: € 493 million). The decrease in this item in the statement of financial position affected all major categories. The trend was most pronounced in provisions for pensions (due to interest rates) and provisions for restructuring. However, provisions in the lending business, for litigation risks and costs, as well as other provisions, also decreased compared to the previous year.

The carrying amount of the subordinated capital increased slightly due to the appreciation of the US dollar and amounted to € 930 million as at 31 December 2022 (31 December 2021: € 921 million).

The Bank's reported equity increased by around 9 % as against the end of the previous year and amounted to € 5,165 million (31 December 2021: € 4,717 million). The increase is mainly based on the very good Group net result for the 2022 financial year. Other comprehensive income contributed to the increase in equity to a minor extent, with offsetting valuation effects for pension liabilities and financial instruments categorised as FVOCI characterised by the rising interest rates. The dividend payment of € 1.5 billion proposed for 2023 was already taken into account in advance in the CET1 capital and, as a result, when determining the CET1 ratio at the end of 2022. In contrast, the effects can only be recognised in the balance sheet at the time the dividend liability arises in legally effective terms, which requires a corresponding resolution by the Annual General Meeting in 2023.

Remaining liabilities decreased significantly compared to 31 December 2021, dropping from € 541 million to € 113 million. The main reason for this was that – in line with the development on the assets side – the negative market values of hedging derivatives (interest rate derivatives on the liabilities side) and, in particular, the negative adjustment item from the portfolio fair value hedge decreased considerably. The adjustment item had a positive balance as at 31 December 2022.

Business volume

While total assets grew moderately as shown above, off-balance sheet business decreased by 9 % compared to the previous year. This is due to the decrease in irrevocable loan commitments by € 506 million to € 3,294 million (31 December 2021: € 3,800 million). This is due in particular to the reduction in loan commitments to real estate and shipping clients. On the other hand, sureties and guarantees increased, albeit only slightly, by € 79 million to € 831 million (31 December 2021: € 752 million). On this basis, the business volume (total assets plus off-balance sheet business) increased at a slower rate than total assets and amounted to € 35,943 million as at 31 December 2022 (31 December 2021: € 34,862 million).

Structure of liabilities by financial instruments

(€ m)	2022		2021	
	Total	of which >1 year	Total	of which >1 year
Secured: Pfandbriefe and asset-based funding	**7,383**	**5,753**	**7,398**	**5,010**
Covered bonds (Pfandbriefe)	4,705	3,141	4,144	2,510
Other secured funding	2,678	2,612	3,254	2,500
Unsecured liabilities (senior preferred)	**15,040**	**4,252**	**13,152**	**5,352**
Unsecured liabilities (senior non-preferred)	**2,491**	**2,011**	**2,799**	**2,436**
Profit participation certificates and other subordinated liabilities	**930**	**930**	**920**	**920**
Total	**25,844**	**12,946**	**24,269**	**13,718**

The above table breaks down Hamburg Commercial Bank's liabilities by financial instrument and thereby takes into account the requirements of capital markets participants. Liabilities with a maturity of more than one year are separately shown. The financial instruments can be reconciled to the balance sheet line items liabilities to customers, liabilities to banks, securitised liabilities and subordinated capital. The carrying amounts of financial instruments excluding principal repayments and accrued interest are assigned to maturity bands in the above table.

One focal point within the context of long-term refinancing relates to securitised debt instruments (Pfandbriefe, asset-based funding). These mainly include debt instruments issued under Pfandbrief programmes (mortgage, public sector and ship Pfandbrief programmes) as well as other asset-based funding issues, repo transactions and deposits from development banks. The total amount of secured debt instruments outstanding was € 7,383 million as at 31 December 2022 (31 December 2021: € 7,398 million).

The unsecured liabilities that can be classified as senior preferred and senior non-preferred include the call and time deposits mainly comprising client deposits, as well as other unsecured financing instruments. They totalled € 17,531 million as at the reporting date (31 December 2021: € 15,951 million). Call and time deposits are shown together with structured unsecured financial instruments in the "Senior Preferred" category and amounted to € 15,040 million in total (31 December 2021: € 13,152 million). The "Senior Non-Preferred" category mainly consists of bearer and registered bonds that do not have any structured elements and amounts to € 2,491 million as at 31 December 2022 (31 December 2021: € 2,799 million).

Profit participation certificates and other subordinated liabilities (€ 930 million, 31 December 2021: € 920 million) represent subordinated capital.

Capital and funding

RWA, regulatory capital and capital ratios

	31.12.2022[1]	31.12.2021[2]
Risk-weighted assets (RWA) (€ bn)	15.4	14.0
Regulatory capital (€ bn)	4.1	5.0
thereof: CET1 capital (€ bn)	3.2	4.1
Overall capital ratio (%)	26.8	35.7
Tier 1 capital ratio (%)	20.5	28.9
CET1 capital ratio (%)	20.5	28.9
Leverage ratio (%)	9.8	12.7

[1] The proposed dividend payment of € 1.5 billion in 2023 was taken into account with the effect of reducing Common Equity Tier 1 capital; the dividend payment is subject to the approval of the Annual General Meeting.
[2] Profits were not included on a voluntary basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.

Normalised capital ratios remain at a good level
As expected, the CET1 ratio of 20.5 % is down compared to 31 December 2021 (28.9 %). The decrease is mainly due to the inclusion of the proposed dividend payment of € 1.5 billion for 2023 in the Bank's Common Equity Tier 1 capital. The Common Equity Tier 1 capital amounted to € 3.2 billion as at 31 December 2022 (31 December 2021: € 4.1 billion). Due to the implementation of the simplified model landscape, moving from the Advanced IRB to the Foundation IRB and the Credit Risk Standardised Approach, which had been fully completed by the end of the first quarter of 2022, the RWA for credit risks also increased. The Tier 1 capital ratio and the overall capital ratio developed in line with the Common Equity Tier 1 ratio compared with 31 December 2021.

The capital ratios still exceed the regulatory requirements resulting from the SREP process significantly. The regulatory requirements were adhered to at all times during the reporting period. Please refer to the Risk Report for information on the minimum banking supervisory requirements.

The leverage ratio dropped to 9.8 % compared to 31 December 2021 (12.7 %) due to the lower Tier 1 capital. This means, however, that the leverage ratio is still significantly higher than the regulatory requirement of 3 % and, together with the very high capital ratios, pays testimony to the Bank's very robust capital position.

Distribution policy
In 2023, the Bank intends to start making dividend payments by paying out a dividend of € 1.5 million in total for the 2022 financial year on the basis of the dividend policy adopted by the Management Board and the Supervisory Board, as explained below.

The Bank maintained necessary capital buffers in the course of its privatisation and the transformation of its business model in recent years to reflect the risk situations at the time, and has proven itself in a difficult global economic environment. Going forward, the Bank aims to normalise its capital buffers, initially to a target of at least 17 % CET1, while achieving business growth at the same time, as assumed in the current business plan.

Following the successful transformation process, Hamburg Commercial Bank has a sustainably profitable business model and is pursuing a strategy of positive business growth that generates shareholder value added (SVA) through sustainable value creation going forward. In its corporate planning, the Bank takes into account specific and measurable financial and non-financial objectives, always aiming to improve profitability as well as to maintain capital buffers so that the business model allows the company to continue as a going concern even under adverse circumstances and creates sustainable value for the Bank's shareholders. All future distributions to the shareholders of Hamburg Commercial Bank should be sustainable and consistent with the preservation of the company's financial strength and capital resources (ICAAP).

The resolutions adopted by the shareholders at the Annual General Meeting and, in preparation for this, resolutions adopted by the Management Board and Supervisory Board regarding the implementation of this dividend policy, must always comply with the applicable statutory provisions. The Management Board and the Supervisory Board are proposing to the Annual General Meeting, within the scope of their responsibilities, the distribution of parts of the HGB accumulated profit of € 1.5 billion as a dividend payment in 2023, which they deem to be appropriate.

The distribution of dividends is a discretionary decision. As a result, the Management Board and the Supervisory Board are free to propose deviations from the dividend policy described above. Given what is currently a very high level of capital and a strong, capital-generating business model, the Management Board will review the dividend policy annually.

Refinancing strengthened significantly with further benchmark issues
The refinancing situation in the reporting year was characterised by very volatile and difficult capital markets. The burden of COVID-19 and the geopolitical crisis situation led to sharply rising inflation, a significant increase in interest rates and rising credit spreads. As the Bank issued mainly Pfandbriefe, which are popular with investors even in this market environment, the deterioration of the capital market environment has had only a minor impact on the Bank's refinancing.

After the first mortgage Pfandbrief in benchmark format was issued back in January, the Bank issued two more mortgage Pfandbriefe with a volume of € 500 million each and a ship Pfandbrief with the same volume during the reporting year. The Bank also successfully placed a senior benchmark bond in the market. The bonds will strengthen the Bank's funding base in the long run and serve to refinance its core business areas. For further details on these issues, please refer to the comments in the chapter entitled "Business development – significant developments and events in the 2022 reporting year".

Fundraising was in line with the Bank's budgeted figures. In total, the Bank raised around € 4.2 billion in long-term funds in the 2022 financial year. The Bank aims to establish itself as a regular issuer on the capital market and is planning further unsecured benchmark issues, as well as mortgage and ship Pfandbrief issues, for the coming years.

In addition, the Bank continues to make use of the long-term funds of the European Central Bank (TLTRO), the amount of which was reduced from € 1.75 billion to € 1.55 billion in the reporting period.

In addition to long-term refinancing, client deposits also contributed to the implementation of the funding strategy. In line with the balance sheet development, deposits were expanded further.

Key liquidity ratios

	31.12.2022[1]	31.12.2021
Total deposits (€ bn)	9.2	7.7
LCR (%)	197	164
NSFR (%)	113	114

[1] NSFR (%): The proposed dividend payment of € 1.5 billion in 2023 was taken into account with the effect of reducing Common Equity Tier 1 capital; the dividend payment is subject to the approval of the Annual General Meeting.

The regulatory requirements for the liquidity ratios were met during the reporting period.

The Risk Report contains supplementary information on the capital and refinancing situation of Hamburg Commercial Bank.

Moody's ratings

	since 17.02.2023	31.12.2022
Issuer rating (long-term)	A3, stable	Baa1, positive
Current liabilities	P-2	P-2
Stand-alone rating (financial strength)	baa3	ba1
Deposit rating	A3	Baa1
"Preferred" Senior Unsecured Debt	A3	Baa1
"Non-Preferred" Senior Unsecured Debt	Baa2	Baa2
Mortgage Pfandbrief	Aaa	Aa1
Ship Pfandbrief	Aa3	A1

The rating development, which is in line with the Bank's expectations overall, reflects the continuous improvement in financial ratios and Hamburg Commercial Bank's track record as a privatised bank, which now spans a period of several years. For example, Moody's upgraded HCOB's issuer and stand-alone ratings, as well as key instrument ratings, on 17 February 2023: the Bank's issuer, senior preferred and deposit ratings were upgraded from Baa1 to A3 with a stable outlook, while the stand-alone rating improved from ba1 to baa3. The table above provides an overview of Hamburg Commercial Bank AG's ratings awarded by Moody's following the aforementioned rating action on 17 February 2023 and as at 31 December 2022.

The positive rating action from February 2023 follows an upgrade in July 2021 to Baa1/ba1 and represents a further improvement on HCOB's Baa2/ba2 rating at the time of its privatisation in November 2018. The rating agency considers HCOB to be well positioned due to its solid capital position, improved portfolio quality and significantly strengthened sustainable profitability. In addition, the Bank focused its rating strategy and decided to focus on one agency and cancel its S&P rating, given the size of the Bank. On 8 December, S&P confirmed the Bank's BBB rating and then withdrew it.

Information on the sustainability ratings for Hamburg Commercial Bank AG is included in the summarised separate non-financial report (CSR Report) and is available on the Bank's homepage.

Segment results

Segment overview

(€ m)		Real Estate	Shipping	Project Finance	Corpo-rates	Lending Units	Treasury & Group Functions	Reconcili-ation	Group
Total income	**2022**	**175**	**177**	**70**	**125**	**547**	**80**	**46**	**673**
	2021	203	142	74	106	525	136	-19	642
Loan loss provisions (expected loss)	**2022**	**-10**	**-6**	**-6**	**-19**	**-41**	**-**	**52**	**11**[1)]
	2021	-13	-12	-5	-23	-53	-2	87	32[1)]
Administrative expenses & regulatory costs	**2022**	**-80**	**-83**	**-35**	**-58**	**-256**	**-106**	**-**	**-362**
	2021	-93	-59	-38	-57	-247	-113	-	-360
Net income after taxes	**2022**	**74**	**77**	**25**	**42**	**218**	**79**	**128**	**425**
	2021	85	62	27	23	197	5	149	351
RoE after taxes (%)	**2022**	**11.4**	**19.4**	**8.3**	**8.4**	**11.8**	**41.7**		**20.8**
	2021	15.4	18.3	8.5	4.9	11.9	2.3		18.4
Segment assets (€ bn)	**31.12.2022**	**8.1**	**3.5**	**3.4**	**4.6**	**19.6**	**12.2**	**-**	**31.8**
	31.12.2021	8.0	3.7	3.9	3.9	19.5	10.7	0.1	30.3
Loan loss provisions (income statement)	**2022**	**11**	**16**	**-6**	**-12**	**9**	**1**	**1**	**11**
	2021	-43	72	-7	5	27	3	2	32

1) Loan loss provisions in accordance with IFRS at Group level.

Structure of segment reporting

The management of the Group comprises four market-related segments (“Real Estate”, “Shipping”, “Project Finance” and “Corporates”), which are also summarised as “Lending Units” and the segment "Treasury & Group Functions". The “Reconciliation” column is used to express all of the management indicators in line with the IFRS perspective. Further, more detailed information on the segments, including their strategic orientation, can be found in the "Strategic direction for the business areas” section of the chapter of the Group management report entitled "Basis of the Group". Further information on the structure and methodology of segment reporting can be found in Note 48 "Segment reporting" in the notes to the Group financial statements.

Business development in the segments

Profitability was further improved across all lending unit segments in 2022: The net income after taxes of the lending units segments increased by 11 % to € 218 million (previous year: € 197 million). The RoE after taxes of 11.8 % was on a par with the previous year (11.9 %). In particular, the portfolio was further diversified with a selective business approach based on clear risk-return criteria in the individual segments and with a view to the macroeconomic environment. This means that, by managing its new business, the Bank has proactively responded to changes in the macroeconomic environment and their repercussions on the individual market segments. Overall, a new business volume of € 5.6 billion (previous year: € 5.4 billion) was concluded, slightly above the level of the previous year.

The **Real Estate segment** reported net income after taxes of € 74 million in 2022 (previous year: € 85 million). The operating business remained characterised by the risk-conscious further development of the portfolio, the aim being to optimise earnings. Due to the de-risking strategy pursued in the previous year, net interest income and net commission income from the operating business decreased, with a corresponding reduction in risk costs and administrative expenses. The growth target was adjusted during the year in view of the challenging developments on the real estate markets, meaning that gross new business remained at the previous year's level at € 1.6 billion (previous year: € 1.6 billion). At € 8.1 billion, segment assets at the end of the year were up slightly on the previous year (€ 8.0 billion). The selective approach was consistently pursued and is reflected in the positive margin development. The decline in RoE (11.4 %; previous year: 15.4 %) is attributable to the higher allocation of equity compared to the previous year due to the change in the rating model landscape in 2022.

In the **Shipping segment**, net income after taxes amounted to € 77 million (previous year: € 62 million). The driver behind the encouraging development in earnings was the increase in total income, which also benefited from net interest income on client deposits on the liabilities side in the context of strong operational development. Lower risk costs also contributed to the improved result. Although demand for shipping transport services remained high in the year under review, loan demand was dampened by the liquidity available in the market, meaning that gross new business in Shipping remained down on the prior year at € 1.6 billion (previous year: € 1.9 billion). Segment assets fell to € 3.5 billion as a result (previous year: € 3.7 billion). Operating profitability, measured in terms of RoE, increased to 19.4 % (previous year: 18.3 %). In addition to the improvement in operating performance, the higher equity allocation compared to the previous year due to the change in the rating model landscape in 2022 had the opposite effect in the Real Estate segment.

The **Project Finance segment** reported net income after taxes of € 25 million (previous year: € 27 million). Total income in this segment fell slightly to € 70 million (previous year: € 74 million). The reason for the lower net result is the lower segment assets of € 3.4 billion (previous year: € 3.9 billion), although new business remained constant compared to the previous year. Overall, gross new business in the Project Finance segment came to € 0.7 billion (previous year: € 0.7 billion). At 8.3 %, the segment’s profitability was down slightly on the previous year (8.5 %).

Net income after taxes in the Corporate segments amounted to € 42 million (previous year: € 23 million) and includes positive earnings development in the Germany and International area. By concentrating on business with a strong risk/return profile, the volume of new business was expanded, especially in the international area. Overall, gross new business in the Corporates segment came to € 1.7 billion (previous year: € 1.2 billion). Segment assets increased to € 4.6 billion (previous year: € 3.9 billion). Margin development was positive in view of the realignment, not least also thanks to the new business in the Corporates International unit, which contributed to the further diversification of the Bank’s portfolio, meaning that the segment’s operating profitability, measured in terms of RoE, rose to 8.4 % in total (previous year: 4.9 %).

The **Treasury & Group Functions segment** generated net income after taxes of € 79 million (previous year: € 5 million). The operating income from positive valuation effects in the context of the management of pension liabilities was able to more than compensate for the valuation losses incurred in asset liability management due to the changes in the interest rate environment. In the strategic investment portfolio, on the other hand, valuation losses in the wake of the rise in credit spreads and increased volatility in the capital market environment due to the crisis were significantly limited through successful portfolio management, and opportunities to diversify the Bank's interest income were exploited. In addition, Treasury secured a comfortable liquidity position through prudent liquidity management, which was also reflected in an increased cash reserve and a corresponding rise in segment assets to € 12.2 billion (previous year: € 10.7 billion). The positive one-off effects in the other operating result, as well as in the income tax position, contributed to the positive result in the TSY & Group Functions segment.

"**Reconciliation**" also comprises valuation and reporting differences that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. Differences in total income arise, among other things, due to the use of the Fund Transfer Pricing (FTP) method (internal) instead of gross interest in the lending business, as well as due to the reporting of effects within OCI in the total income of the segments. Further reconciliation effects result from different presentation of amortisation and hedge accounting effects in internal reporting and IFRS accounting. In addition, loan loss provisions reflect the difference between the expected loss on transactions in the segments and loan loss provisions based on the Group statement of income in accordance with the IFRS. The difference between the minimum taxation recognised in the segments and actual income taxes at Group level is also shown in the Reconciliation item.

Detailed information on the methodology and included effects can be found in Note 48 "Segment reporting" in the notes to the Group financial statements.

Final assessment of the situation of Hamburg Commercial Bank

Hamburg Commercial Bank held its own in a challenging and dynamic environment. As explained in greater detail in the section on Group development, the development in the Bank’s financial ratios in the 2022 financial year exceeded expectations by far overall. This was mainly due to continued positive developments in operating profitability in the Bank’s core business and credit quality, as well as one-off effects in HCOB’s other operating result and income tax expense. After successfully completing its transformation process, the Bank’s main focus in 2022 was on initiating a moderate growth course. Given the extremely uncertain geopolitical and macroeconomic situation, the Bank's management has consistently assessed and considered the impact of the various crises on the Bank on an ongoing basis when implementing business strategies and managing the Bank. The following is an assessment of the Bank’s situation as at the reporting date based on the key metrics of profitability, asset quality, capital resources and liquidity position.

In terms of **profitability**, the Bank was able to continue on the development path it has been on since the beginning of

the transformation process and further increase its net operating interest margin, a trend that all market segments, as well as the positive development in profitability, contributed to. The loan and financial investment portfolio was diversified considerably. At the same time, concentration risks in the Shipping and Real Estate asset classes, which tend to be more cyclical, were reduced further. Based on business performance in 2022, the Bank is optimistic that the rising interest rates, coupled with the good positioning of the balance sheet structure for this increase, will generally provide further tailwind for the development of net interest income. Despite additional expenses for projects and investments, cost efficiency, measured in terms of CIR, improved further in the reporting year. HCOB considers itself well positioned for the future in this area, too. In its current cost planning, the Bank has conservatively addressed the outstanding project activities in the context of the IT transformation process, the planned initiatives for the targeted balance sheet growth, as well as the increased inflation, and expects to see a moderate increase in administrative costs for 2023. This increase should, however, have a neutral effect on the CIR, taking into account the Bank's ambition to have the earnings base increase by at least the same amount. In the future, lower change-the-bank expenses, in particular, will provide relief and further improve the cost-income ratio.

In terms of **asset quality**, the Bank considers itself to be resilient and robust in the face of the current considerable challenges and also for adverse scenarios as at the balance sheet date. In addition to the stringently pursued risk management approach, the following aspects in particular form the basis for this assessment:

- a comparatively high level of crisis resilience of the loan portfolio (including: no direct exposure to Russia or Ukraine, a moderate volume of risks from second-round effects, small proportion of companies in the corporates portfolio with a business model that has a strong negative correlation with the effects of the energy crisis),
- the NPE portfolio, which was reduced again in 2022, with further winding down planned for 2023,
- the comfortable balance sheet coverage ratios compared to the industry as a whole, both for the NPE portfolio (Stage 3 loan loss provisions) and for the portfolio as a whole (Stage 1 and 2 loan loss provisions), including model overlays of € 144 million,
- the cautious business approach to new business, as well as increasing diversification of the overall portfolio, and
- the absorption capacity for unexpected credit events, which will generally increase as total income rises according to plan.

The **capital ratios** have returned to normal as planned after reaching an exceptionally high level at the end of 2022. With the ratios reported on the reporting date, Hamburg Commercial Bank remains one of the banks with the strongest capital resources in the European banking market. The RWA uplift from the change in the rating model landscape and the dividend payment planned for 2023 have already been fully factored into the ratios, while the Basel IV regulations should provide relief in the future. The increased profitability will serve to strengthen the Bank's equity position and also – in accordance with the principles of the distribution policy adopted in the year under review – enable regular dividend payments to be made to the Bank's owners.

In view of the developments outlined above, including the solid **liquidity** position, which was strengthened in the reporting year, Hamburg Commercial Bank considers itself well positioned overall as at the reporting date to achieve its objectives, even in the current difficult environment. Details regarding predicted business developments, the ongoing challenges facing the Bank, as well as the opportunities and risks associated with future development, can be found in the Forecast, opportunities and risks report.

Employees of Hamburg Commercial Bank

Recruitment initiative to strengthen the team, investment in our employees and implementation of new employer/works council agreement on mobile working

Human resources work in 2022 was characterised by increased recruitment activities, investments in our employees and the switch from the split mode of operation introduced in response to the pandemic to regular mobile working.

After three years of active support for the transformation process, the focus is now on strengthening resources along the entire value chain in terms of quantity and quality. The recruitment activities launched in the first half of the year are already clearly bearing fruit. All business units still face the challenge of achieving their cost targets by maintaining an appropriate cost base. As at 31 December 2022, the number of staff employed by the Hamburg Commercial Bank Group had fallen to 868 full-time employees (FTEs) (31 December 2021: 919). Taking into account the employees who left as planned with effect from the turn of the year 2021/2022, there was an increase in staff of 15 FTEs in the 2022 financial year.

Furthermore, the human resources strategy for the next three years was adopted in the reporting year and a new Long-Term Incentive Programme (LTIP) was introduced for managers and selected senior experts. HCOB's benefits landscape was also reviewed and already partly adapted in 2022 to ensure the Bank is still perceived as an attractive employer in the future.

Protecting the health of our employees in light of the ongoing COVID-19 situation remained a focal point during the reporting period. In the first five months of the reporting year, the Bank operated in split mode. With the lifting of almost all COVID-19-related restrictions within HCOB at the end of May, the central employer/works council agreement on "Mobile working" came into force. Making work organisation more flexible in terms of location provides a significant boost to the appeal of the working environment that the Bank offers.

Employees in the Group

	31.12.2022	31.12.2021
Full-time employees (FTE) in the Group[1]	**868**	**919**
thereof: Women	303	325
thereof: Men	565	594
thereof: Employees in Germany	825	877
thereof: Employees abroad	43	42
Total number of employees in the Group (headcount)	**975**	**1,052**
Key employee figures		
Part-time employees (%)	17.6	17.6
Average age in years	45.7	46.5
Average period of employment (years)	13.7	14.9

[1] Total number of employees excluding trainees and interns.

Dealing with COVID-19 and mobile working at Hamburg Commercial Bank

HCOB had already set up the "coronavirus working group", which addresses COVID-19-related developments on an ongoing basis and then defines corresponding measures for the Bank, back in February 2020 – also from a business continuity management perspective. The working group focuses on protecting the health of employees and continuing to closely monitor the development of the COVID-19 situation in order to ensure the maintenance of banking operations, in particular the processes relevant to emergencies. The working group consists of a member of the Management Board and representatives from Human Resources, Compliance, Business Operations and Communications.

The working group provides all employees with specific instructions and guidance in the form of regularly updated FAQs, and also provides information to managers on a regular basis, for example on how to act in scenarios where employees are, or are suspected of being, infected. On 30 May 2022, all restrictions associated with COVID-19 were lifted within HCOB in line with the statutory requirements. Cases of illness still have to be reported to the "coronavirus working group" to break chains of infection.

As of 30 May 2022, the central employer/works council agreement on "Mobile working", which was concluded between the Bank and the general works council at the beginning of 2022, came into force. Mobile working plays an important role in attracting and retaining skilled employees. It

has been shown that flexibility in work organisation with regard to location is an essential component of an attractive working environment. The Bank's premises remain employees' primary place of work and are seen as an important link between HCOB and employees. Maintaining a sense of workplace community is a top priority.

Corporate culture, further development and young professionals

Continuous development of the corporate culture is a central factor for companies that want to be successful in this changing world of work. The Bank focused on diversity and unconscious bias in the 2022 financial year. The necessary awareness was raised with various campaigns and information addressing these topics, also against the backdrop of the positive business effects. All positions will now be advertised with the option of "job sharing". The Bank also has a mentoring programme to specifically support exceptional employees. This programme has now been launched for the second time. Cross-business unit networking and increasing talent visibility is designed to foster further career development.

The Bank conducted an employee survey in June 2022, as in the previous year. In order to show how things have developed, this followed on from the last survey and expanded the focus to include further aspects following the successful completion of the transformation process.

With its internal seminar programme, the Bank continued to support employees in developing their personal and professional skills. In addition to this, staff can take advantage of external professional training measures if required.

In 2022, the Bank continued to focus on supporting young professionals. A total of 19 trainees started in various business units of the Bank. In addition, five students on sandwich programmes started their hands-on studies with us.

Employee remuneration

The specific design of the remuneration systems that apply at Hamburg Commercial Bank aims to harmonise the interests of the Management Board, employees and shareholders and to motivate the Management Board and employees to act in the interests of Hamburg Commercial Bank and make full use of their individual potential.

The remuneration system for employees of Hamburg Commercial Bank is based on a total remuneration approach, counteracts any significant dependence on variable remuneration and thereby prevents the employee from taking excessively high risks for the purposes of realising variable remuneration components.

The employee remuneration system, which was further developed with the co-determination bodies in 2021, was implemented in full in 2022 and also contributes to our appeal as an employer.

As in the previous years, the amount of the total budget for the variable performance-related remuneration is still determined on the basis of the Bank's performance, which is calculated using parameters that reflect the success of the Bank. In addition to achieving key financial ratios, these parameters also take account of other things and the fulfilment of the Bank's strategic objectives amongst other things and are consistent with the philosophy of sustained business development within the meaning of the German Remuneration Ordinance for Institutions (InstitutsVergV). They are always tailored to the business model as well as the Overall Bank strategy and risk strategy, which are updated on an annual basis.

The variable performance-related remuneration for employees is determined as follows: For risk takers (for an explanation of this term, see below) and for another defined group of employees, known as the "focus group", this is calculated in accordance with the German Remuneration Ordinance for Institutions (InstitutsVergV) and depends on the Bank's performance, the success of the business unit and the individual achievement of objectives. For the other eligible employees, variable remuneration is based solely on the Bank's performance. Fixed upper limits for ratio of variable to fixed remuneration were set for all employees of the Group in accordance with the German Remuneration Ordinance for Institutions (InstitutsVergV) in order to ensure a reasonable ratio of fixed to variable remuneration.

In accordance with the specific requirements of the InstitutsVergV, Hamburg Commercial Bank defines a group of employees as so-called risk takers, who have a significant influence on the overall risk profile of the Bank by virtue of their function. In accordance with the InstitutsVergV, parts of the variable remuneration due to risk takers (when the regulatory exemption limits are exceeded) are paid on a deferred basis and are dependent, among other things, on the Bank's sustained performance.

The Bank's individual and collective agreements with employees and employee representative bodies were continuously adapted, for the last time in 2022, to reflect the InstitutsVergV, which has been in force since 2010 and sets out the regulatory requirements for remuneration systems of institutions, in accordance with Section 14 InstitutsVergV. All requirements of the InstitutsVergV 4.0 published in 2021 have been implemented at HCOB.

Details on the remuneration paid to employees are published in a separate remuneration report on Hamburg Commercial Bank's website in accordance with the InstitutsVergV. The remuneration report does not form part of the combined management report.

Management Declaration pursuant to Section 289f (4) of the German Commercial Code (HGB) (information on the ratio of women)

Hamburg Commercial Bank is continuing to actively address equal opportunities and the promotion of women with the assistance of its equal opportunities officer. These issues are a particularly high priority at Hamburg Commercial Bank. In the reporting year, for example, the Bank made a virtual diversity course available. This gave employees the opportunity to interactively explore their own thought patterns and the impact that these have on diversity within the Bank.

In order to further promote career advancement for women within the Bank, the women's network #networking-women organises regular lectures with internal and external experts providing food for thought, and offers the opportunity for the open exchange of knowledge and experience within this network.

In the reporting year, HCOB again actively organised Girls' and Boys' Day 2022 and offered pupils a hands-on insight into the working world of a commercial enterprise.

In November 2020, Hamburg Commercial Bank set itself an average target quota of 33 % for the underrepresented gender (predominantly women) in management and/or senior expert functions. This is to be achieved by 31 December 2025. This also applies explicitly to the BU level.

Statistics on equal opportunities as at 31 December 2022[1]

	Number			Ratio	
	Women	Men	Total	Women	Men
BU heads	4	11	15	27 %	73 %
Heads of department	13	38	51	25 %	75 %
Senior positions[2]	98	238	336	29 %	71 %
Total	**115**	**287**	**402**	**29 %**	**71 %**

[1] Only active employees, in Germany.
[2] Not including department heads.

Pursuant to Section 111 (5) of the German Stock Corporation Act (AktG), the supervisory board of unlisted companies, if they are subject to co-determination, also has to set targets for the proportion of women on the supervisory board and the management board. In June 2022, the Supervisory Board of Hamburg Commercial Bank adopted/confirmed the following targets for the proportion of the underrepresented gender (currently women) on the Management Board and the Supervisory Board. The target figures describe the target share of women in the relevant overall board in its current size, with the percentage figures corresponding to full numbers of persons:

- a target quota of 25 % (one out of currently four members) has been confirmed for the Management Board of Hamburg Commercial Bank.
- for the Supervisory Board of Hamburg Commercial Bank, a target quota of 33 % (six out of currently 18 members) has been adopted (previously: 30 %).

Both target quotas are to be achieved by 30 June 2027 at the latest. There is currently no woman on the Management Board of Hamburg Commercial Bank. The proportion of women on the Supervisory Board of Hamburg Commercial Bank is currently around 17% (three women out of 18 members).

Regarding the proportion of women on the Management Board, the Supervisory Board had adopted a target of 25 % in July 2017 on the basis of what was then the four-member Management Board. This target was to be achieved by 30 June 2022 if possible. Since the adoption of this target, there have been changes within/new appointments to the Management Board. Recruitment to the Management Board was always in accordance with the Rules of Procedure for the Supervisory Board and the regulatory requirements. The Rules of Procedure for the Supervisory Board state that when filling a post on the Management Board, consideration should be given, when identifying candidates, to ensuring balanced and varied knowledge, skills and experience for all Management Board members. The composition of the Management Board is always in the best interests of Hamburg Commercial Bank. The Supervisory Board is still seeking to recruit a female member for the Management Board the next time a member is appointed for the first time, provided a suitable candidate is available for the vacant position.

In July 2017, the Supervisory Board confirmed the target quota of 30 % for the proportion of women on the Supervisory Board, based on what was then a 16-member Supervisory Board with parity co-determination. The appointment of Supervisory Board members is a matter for the shareholders and the employees. While the Supervisory Board has the possibility to influence its composition through the election proposals made to the Annual General Meeting, it cannot guarantee such influence.

In its Rules of Procedure, which are in line with regulatory requirements, the Supervisory Board of Hamburg Commercial Bank has stipulated that in the context of proposals for the election of Supervisory Board members to represent the shareholders, the aim is to ensure the equal participation of women.

Forecast, opportunities and risks report

Forecast, opportunities and risks report

The following section should be read in conjunction with the other sections in this combined management report. The forward-looking statements contained in this forecast report are generally based on assumptions, estimates and conclusions that have been incorporated into HCOB's corporate planning (adopted in December 2022). If there have been significant changes to the aforementioned assumptions, estimates and conclusions based on the information available at the time this combined management report was prepared, this is indicated separately in this forecast report.

The statements are based on a series of assumptions that relate to future events and are incorporated in Hamburg Commercial Bank's corporate planning. The occurrence of future events is subject to uncertainty, risks and other factors, many of which are beyond Hamburg Commercial Bank's control. Actual events may therefore differ considerably from the following forward-looking statements below.

Anticipated underlying conditions

Forecasts on economic growth and inflation come from national and international institutions (Germany: Bundesbank, eurozone: ECB, USA: Fed, China: OECD, world: calculation of Hamburg Commercial Bank on the basis of IMF weights and growth forecasts specified above, as well as IMF forecasts for the rest of the world). The interest rate forecasts are based on the corresponding forward rates. The forecast euro to US dollar exchange rate is also derived from the futures markets. Unless otherwise stated, the other statements on the overall conditions are based on internal estimates, also taking account of external sources of information such as research companies that are established on the market (real estate markets: e.g. bulwiengesa and PMA, shipping markets: e.g. Marsoft and MSI).

ECONOMY AS A WHOLE AND FINANCIAL MARKETS

Global economy: Significant slowdown in growth

2023 is likely to be characterised by lower growth, higher interest rates, diminishing supply chain issues, little noticeable easing in the labour markets, a decline in inflation and continued geopolitical uncertainty. The **global economy** is only expected to expand by 2.1 % (2022: 3.0 %).

In the **US**, tighter monetary policy is expected to cause growth to weaken further. A mild recession is possible. Overall, we expect to see economic growth of 0.5 % and annual average inflation of 3.1 % (PCE).

Now that **China** has abandoned its zero-Covid policy, the country faces a major challenge with an uncertain outcome, at least in the short term. At the moment, a wave of infections is evidently putting the brakes on growth. In our baseline scenario, this wave will subside, meaning that China will catch up considerably in the second half of the year at the latest and grow at a rate of 4.4 % (2022: 3.0 %).

Eurozone GDP is expected to contract slightly in the first half of 2023, mainly due to declining demand for consumer and capital goods. Inflation, which reduces purchasing power, is leaving its mark on private consumption with a certain time lag, while higher refinancing costs are putting pressure on investments. We predict a mild recovery in the second half of the year, when the ECB's base rate has reached its zenith for this year. Overall, we expect to see economic growth of 0.5 % and annual average inflation of 6.3 % in 2023.

For **Germany,** whose industrial sector, a sector more important to the economy than in most countries, is being hit particularly hard by higher energy costs, we expect to see GDP contract by 0.5 % and the average inflation rate to come in at 7.2 %. The unemployment rate is tipped to rise only slightly to 5.6 %.

Monetary policy: interest rates will be raised further for the time being

With inflation rates far from target, both the US Federal Reserve and the European Central Bank will continue to tighten their monetary reins.

With inflation falling but still well above the target of 2.0 %, the US Federal Reserve will raise its **base rate**, putting the Fed Funds Rate at between 4.5 % and 4.75 % by the end of 2023. In addition, the Fed will continue with its policy of quantitative tightening/balance sheet reduction, with a targeted reduction of USD 95 billion per month.

The ECB is expected to raise its main refinancing rate from the current level (31 December 2022) of 2.5 % to 3.5 % (deposit rate: from 2.0 % to 3.0 %) in a quest to curb inflation. At the same time, the ECB announced at its December 2022 meeting that it would start reducing the APP bond portfolio by € 15 billion per month from the beginning of March 2023. The bonds maturing under the PEPP programme will be reinvested until at least the end of 2024. The balance sheet should also decline further because banks have started to repay their TLTRO loans after the ECB retroactively changed the terms of these loans to the banks' detriment. At the end of 2022, € 1.37 trillion or 16 % of the ECB's total assets were still outstanding. The Transmission Protection Instrument (TPI) announced at the ECB's July meeting, which is intended to prevent fragmentation of the EMU area in the event of a sharp rise in risk premiums of individual member states, has not yet been applied, but can be used in principle.

Long-term **government bond yields** have risen sharply in recent months, anticipating further interest rate hikes, and could more or less stay at the current yield levels throughout 2023, both in the US and the eurozone.

In view of what we expect to be a somewhat calmer financial market environment, the **euro**, which has recently gained considerable ground against the US dollar, is likely to continue its positive trend at a slower pace and end up in the region of 1.08 US dollars by the end of the year.

OUTLOOK IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK

Real estate markets

The German real estate markets are likely to be burdened in 2023 by the weak economy with declining economic output, persistently high interest rates and ongoing very high inflation. On the investment markets, the phase characterised by relatively few transactions will last until the second quarter. Market participants are still in the pricing phase to anticipate the higher interest rate environment and increased construction costs. For investors, interest-bearing investments remain an attractive alternative to real estate. In the second half of the year, real estate transactions are likely to pick up again with the onset of a mild economic recovery and interest rates no longer rising. In particular, investors with strong equity resources are likely to push through price concessions vis-à-vis weaker project developers when making purchases. This means that value losses are to be expected for all types of use, with more significant losses for commercial properties and more moderate ones for residential properties. Construction activity will fall significantly following the sharp decline in building permits and orders in the previous year. The number of planned projects is also expected to decrease. Despite the weak economy, the labour market is still predicted to show slight positive development. Any rise in unemployment should remain limited because labour shortages remain virulent and the service sector is still creating jobs, albeit not as many than last year. Nevertheless, with inflation remaining high and real income continuing to fall, households are likely to be reluctant to consume, meaning that consumption is unlikely to grow once catch-up effects have run their course. While this economic impetus is likely to have more of a dampening effect on real estate demand, the influx of refugees should continue to increase demand.

In the **housing markets** of most major cities, demand is likely to continue to grow as a result of people moving there to take up work and the need to accommodate refugees, but in each case at a less pronounced rate than in the previous year. This lower additional demand will be countered by a significant decline in construction activity. This is unlikely to pick up without more incentives and a consolidation in construction costs. Consequently, housing vacancy rates will remain very low. Nevertheless, rental growth in the major cities is likely to remain moderate because housing costs for tenants are already very high and, in some cases, only limited rent increases are permitted by law when re-letting. In addition, tenants are being hit with significantly higher service charges due to energy costs, despite government relief measures. This makes housing more expensive and limits potential increases in rents excluding utilities. Housing prices, on the other hand, are expected to decline slightly in 2023. This is because the significantly higher interest rates mean that threshold households are dropping out of the market as potential builders and buyers.

On the **office property markets in Germany**, declining recruitment is leading to more moderate growth in the demand for space, although it is likely to decline more sharply outside of the country's metropolitan areas. While noticeably fewer completions are also expected there, new construction in Germany's major cities will remain roughly on a par with the previous year's level. Finally, a slight increase in vacancies to a moderate level is to be expected almost across the board. Trends towards more employees working from home, on the other hand, are only likely to put a damper on demand in the medium term. After what were, in some cases, significant increases in the previous year, office rents are likely to remain stable on average in 2023. They are likely to develop better in sought-after central locations in major cities than in smaller cities, where rents are likely to fall, especially in peripheral locations. In view of continued high interest rates, growing demand risks in the medium term in terms of demographic labour potential and the use of flexible forms of employment, continued losses in market values are likely. This applies in particular to properties that do not meet the corresponding criteria due to the increasing focus of institutional investors on sustainability, meaning that they are viewed more critically by investors.

The **European office property markets** are likely to follow a similar course in terms of rents and market values due to similar developments in the underlying conditions as those that apply in Germany. The markets in London should perform slightly worse thanks to weaker demand, with markets in the Netherlands showing slightly better performance due to stagnating vacancy rates.

The **retail property markets** are likely to be hit by the loss of purchasing power due to inflation, the poor consumer sentiment that will continue for some time, also because of this, as well as the structural change in favour of online retail that is taking hold again. Now that the pandemic-related catch-up effects in consumption will soon have run their course, sales growth in online retail is once again likely to noticeably outstrip that seen in bricks-and-mortar shops. Although nominal sales growth is also expected in bricks-and-mortar retail due to higher inflation, retail rents are likely to remain under pressure as long as retailers maintain their very cautious stance in view of the weak economy. This is likely to affect rents in shopping centres and retail outlets in less attractive city centre locations

more than local supply centres in suburban locations close to residential areas. Although investors' risk aversion remains higher for shopping centres than for retail parks, all retail properties will be affected by declining market values due to the interest rate developments.

Industry, trade and logistics, infrastructure and renewable energy

The underlying conditions for German growth have deteriorated significantly with the Russian invasion of Ukraine and the consequences for energy, commodity and food prices. These circumstances are likely – assuming that the conflict continues – to have a continued negative impact at the beginning of 2023. The complete freeze of Russian natural gas deliveries will lead to a recessionary development for the German economy at the beginning of the year. The increasing COVID-19 infection figures in China resulting from the country's surprising break with its zero-COVID policy at the beginning of December 2022 and the potentially negative impact on supply chains in the short and medium term represent a significant element of uncertainty for the global economy and could put additional pressure on the economic and consumer climate in Germany as well. In addition, the upward price trend, which is likely to remain at a high level at the beginning of 2023, is expected to continue to put a damper on the demand side in particular: Private consumption is likely to remain weak for the time being in view of price increases of over 7 %, which will likely continue to weigh on the **retail sector**.

Industry is likely to be hit by the mix of a recession in many countries across the globe, pandemic consequences and the Ukraine war: while supply shortages and sanctions are still likely to dampen production and unit sales in the **manufacturing sector**, high costs are expected to weigh on corporate profits and, as a result, on investment. Interest-sensitive sectors, such as the construction sector or the automotive industry, could also be affected by the more restrictive monetary policy.

Subdued economic development and a continuation of the supply chain problems – in particular due to the uncertainty surrounding the further development of the pandemic in China – also prompt us to expect more mixed development for companies in the **wholesale and foreign trade** segment.

The **logistics sector** is also unlikely to escape a global slowdown unscathed, even if supply chain problems have contributed to a boom in certain sectors (e.g. shipping, air freight). These positive effects should, however, have a weaker impact in 2023.

Given the burdens resulting from bottlenecks for building materials, the sharp rise in construction prices as well as the significant increase in lending rates, **construction output** is likely to move away from its capacity limit and no longer show any substantial expansion.

In the case of **transport infrastructure**, the ongoing considerable need for maintenance should provide positive impetus for investments on the one hand, while on the other, both the marked global growth slowdown in 2023 and the increase in the price of construction materials and other raw materials could have a negative effect, at least temporarily. The significance of institutional investors is likely to continue despite monetary policy measures to end the low interest rate environment.

The prospects for the expansion of **renewable energies** remain rather mixed for 2023 as well, although the ongoing political pressure to act in order to achieve ambitious climate targets and the specific expansion targets set by the German government, as well as the development of alternative energy sources following the reassessment of Russia as an energy supplier, should have a greater impact and increasingly spur on expansion. In addition, sustainability elements at EU level and the European Commission's Climate Change Programme should provide additional growth impetus for renewable energies in Europe in the medium term.

Shipping markets

The earnings situation in the shipping markets is expected to weaken significantly overall in 2023 compared to the record year of 2022. With a normalisation in container vessels, somewhat weaker rates for bulkers and continued substantial revenues for oil tankers, it would, however, still be above average overall. While constraints resulting from the pandemic should largely disappear, high energy prices and increased interest rates could trigger a marked slowdown in global economic activity and dampen transport demand. Expectations for the individual shipping sub-segments are as follows:

The market for **container vessels** is likely to continue its correction in the new year. The outlook for transport demand is clouded by the expected slump in the global economy and, above all, the burden placed on consumers by high energy prices. As a result, container trade is unlikely to grow much in the course of this calendar year. An additional negative factor will be the pronounced increase in deliveries of new ships during the year. A large number of new ships were ordered in the course of the boom. The order book currently comprises almost 30 % of the current fleet capacity. Many of these are likely to be completed in the second half of the year in particular. The supply of tonnage is expected to grow significantly over the year as a result, despite the increasing scrapping of older and more inefficient vessels. Charter rates and ship prices will likely continue to normalise in this environment.

Rates and prices for **bulkers** could also decline further as the year progresses. In the face of a global economy slowdown, weaker steel production is expected in particular. The impact of the Chinese COVID experiment is currently unclear, but indicators suggest that demand for commodities in the Middle Kingdom will weaken in general. The longer trade routes for grain due to the war in Ukraine and the renaissance of coal being witnessed in the wake of the sharp rise in energy prices will continue to have a supporting effect. Port congestion is expected to continue to decline, bringing additional capacity to the market. The fact that new orders were only placed cautiously in recent years, as well as increasing scrapping activity, will slow fleet growth and support the market as a result.

The fundamental situation for **oil tankers** should stabilise after a year of an upswing. Due to the recent further tightening of EU sanctions against Russia, oil no longer enters the European Union by sea, creating a need for additional transport capacity for longer trade routes from the Middle East or the US. Asia is expected to see a robust increase in demand for crude oil and oil products. At the same time, global oil production should increase moderately over the course of the year. Given what is currently a very good earnings situation, the number of new orders should increase, which will not, however, have any negative impact on the market in the short term. The number of scrappings is uncertain. But even with the recent all-time low level, the size of the fleet should increase only marginally.

BANKING ENVIRONMENT

Against the backdrop of the ongoing and foreseeable burdens caused by the war in Ukraine and what remains a volatile capital market, the banking environment will also remain challenging. Even if there is a trend towards an improvement in sector supply bottlenecks, it is apparent, from today's perspective, that the need for loan loss provisions will increase in view of the increased energy costs and the weakening of economic momentum, as the number of problem cases and insolvencies in the corporate sector is likely to increase overall. Consequently, banks will be tasked with holding their own in this complex environment and actively managing their loan portfolios in order to cushion the blow of primary and secondary effects as much as possible. In this context, those institutions whose portfolio composition is comparatively less vulnerable in geographical and sectoral terms should generally find themselves in a more favourable starting position.

In the face of inflationary pressures, banks need to keep an eye on cost discipline, with the scope for cost increases limited to the extent to which they manage to raise their income levels and maintain cost-income ratios in the environment of rising interest rates. On the funding side, capital market participants are likely to pay even greater attention than before to how banks' financial ratios will develop. Developments in the risk position, capital and liquidity resources and, in particular, sustained profitability will be of central importance.

Expected business development of Hamburg Commercial Bank

Financial key management indicators		
	Actual figures 2022	2023 forecast
RoE after taxes (%)[1]	20.8	>11 with net income before taxes of around € 350 million
CIR (%)	44	45
CET1 ratio (%)[2]	20.5	>17
LCR (%)	197	>140
NPE ratio (%)	1.2	1.3
Non-financial key management indicators		
	Actual figures 2022	2023 forecast
Rating	Baa1, positive	A3

[1] The RoE after taxes shown is based on standardised regulatory capital backing (average RWA and CET1 ratio of 13 %).
[2] The proposed dividend payment of € 1.5 billion in 2023 was taken into account with the effect of reducing Common Equity Tier 1 capital; the dividend payment is subject to the approval of the Annual General Meeting.

Key basis for the forecast
In its corporate planning for the 2023-2025 period, the Bank generally assumes, with a high degree of probability (base case), that:

- the expansive interest rate and monetary policy pursued by the Fed and the ECB alike will continue in general for the time being given the current high inflation, although the interest rate differential between the US and the eurozone will likely to narrow in 2023 and the rise in interest rates should be dampened in the medium term by weak economic growth,
- economic growth in the US, the eurozone and Germany will only be weak in the planning period, with slightly negative economic growth expected for Germany in 2023 due to the heavy reliance of its industrial sector on energy prices,
- inflation rates in the eurozone and in Germany will remain at a very high level in 2023 and will only decrease noticeably from 2024 onwards to reach the level targeted by the ECB in 2025,
- total assets will increase slightly to around € 33 billion in 2023,
- as part of return and risk-oriented asset allocation, the shares of the loan portfolios attributable to cyclical asset classes (e.g. in national real estate) will be reduced in favour of stronger asset diversification (in terms of products as well as in geographical and sectoral terms), which will lead, among other things, to larger shares being attributable to the international corporates business, as well as the Project Finance segment,
- the gross new business volume in 2023 will be higher than in the past financial year and will be expanded further in the years that follow, subject to the conservative assumption that margins in new business will be approximately at the level seen in the reporting year or slightly lower across all asset classes,
- total income will continue to rise, which will likely be largely due to rising net interest income (and in 2023 also due to the FVPL result),
- the development in net interest income will be characterised by a gradual increase in the net operating interest margin in the portfolio, positively influenced by the higher interest rates and the aforementioned asset allocation,
- loan loss provisions in the income statement will normalise, with a negative impact averaging 40 basis points being planned subject to conservative assumptions,
- administrative costs will increase moderately in 2023, primarily due to project costs, investments in staff and IT, as well as inflation effects, whereas operating expenses are expected to decrease from the 2024 financial year onwards as a result of lower change-the-bank expenses, and
- income tax expense, which still made a positive contribution to the Group net result in the 2022 and 2021 financial years as a result of changes in deferred taxes/one-off effects from previous years, will normalise from the 2023 financial year onwards.

The overarching goal for 2023 is to continue with the positive development seen in the recent past based on HCOB's successful business model and, in doing so, to extend the Bank's track record. The initiatives and measures envisaged to implement this goal tie in seamlessly with the Bank's tried-and-tested business approach and include the following guidelines:

- Moderate business growth while acting prudently in a difficult macroeconomic environment, strict focus on profitability criteria and increasing diversification on the asset and liability side of the balance sheet;
- Maintaining a competitive and resilient capital position, while at the same time enabling the capital-generating business model to deliver regular distributions to the Bank's owners;
- Further boosting operational efficiency through innovation and continuous optimisation of business processes, technologies and data use;
- Investing in our developing our workforce, which is a key success factor in a dynamic business environment.

Forecast for development in key performance indicators in the 2023 financial year
Taking into account the above-mentioned fundamental aspects, the Bank assumes in its forecast that it will be able to expand its total income moderately in the 2023 financial year. This is likely to be driven by net interest income and - if the capital market environment is less unfavourable - also by the FVPL result. With conservative projected risk costs of around 40 basis points, total income after loan loss provisions should be slightly above the 2022 level. In the context of the reconciliation to net income before taxes, the Bank expects to see a moderate increase in administrative expenses. In addition, a lower other operating result and the absence of any negative effects from the result from restructuring and transformation should more or less cancel each other out. On this basis, the Bank expects to be able to achieve net income before taxes of around € 350 million. Based on income tax expense that has returned to normal, the Bank forecasts net income after taxes (Group net result) of more than € 250 million for the 2023 financial year and, on this basis, an RoE after taxes of above 11 % (calculated on the basis of standardised regulatory capital backing).

The **CIR** in 2023 is tipped to be at a comparable level to 2022 as a whole at around 45 %. The forecast assumes that the expected increase in administrative expenses will be proportionate to the increase in the earnings base.

In the context of the **CET1 ratio** forecast, the Bank assumes that aggregate RWA will have increased significantly by the end of 2023 as a result of business growth and also due to possible negative effects of the macroeconomic environment on the portfolio. The main driver behind this trend is likely to be the planned increase in business volume in Corporates International. CET1 capital should increase again due to the profit expected for the 2023 financial year, reduced by a dividend payment in 2024. The dividend payment proposed for 2023 was already taken into account in CET1 capital, with the effect of reducing the latter, at the end of 2022, meaning that it no longer affects this position in 2023. Based on the expected developments for risk-weighted assets and CET1 capital, the Bank assumes in its forecast that the CET1 ratio will remain above the target level of >17 % as at 31 December 2023.

The Bank expects the **LCR** to remain comfortably above the regulatory requirements at the end of 2023, with a ratio in excess of 140 %.

In the context of the forecast for the **NPE ratio**, the Bank cautiously assumes that there will be a slight increase in the NPE volume in 2023, as the new defaults expected due to model-related factors are likely to slightly exceed the planned disposals in the NPE portfolio – which also provide for the winding-down of the largest single exposure classified as an NPE. In combination with the planned business growth, an NPE ratio of 1.3 % should be achieved at the end of the year.

In principle, the Bank expects the positive trends in operating profitability and asset quality to be reflected in a further improvement in the Bank's **rating position** in the long term. At least for the current financial year, however, the rating is likely to remain at the level achieved, which is also expressed by the stable outlook.

The Bank addresses the main opportunities and risks associated with the forecasts below. Opportunities are defined as possible future developments or events that may give rise to a positive divergence from the forecast for the Bank. In contrast, as part of the forecast report, risks are defined as possible future developments or events that may give rise to a negative divergence from the forecast. The bank-specific risk types are then separately explained in the Risk Report.

Opportunities and risks
Overall, the transformation-specific risks for HCOB remaining after the transition to the BdB and ESF have now been completely eliminated. Based on the Bank's current assessment, the most significant opportunities and risks with regard to the forecasts for the key performance indicators presented above arise from future developments in the macroeconomic environment (macroeconomic factors) and the market and competitive conditions in the sectors relevant to HCOB (sector-specific factors). These are presented below in sections A) and B). Further opportunities and risks for HCOB's forecasts are explained in sections C) to G).

A) ECONOMIC FACTORS (BUSINESS CYCLE)
In geopolitical terms, the Russia-Ukraine war will remain a focal point in 2023. Depending on the course that the war takes, the global economy could come under considerable strain. Downside scenarios that cannot be ruled out include the use of nuclear weapons or an MCA affecting a nuclear power plant triggered by shelling. Another increase in energy prices could also weigh on global growth. This could be triggered/exacerbated by temperature shocks, such as a prolonged summer drought or an extremely cold winter. The relationship between China and Taiwan is also relatively tense and could, in principle, result in an open conflict. If, contrary to expectations, COVID-19 variants that potentially cause more severe illness were ultimately to spread

again as China opens up, this would trigger renewed lockdown measures in a large number of countries, which would also put pressure on the global economy. If the above risks do not materialise, on the other hand, higher economic growth can be expected. In particular, a timely end to the geopolitical tension and scenario in which the pandemic in China subsides more quickly than expected would deliver a boost to economic momentum. Significantly falling energy prices would also have a positive effect.

In the financial markets, there is a general risk of a slump on the stock markets, which the IMF, among others, considers to be highly overvalued. This could be triggered by the geopolitical tension and/or a further sharp rise in long-term government bond yields, due for example to an unexpected continuation in rising inflation or by the tightening of monetary policy to a more pronounced extent than expected. If the aforementioned developments fail to materialise, this would tend to have a stabilising effect on the situation on the financial markets.

B) SECTOR-SPECIFIC FACTORS (MARKETS)

If the pandemic in China lasts longer, and has a heftier impact than hoped for, and if the negative geopolitical tension continues, the current trends towards deglobalisation/onshoring are likely to intensify, with corresponding implications for world trade and, as a result, also for the **shipping markets**. The need to limit the consumption of fossil fuels such as coal, oil and gas is also likely to slow the demand for maritime transport. Should global economic activity be more dynamic than expected, this would have a positive impact on the demand for transport services.

In particular, the export-oriented **German economy** could also suffer more in a scenario characterised by greater deglobalisation and structural change than assumed in the planning. On the other hand, a faster-than-expected improvement in the growth obstacles posed by energy costs and supply chain problems would improve the outlook for the industrial economy in Germany.

If the tight monetary policy that the central banks introduced in 2022 were to become more restrictive and last longer than expected, the associated effects on interest rates would have a greater impact on the development of the **real estate markets** than assumed in the Bank's plans. An even weaker economic trend would also lead to further deterioration. The sub-segment of retail real estate, which has long been affected by the structural shift in favour of online retail, is likely to continue to be hit hard by this. Conversely, were the primary stress factors to show more favourable development than assumed, i.e. in the form of milder economic development, the stabilisation of interest rates and a slowdown in the momentum driving inflation and construction costs, this would improve the market outlook for the sector.

If the development in the economic and sector-specific factors were to be more negative overall than assumed in the Bank's plans, this would tend to exert pressure on loan loss provisions (earnings situation), the NPE volume/ratio (asset quality), as well as RWA and, as a result, the Bank's capital ratios (capital). Furthermore, the earnings situation in the context of the FVPL result could be negatively affected in the event of an unexpectedly marked widening of credit spreads. HCOB considers itself to be fundamentally resilient in terms of loan loss provisions due to its prudent planning assumptions and the high balance sheet coverage ratios. In addition, the increased earnings potential created by the rising interest rate environment should increase the buffer for unexpected credit losses.

Development in the economic and industry-specific factors that is more favourable, on the whole, than assumed in the Bank's plans, which is slightly more likely than not based on the general conditions at the time this combined management report was prepared, would, on the other hand, tend to have a positive impact on the aforementioned earnings figures and ratios.

C) CLIENT BUSINESS

On the earnings side, the fundamental challenge lies in achieving the planned balance sheet growth and the targeted development in operating profitability even in the current macroeconomic environment. The Bank is taking account of the external environment by setting moderate new business targets in the Real Estate and Shipping asset classes, by pursuing a selective and risk-conscious business approach and by increasing diversification. Should the macroeconomic environment and the market and competitive conditions in the markets/sectors relevant to the Bank show more negative development than in the forecast, there is, in addition to the potential effects described in Section A), the fundamental risk that the volume and margin targets used as a basis in the forecast will not be achieved, for example due to weaker customer demand as a result of higher refinancing costs or due to high unscheduled repayments.

Growth opportunities will arise primarily from the increasing need for investment in connection with the ESG transformation process, which is becoming ever more important. This is an area in which HCOB considers itself well positioned for the future, particularly with its product range in the Real Estate, Shipping and Project Finance segments. In addition, HCOB believes that the switch to the new international payment transaction system that was successfully completed in the reporting year will increase the potential for expanding the range of international payment transaction products.

D) HUMAN RESOURCES

Following the initial success of the recruitment activities launched in 2022, the Bank will continue to make strategic new hires in 2023 to support its moderate growth course. The Bank's clear strategic orientation, as well as the increasing external attention paid to the Bank's strong financial ratios in comparison to the industry as a whole, form the basis for HCOB's solid positioning in the employer market. Opportunities to further enhance the Bank's appeal as an employer will arise from the "New Work" initiatives launched in 2022, the further development of the corporate benefits landscape and other measures to promote diversity and equal opportunities. These measures are aimed at making the working environment more attractive. The Bank hopes that the planned new hires will further strengthen its corporate culture, an important asset in the increasingly technology-driven and knowledge-based financial industry.

Nevertheless, developments in the course of 2022 showed that the labour market situation for employers is very challenging in all sectors, but also in the financial industry. This is due not least to demographic development. Against this backdrop, it is generally impossible to rule out a scenario in which the Bank's ambitious staff recruitment goals cannot be achieved to the extent planned, in terms of both quality and quantity. There is also the fundamental operational risk of a loss of key skills due to top performers leaving the Bank unplanned. The Bank has taken mitigating measures and put HR instruments in place for the abovementioned risks, not least through the ongoing development of the remuneration system and the strengthening of the corporate benefits landscape.

E) OPERATING EXPENSES

With regard to operating expenses, the main challenge facing HCOB is to complete the outstanding project activities as part of the IT transformation process on time, and in line with the required quality standards, while maintaining stringent cost discipline. A delay could lead to the cost benefits that the changes were supposed to bring only being realised at a later point in time than planned, or to temporary redundant costs being incurred (double system operation). From the Bank's point of view, the cost increases expected due to inflation have been adequately reflected in its cost planning (as is also the case with personnel costs).

HCOB's "Operations Platform", which was created and gradually expanded as part of the IT transformation process, offers the Bank an opportunity to benefit from economies of scale and, in the process, further increase what is already a solid level of cost efficiency in the medium term.

F) FUNDING AND REFORM OF DEPOSIT PROTECTION FUND

The measures set out in the funding plan, in particular projects involving capital market issues, could be made more difficult by an adverse development in conditions on the financial markets (see also the comments under A). As a result, refinancing costs could be higher than planned, which would have a negative impact on net interest income. If, on the other hand, conditions on the financial markets continue the upward trend seen in the fourth quarter of 2022 and develop more favourably than assumed in the plans, this would tend to have a positive impact on funding costs and net interest income.

On 4 April 2022, the Assembly of Delegates of the Association of German Banks (BdB) adopted the reform of the scope of protection offered by the Deposit Protection Fund, as announced in December 2021. The reform, which affects all members of the Deposit Protection Fund of the Association of German Banks (ESF), entered into force as planned on 1 January 2023. From 2023, upper limits on the scope of protection will apply for the first time. These are based on the depositors' need for protection and will be adjusted in two further steps until the reform is fully implemented in 2030. For further details, please refer to the explanatory information in the "Deposit Protection Fund" section of the chapter "Basis of the Group". The Bank has analysed the potential impact of the change in the scope of protection and taken it into account in its funding plan, also by broadening the investor base and issuing new refinancing instruments. The impact to date from the change in the scope of protection on depositor behaviour vis-à-vis HCOB has been minor. Also against this backdrop, the Bank expects the influence of the aforementioned aspect on the achievement of the Bank's funding targets will remain limited.

G) REGULATORY AND LEGAL ENVIRONMENT

New regulatory initiatives, in particular resulting from the implementation of Basel IV (mandatory initial application expected as of 1 January 2025), will impact the amount of RWA in general. Through the simplification of its model landscape for the risk classification procedures, a process that was implemented in the reporting year, HCOB expects that the implementation of Basel IV will tend to reduce the RWA for credit risks. Against this backdrop, the opportunities tend to outweigh the risks as at the reporting date.

In the past, the Bank has suffered losses on financing arrangements in two EU member states due to government intervention. The Bank had already taken legal action against this intervention in previous years. If future rulings confirm the Bank's legal opinion, inflows of funds in an amount running into the low treble-digit millions (of euros) can be expected for the Bank. No risks, however, arise to the Bank's earnings situation as a result of these circumstances, as the Bank has covered the risks in the balance sheet in full.

Overall appraisal and net income forecast

For Hamburg Commercial Bank, the first financial year after the successful completion of the transformation process was very positive overall. The Bank was able to hold its own in a challenging and complex external environment and achieved the goals set for the year as a whole, even exceeding them to a significant extent.

Looking ahead to 2023, the Bank is confident that the positive momentum in the development of operating profitability will continue, with the rising interest rates providing tailwind overall. On the risk side, Hamburg Commercial Bank considers itself well positioned to rise to the continued significant challenges posed by the gloomy macroeconomic environment. Primary factors supporting this assessment include the good quality of the loan portfolio, which has proven resilient in the last two global crisis years, as well as the high balance sheet coverage ratios for default risks (including the existing model overlays), but also the continued strong capital position after normalisation.

In summary, and on the basis of the generally encouraging results reported in the IFRS Group financial statements for the 2022 financial year, the Bank is confident, from today's perspective, that it will be able to achieve the targets set for 2023 as a whole. On the basis of the information currently available to it, the Bank expects to be able to achieve IFRS net income after taxes (Group net result) for the 2023 financial year in the amount of more than € 250 million, based on the normalisation of income tax expense.

This forecast rests on the assumption that the existing geopolitical crises and tension, first and foremost the war in Ukraine, do not escalate any further and that no further geopolitical crises with significant adverse economic effects that are not yet foreseeable emerge.

The earnings forecast and future development of Hamburg Commercial Bank are associated with major challenges overall which are described in detail in both the forecast and the Risk Report.

Risk Report

Risk management system

Principles of risk management

Active risk management represents a core component of the Overall Bank management at Hamburg Commercial Bank. The risk management system is developed on an ongoing basis in line with the Bank's business strategy and risk positions. The Minimum Requirements for Risk Management (MaRisk) and the relevant European Banking Authority (EBA) guidelines serve as the regulatory framework for the design of the risk management system.

Hamburg Commercial Bank defines risk as the threat that unfavourable future developments could have an adverse impact on the Bank's assets, earnings or financial position.

In order to identify material risks as defined by MaRisk, Hamburg Commercial Bank conducts a risk inventory at least once per year, as well as on an ad hoc basis where necessary. This includes a review of the existing quantitative and qualitative criteria for determining materiality taking due account of the Bank's risk appetite, with these criteria being redefined if necessary. Based on the results of the risk inventory, risks are broken down into "financial risks" and "non-financial risks" (NFR). The term financial risk refers to the risk of a change in the value of an asset, with an impact on the financial ratios. Non-financial risk (NFR) is the risk of losses arising from inadequate internal procedures, controls and the Bank's operating activities. Whilst the Bank by itself has hardly any influence on the movement in value of an asset, but can instead maintain an explicit allocation of capital or liquidity, non-financial risks can be influenced by the Bank itself primarily through stringent management, appropriate staffing and resources, adequate processes and a risk appetite derived from the risk culture. The material risk types that can be quantified at Hamburg Commercial Bank are default risk, market risk and liquidity risk for the financial risks, whereas the non-financial risks are operational risk, which also includes legal and compliance risks, as well as reputation risk and business strategy risk, which comprises both financial and non-financial components.

In accordance with the regulatory initiatives, Hamburg Commercial Bank does not consider sustainability risks to be an own risk type, but rather as risk drivers in financial risks and non-financial risks, and takes measures to actively manage them, including measures based on sustainability scores for new lending business as well as integration in the scenario calculations. Further information on how the Bank deals with the topic of sustainability and the associated risks can be found in the report on corporate social responsibility (CSR Report) of Hamburg Commercial Bank. The CSR Report does not form part of the Combined Management Report.

Determination of risk appetite and risk guidelines

As the strategic guideline for the Overall Bank, the Strategic Risk Framework (SRF) serves as the foundation of the risk culture, sets out the focus of the Bank's risk management activities and defines the objectives of risk management based on the planned development of key business activities, as well as the measures taken to achieve these objectives.

The focus is on securing and allocating the scarce resources of capital and liquidity and on optimising earnings in the long term, taking into account the risk appetite, business strategy objectives, the market environment and both the existing and planned portfolio. Through its guidelines, the SRF supports implementation of the business strategy objectives and ensures compliance with the regulatory requirements.

The SRF contains the risk strategy principles ("tone from the top") as the key guidelines for risk-conscious action and cornerstone of a sustainable risk culture. These provide the framework for the development of the Risk Appetite Statement (RAS) and the risk strategy. The requirements of the SRF are coordinated with the business strategy goals and the Bank's planning.

The RAS is broken down into a financial and non-financial RAS. The Financial RAS consists of a catalogue of quantitative key financial requirements, while the non-financial RAS includes qualitative requirements relating to risk culture. Operationalisation is achieved via the risk strategy and the limit system, with the risk strategy describing how risks are managed based on the risk inventory in accordance with the business strategy and the RAS. The risk strategy provides the framework for the individual sub-risk strategies.

The SRF is approved by the Management Board and is reviewed at least once a year. Where necessary, adjustments are made during the year. It is fully integrated into the Bank's processes, for example by being incorporated into the Bank's objectives, by way of the definition of requirements for the strategy and planning process, in risk reporting and in the Code of Conduct.

Key risk indicators of the Group

A functional limit system requires a strict derivation of the risk appetite. Based on the Bank's risk capacity, the risk appetite is defined separately for three scarce resources: regulatory and economic capital and liquidity. The Bank has established a system of risk limits and guidelines for all three resources, which serves to identify adverse developments at an early stage, to avert them with appropriate countermeasures and to achieve the risk strategy objectives.

Key risk indicators of the Group[1]

	31.12.2022		Limit		Guideline
ICAAP utilisation from an economic perspective/RBC (%)	68	<	95		–
Economic capital required (in € bn)	2.1	<	2.7		–
of which: for default risks	0.8	<	1.3		–
of which: for market risks	1.0	<	1.3		–
of which: for liquidity risks	0.2	<	0.3		–
NPE ratio (%)	1.2		–	<	3.0
CET1 ratio (%)[2]	20.5	>	13.2		–
T1 ratio (%)[2]	20.5	>	14.7		–
Overall capital ratio (%)[2]	26.8	>	16.7		–
MREL ratio (%)[3]	46.5	>	12.0		–
Leverage ratio (%)[2]	9.8	>	4.2		–
Liquidity coverage ratio (LCR) (%)	197	>	107		–
Net stable funding ratio (NSFR) (%)	113	>	102		–
Net liquidity position in stress case up to 1 month (in € bn)	3.0	>	0.5		–

[1] The proposed dividend payment of € 1.5 billion in 2023 was taken into account, thus reducing the CET1 capital; the dividend payment is subject to the approval of the Annual General Meeting.
[2] In-period calculation view: calculation taking fully into account the balance sheet carrying amounts as at the reporting date, all else being equal.
[3] In percent of the total risk exposure amount (TREA). As the MREL quota shown is based on provisional values, it may differ from the final ratio.

Organisation of risk management

The organisation of risk management at Hamburg Commercial Bank is primarily aligned to the requirements of the business model while at the same time taking regulatory requirements into account.

Responsibility for risk management at Hamburg Commercial Bank, including the methods and procedures to be applied for measuring, managing and monitoring risk, lies with the Overall Management Board.

The Risk Committee of the Supervisory Board is in particular responsible for reviewing Hamburg Commercial Bank's current and future overall risk tolerance and risk strategy. In addition, it advises the Supervisory Board on the current and future overall risk tolerance and strategy and supports the Supervisory Board in monitoring the implementation of this strategy by the Management Board. In meetings, the Risk Committee is regularly informed by the Management Board about the Bank's risk situation and risk management.

As a member of the Management Board, the Chief Risk Officer (CRO) is responsible for risk controlling at Hamburg Commercial Bank, including risk monitoring and back office functions. The CRO makes decisions independently of the members of the Management Board responsible for the market or trading divisions. In this way, the separation of functions required under the regulatory rules between the market and trading divisions on the one hand and risk controlling, settlement and control as well as back office on the other is taken into account at all levels of the Bank from an organisational perspective.

Specifically, the CRO's responsibilities include the Risk Control, Credit Risk Center and Compliance business units.

The Risk Control business unit is responsible for the risk strategy, the risk controlling function required for regulatory purposes and the methodological guidelines and models for calculating all risk-relevant components. It develops the methods and tools for identifying, measuring, managing and monitoring risks, and it sets the risk limits and risk guidelines for the operational portfolio management. The Risk Control business unit also determines the loan loss provision amounts in accordance with IFRS 9.

Among other things, the Credit Risk Center business unit is responsible for setting ratings and the collateral valuation for the Bank's lending business. It is also responsible for independent evaluation and preparing a second assessment for normal and intensive exposures that are subject to a vote. In addition, the Credit Risk Center has the right of veto and the right to issue binding conditions.

The specialised Restructuring & Work-Out department, which is located in the Credit Risk Center, is primarily responsible for restructuring and workout-specific activities, in particular the development, implementation and monitoring of restructuring and workout concepts. In addition – together with the Risk Control business unit – it is responsible for determination of the Stage 3 loan loss provision amounts (IFRS 9).

Trading transactions are settled in the Capital Markets Operations department, while risk monitoring is carried out in the Risk Control business unit.

The Compliance business unit is responsible for compliance risk management. It works to ensure compliance with the law and applicable regulations with regard to the Code of Conduct and regulations on capital market compliance, as well as prevention of money laundering, terrorism financing and other criminal acts in accordance with Section 25h of the German Banking Act (KWG) and compliance with requirements related to financial transactions and embargoes. In addition, the business unit performs the compliance function as defined in AT 4.4.2 MaRisk and in this context strives to ensure that the essential legal regulations and standards are implemented at Hamburg Commercial Bank and complied with. Compliance with the different legal requirements is also ensured by the respective business units concerned.

The organisational structure of Hamburg Commercial Bank is based on the three lines of defence (3 LoD) model. The risks to which the Bank is exposed have to be managed on a decentralised basis (1st LoD), monitored independently (2nd LoD) and included in the process-independent audit (3rd LoD). At Hamburg Commercial Bank, the lines of defence have been clearly defined, as have the corresponding tasks and responsibilities, and are characterised by the following features:

The first line of defence is made up of all of the Bank's business units. They generally enter into risks as a result of their (business) activities, bear these risks and are responsible for the results. In particular, the first line is responsible for managing client and business-specific risks and for designing controls in accordance with the methodological specifications defined by the second line of defence.

A second line of defence has been established for the independent monitoring of all major risk types. Its primary task is a holistic overall consideration of all risks on a case-by-case basis as well as at portfolio level. The Risk Control business unit thereby acts as a specialised second line of defence. The overall second line of defence is fundamentally responsible for monitoring and controlling as well for determining the procedures for setting the limits for the relevant risks. It is defined by the officer functions required by law but also by similar monitoring activities in other areas of the Bank.

Internal Audit forms the third line of defence and provides independent and objective auditing and advisory services, which are aimed at creating added value and improving the business processes. It supports the organisation in achieving its objectives by evaluating the effectiveness of risk management, the controls in place and the management and monitoring processes under a systematic and targeted approach, and helps to improve these. Internal Audit monitors and validates the timely elimination of deficiencies identified by the Bank's own activities or external audits. As a tool used by Hamburg Commercial Bank's Overall Management Board, it is an essential component of corporate governance. The objectives, tasks and procedures of Internal Audit are defined in the Audit Charter, which is approved by the Management Board. Internal Audit informs the Overall Management Board and the Audit Committee of the Supervisory Board regularly and on an ad hoc basis about the results of its audits, which are based on a risk-oriented audit plan. The audit plan is approved annually by the Management Board. If there are any material changes to the audit plan or adjustments to the Audit Charter during the course of the audit year, these changes are approved by the Management Board on an ad hoc basis.

Business areas are managed in line with uniform Group standards on the basis of a Global Head principle. Based on this, the heads of the individual business units as the respective Global Heads are responsible on a Group-wide basis for the strategy of the business areas assigned to them and have the disciplinary responsibility for the employees working in their business area. The Global Heads are supported by the head of the respective foreign branch (General Manager) in the implementation of the strategy on site in the foreign branches whilst maintaining the separation of duties in accordance with MaRisk. The General Manager is responsible for compliance with local statutory and regulatory requirements. The Global Head principle also applies to risk controlling to ensure that a Group-wide coordinated risk controlling process is in place.

Hamburg Commercial Bank has stipulated rules in accordance with the MaRisk requirements, under which formalised audit processes are gone through prior to commencing business activities with new products or in new markets (NPNM processes). This ensures that the products are properly considered under risk aspects in the relevant systems and reflected in the relevant processes and their effectiveness ensured, and that transactions involving new products or new markets are only entered into with the approval of the corresponding competence level. There is also an NPNM review process in place, under which the appropriate mapping of existing products or product approvals is reviewed on a regular basis.

For the Group-wide risk management, Hamburg Commercial Bank considers those entities that are to be specifically monitored at the Group level due to material risks.

Additional information on the organisation of risk management is presented in the following sections for each risk type.

Risk management by central committee structure
The Management Board has established committees with their own respective responsibilities, that support it in monitoring and managing all material risks. Besides the members of the Management Board, the committees are also composed of managers from the Risk and other departments, ensuring that information regarding risk aspects is regularly exchanged. Insofar as internal or external regulations do not permit delegation of decisions to the committees, such decisions are prepared by these committees for approval by the Overall Management Board.

The Asset Liability Committee (ALCO) is the body responsible for financial resource management and allocation within the context of risk limits and plan targets. The main objectives of the ALCO are to monitor and manage the scarce resources of liquidity and funding, manage market risks in the banking book plus overlay management, and to allocate assets and capital. If risk limits or risk guidelines are exceeded, the need for potential countermeasures to be taken with regard to the areas for which the ALCO is responsible is discussed and prepared before corresponding resolutions are adopted and implemented by the Management Board.

The Franchise Committee is responsible for evaluating significant transactions and business. Individual transactions are managed taking profitability, structure and risk aspects as well as sustainability criteria into account.

The Credit Committee is tasked with making lending decisions on major exposures. For loan applications at the competence level of the Overall Management Board, the Credit Committee makes a unanimous decision recommendation in advance. Other tasks include dealing with fundamental issues relating to the lending business and providing impetus for regular adjustments to Hamburg Commercial Bank's lending standards.

The IT Transformation Committee (ITC) is the central steering committee below the Overall Management Board for the programmes and projects related to the IT transformation at Hamburg Commercial Bank. As such, the ITC is the decision-making and escalation body for major changes required to the content or scope of the projects, budgets or timetables. In addition, the ITC manages the IT architecture through decisions and prioritisation of resources.

Among other things, the Sustainability Committee is responsible for the development and management of the Bank's sustainability strategy. It ensures compliance with the Bank's ESG targets and the requirements of ESG-related legal, regulatory and other external frameworks, to which Hamburg Commercial Bank has voluntarily committed itself.

Risk reporting and measurement systems
Hamburg Commercial Bank has central data storage systems and risk measurement systems, which take into account internal and regulatory requirements, for the purposes of analysing, monitoring and reporting risks. Risk reporting generally takes place by means of the management and reporting systems in the Risk Control business unit. The risk management systems ensure effective risk management and are adequate with regard to Hamburg Commercial Bank's profile and strategy.

The central element of risk reporting is the monthly management report. This Management Board report, which, as an integrated financial and risk report, provides information on Hamburg Commercial Bank's overall situation with regard to the key value drivers and performance indicators, particularly income, costs, liquidity, capital and risk, structural analyses of business areas, risk models/processes and the development of the recovery plan indicators. Adherence to the risk limits and risk guidelines laid down in the SRF and relevant for managing economic capital is monitored by means of this report.

Relevant extracts from the management report and the development of aggregated risk parameters of Hamburg Commercial Bank are presented to the Supervisory Board's Risk Committee for the purposes of its regular meetings.

Other overall risk reports include the Disclosure Report under Part 8 of the Capital Requirements Regulation (CRR) as well as this Risk Report as part of the Combined Management Report.

In addition to risk reports on the overall risk, there are reporting instruments based on the risk type. Accordingly, the Overall Management Board is informed via the daily market risk report of the risk and earnings trends as well as the extent to which risk limits and guidelines are utilised. The Management Board members responsible and the business units affected are also informed daily about the risk of illiquidity trend in the normal case and stress case.

Internal control system

BANK-WIDE INTERNAL CONTROL SYSTEM
The Management Board of Hamburg Commercial Bank bears the overall responsibility for ensuring that a proper business organisation is in place at the Hamburg Commercial Bank Group, including an appropriate and effective internal control system (ICS).

The ICS of Hamburg Commercial Bank is based on a Bank-wide main and sub-process structure (process map), which also includes the domestic and foreign branches. A member of staff responsible for the process is nominated for all main processes.

The top priorities of this ICS assessment are the structured and systematic examination of potential or known process risks together with the definition of and decision on measures to be taken to mitigate them. Furthermore, the ICS makes a contribution to the effectiveness of the processes by specifying uniform rules for the Bank as a whole. An implemented ICS cycle also ensures that the ICS is continuously enhanced with respect to its correctness and functionality as well as its appropriateness and effectiveness.

Central responsibility for methodology guidelines and their enhancement as well as assessment of the appropriateness and effectiveness of the ICS lies with the Information Security & Sourcing Management department. This also includes proper reporting to the committee responsible for NFR, the Management Board and the Supervisory Board.

The central ICS office, as an independent function in the Information Security & Sourcing Management department, checks the appropriateness and effectiveness of the Bank-wide process controls through spot checks, based on a risk-oriented process evaluation (ICS testing). Overall, clear roles and responsibilities are defined within the ICS cycle to ensure that the tasks are performed in a proper manner.

INTERNAL CONTROL SYSTEM WITH REGARD TO THE ACCOUNTING PROCESS
The Finance business unit is responsible for the process of preparing the consolidated and single-entity financial statements of Hamburg Commercial Bank and the correctness of the (Group) accounting methods. The internal control system for the accounting process serves to ensure compliance with the rules to be applied and generally accepted accounting principles. This maintains a quality standard that ensures the reliable and correct presentation of the earnings, net assets and financial position. The written rules including all internal instructions and regulations form the essential basis of the ICS.

The accounting processes are reviewed on a regular basis by the responsible member of staff in charge of the process and adjusted to the current framework conditions and requirements. In addition, process-independent audits are carried out by Internal Audit.

Regulatory requirements
Hamburg Commercial Bank determines the amount of regulatory capital backing for default, market and operational risks as well as for risks resulting from credit valuation adjustments (CVA) of OTC derivatives on the basis of the CRR requirements. The so-called IRB approach is used for default risks, for which the Bank's supervisory authorities have granted the appropriate authorisation. The Credit Risk Standardised Approach (CRSA) is used for part of the portfolio. Hamburg Commercial Bank uses standard procedures to determine the amounts allocated to market risk positions, to take account of operational risks and for CVA.

In accordance with the requirements of Part 8 CRR in conjunction with Section 26a (1) sentence 1 KWG, Hamburg Commercial Bank publishes material qualitative and quantitative information on equity capital and risks incurred in a separate Disclosure Report. The contents of the document go beyond the disclosure on the basis of the accounting standards applied in this Annual Report, by providing a comprehensive insight into the regulatory framework and the current risk situation of the Bank on the basis of regulatory figures. The Disclosure Report as at 31 December 2022 is available on our website, www.hcob-bank.com, four weeks following publication of this Annual Report. The Disclosure Report does not form part of the Combined Management Report. With its publication, Hamburg Commercial Bank has implemented the requirements of the third pillar of the Basel Accord (market discipline). The requirements regarding the disclosure of risk management objectives and policies in accordance with Article 435 (1) CRR and (2)(e) CRR are implemented in this Risk Report. The description of the approach required in accordance with Article 438 (a) CRR, under which the institution assesses the adequacy of its internal capital to support current and future activities (capital adequacy process), is also included in this Risk Report. The same applies to the description of the approaches and methods used to determine specific and general credit risk adjustments in accordance with Article 442 (b) CRR.

REQUIREMENTS UNDER THE SUPERVISORY REVIEW AND EVALUATION PROCESS
The Bank's business model, governance, risk situation, capital and liquidity position are reviewed as part of the Supervisory Review and Evaluation Process (SREP). Based on the analyses, the supervisory authorities may specify requirements for capital and liquidity utilisation that exceed the existing minimum regulatory requirements. The minimum capital ratios assigned to the Bank by the ECB and reviewed annually as part of the SREP process were adhered to at all times during the reporting period.

The following table provides an overview of the minimum capital requirements applicable to Hamburg Commercial Bank.

Minimum capital requirements[1]

(%)	31.12.2022	31.12.2021
Pillar 1		
Minimum capital requirement	8.0	8.0
thereof: to be supported by CET1 capital	4.5	4.5
thereof: to be supported by additional Tier 1 (AT1) capital	1.5	1.5
thereof: to be supported by Tier 2 capital	2.0	2.0
Combined buffer requirement - to be supported by CET1 capital	2.7	2.6
Pillar 2		
Pillar 2 requirements (P2R)	2.1	2.8
thereof: to be supported by CET1 capital	1.2	1.5
thereof: to be supported by additional Tier 1 (AT1) capital	0.4	0.5
thereof: to be supported by Tier 2 capital	0.5	0.7
Capital requirements		
CET1 capital	8.4	8.6
Tier 1 capital	10.3	10.6
Total capital	12.8	13.3

[1] Total differences are rounding differences.

In addition to the existing capital buffer requirements, there are new requirements which must be met from 2023 onwards, including a countercyclical capital buffer (CCyB) of 0.75 % of risk-weighted assets (RWA) on domestic risk positions and a sectoral systemic risk buffer (SyRB) of 2.0 % of RWA on domestic loans collateralised by residential property. Thus for 2023, taking into account the Pillar 2 requirement (P2R) that has been reduced to 1.8 %, there are capital requirements of approximately 8.6 % for Common Equity Tier 1 (CET1) capital, 10.5 % for Tier 1 capital and 12.9 % for total capital. In addition, there is a Pillar 2 Guidance (P2G) for CET1 capital of 2.0 %.

Compliance with the minimum regulatory capital ratios is tested under the normative perspective in the ICAAP over a multi-year time horizon in the base scenarios and in stress scenarios.

In the course of the transformation process, Hamburg Commercial Bank deliberately maintained very high capital buffers. As already announced in the 2022 half-year financial report, the Bank aims to normalise these capital buffers in the future. A CET1 capital ratio of at least 17 % is aimed for as a future target and is included in the dividend policy. On the basis of the dividend policy adopted by the Management Board and the Supervisory Board, the Bank intends to make dividend payments of € 1.5 billion in 2023 for the 2022 financial year.

Regulatory capital ratios[1]

(%)	31.12.2022[2]	31.12.2021[3]
Overall capital ratio	26.8	35.7
Tier 1 capital ratio	20.5	28.9
CET1 capital ratio	20.5	28.9

[1] Regulatory Group according to CRR.
[2] The proposed dividend payment of € 1.5 billion in 2023 was taken into account, thus reducing the CET1 capital; the dividend payment is subject to the approval of the Annual General Meeting.
[3] Profits were not included on a voluntary basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.

Regulatory capital[1) 2)]

(€ bn)	31.12.2022[3]	31.12.2021[4]
Regulatory capital	4.1	5.0
thereof: Tier 1 capital	3.2	4.1
thereof: CET1 capital	3.2	4.1
thereof: Additional Tier 1 capital	–	–
thereof: Tier 2 capital	1.0	1.0

[1] Regulatory Group according to CRR.
[2] Total differences are rounding differences.
[3] The proposed dividend payment of € 1.5 billion in 2023 was taken into account, thus reducing the CET1 capital; the dividend payment is subject to the approval of the Annual General Meeting.
[4] Profits were not included on a voluntary basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.

Risk weighted assets (RWA)[1)2)]

(€ bn)	31.12.2022	31.12.2021
Credit risks	13.6	10.6
Market risks	0.3	0.6
Operational risks	1.1	0.9
Other RWA	0.3	1.9
Total RWA	**15.4**	**14.0**

[1] Regulatory Group according to CRR.
[2] Total differences are rounding differences.

As expected, the CET1 ratio fell compared to 31 December 2021 (28.9 %), but it remains significantly above regulatory requirements at 20.5 %. The decrease is mainly due to the inclusion of the proposed dividend payment of € 1.5 billion for 2023 in the Bank's Common Equity Tier 1 capital. The Common Equity Tier 1 capital amounted to € 3.2 billion as at 31 December 2022 (previous year: € 4.1 billion). The RWA for credit risks also increased due to the implementation of the simplified model landscape, moving from the Advanced IRB to the Foundation IRB and the Credit Risk Standardised Approach, which was completed in full at the end of the first quarter of 2022.

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 20.2 % as at 31 December 2022 (previous year: 25.2 %). The corresponding Tier 1 ratio reached 20.2 % (previous year: 25.2 %), the corresponding overall capital ratio amounted to 26.7 % (previous year: 32.1 %). The capital ratios for the single entity as at 31 December 2022 are also disclosed with the proposed dividend payment of € 1.5 billion taken into account. In anticipation of the potential dividend payment, the ratios for the 2021 financial year are shown without the annual profit for 2021. The single entity (HGB) regulatory requirements for capital ratios were adhered to at all times during the reporting period.

The BRRD (EU Bank Recovery and Resolution Directive) requires banks in EU member states to maintain sufficient loss absorption and recapitalisation capacity in the form of regulatory capital and defined liabilities. To this end, institution-specific MREL (Minimum Requirement for Own Funds and Eligible Liabilities) requirements for Hamburg Commercial Bank have been defined by the European Single Resolution Board (SRB), the resolution authority responsible for the Bank. The Bank has complied with the requirements at all times during the reporting period. Hamburg Commercial Bank must comply with requirements of 8 % of the total risk exposure amount (TREA) for 2023. Taking additional regulatory requirements into account, this ratio is approximately 11.6 %. At the same time, the requirement of 3 % of the leverage ratio exposure (LRE) measure must be met.

Risks for the capital ratio trend
Risks may arise from the regulatory environment, for instance from interpretation decisions or audits, in addition to the macroeconomic and industry-specific risks for the capital ratios.

It is possible, for example, that additional individual and increased capital requirements could arise from the regular SREP process carried out within the Banking Union. Additional discretionary decisions made by the supervisory authorities and industry-wide capital requirements (capital buffer for systemic and cyclical risks) could therefore result in higher capital requirements. Discretionary decisions made by the supervisory authorities with regard to model risks and validations may result in increases in RWA and thereby adversely impact the capital ratios for future PD estimates in the internal models.

Hamburg Commercial Bank successfully implemented the second and final step towards simplification of its model landscape in the first half of 2022. In doing so, the models for mapping counterparty risk were migrated from the Advanced IRB (A-IRB) approach to the Foundation IRB (F-IRB) approach along with the Credit Risk Standardised Approach (CRSA), particularly to eliminate internal loss given default (LGD) estimates. This incorporated transforming the core procedures, in the areas of project finance, shipping, corporates and national real estate as well as the country and transfer risk model, for F-IRB. The Bank has taken this simplification of its rating model landscape into account in the projections of RWA and capital ratios for the years affected.

Under CRR III, further burdens for the capital ratios could result from the proposed changes to the regulatory requirements – partly referred to as "Basel IV". Mandatory initial application is expected in the 2025 financial year. With the implementation of Basel IV, some of the advantages of internal models will be significantly restricted. Through the simplification of its model landscape for the risk classification procedures, the Bank expects that the implementation of Basel IV will tend to reduce the RWA for credit risks.

Basel IV[2)]

	31.12.2022
Risk-weighted assets (RWA) (€ bn)[1)]	14.2
Regulatory capital (€ bn)	4.1
thereof: CET1 capital (€ bn)	3.2
Overall capital ratio (%)	29.1
Tier 1 capital ratio (%)	22.2
CET1 capital ratio (%)	22.2

[1)] The underlying RWA estimate is based on the European Commission's draft version on implementation of the final Basel III requirements dated 27 October 2021, without taking into account privileged risk weights and other transitional regulations on RWA determination and also without taking into account the currently applied support factors for qualified infrastructure financing.
[2)] The proposed dividend payment of € 1.5 billion in 2023 was taken into account, thus reducing the CET1 capital; the dividend payment is subject to the approval of the Annual General Meeting.

ICAAP/risk-bearing capacity

Hamburg Commercial Bank assesses capital adequacy from both a normative and an economic perspective in accordance with the ECB's Internal Capital Adequacy Assessment Process (ICAAP) Guide. The Bank defines capital adequacy as the ongoing safeguarding of financial stability, in the sense that risks are adequately covered by capital in order to ensure the implementation of the objectives of the business model. Determined on a regular basis, capital adequacy is part of the internal reporting and is closely managed and reported to the Bank's supervisory authorities.

The economic perspective is used to check whether all material risks are backed by internal capital at a specific point in time. Compared with the regulatory view (CRR), it is based on a significantly restricted concept of capital and a broader concept of risk. The measurement of risks is based on the Bank's internal economic methods and procedures. As part of the monitoring of the risk-bearing capacity, Hamburg Commercial Bank regularly compares the total economic capital requirement for all material risks (overall risk) to the available economic risk coverage potential.

Hamburg Commercial Bank analyses its risk-bearing capacity comprehensively on a quarterly basis as well as within the framework of its annual planning process.

In addition to the regulatory Common Equity Tier 1 capital modified for economic purposes, the risk coverage potential includes, inter alia, a negative balance of hidden reserves and losses from assets and liabilities reported at amortised cost (AC), less the net present value of the operating costs associated with these transactions. In accordance with the requirements of the ICAAP Guide, a positive balance and positive effects associated with the Bank's own credit rating are not taken into account.

As at 31 December 2022, the risk coverage potential amounted to € 3.1 billion (previous year: € 4.0 billion).

The overall risk takes into account default risk, market risk, split into interest rate risks in the banking book (IRRBB) and other market risks, operational risk as well as the liquidity maturity transformation risk as an element of liquidity risk. Economic capital required as an expression of unexpected losses is determined monthly for default, liquidity and market risks in a methodologically consistent manner with a confidence level of 99.9 % and a risk horizon of one year.

The economic capital requirements of the individual risk types are aggregated into the overall economic risk. No risk-reducing correlations are utilised in the process.

The overall economic risk as at the reporting date was € 2.1 billion (previous year: € 1.6 billion).

The economic capital required for default risks is calculated closely in line with the regulatory capital backing, taking into account economic adjustments, particularly for risk concentrations. As at the reporting date, the economic capital required for default risks amounted to € 0.8 billion (previous year: € 0.8 billion).

Market risk (Value at Risk, VaR) is scaled up on the basis of the confidence level chosen by the Bank and from a one-day holding period to show the economic capital required for market risk positions for the purpose of managing risk-bearing capacity to a risk horizon of one year. The economic capital required for market risk amounted to € 1.0 billion as at 31 December 2022 (previous year: € 0.6 billion). € 0.6 billion of this amount is attributable to interest rate risks in the banking book (IRRBB).

Hamburg Commercial Bank also uses a VaR approach to quantify the liquidity maturity transformation risk. This long-term/structural liquidity risk is an expression of the risk of an increase in refinancing costs for the subsequent closure of open liquidity positions. As at 31 December 2022, the Liquidity Value at Risk (LVaR), as a measure of the economic capital required for liquidity risk, amounted to € 0.2 billion (previous year: € 0.1 billion). The risk of illiquidity, on the other hand, which is more significant for the purposes of managing the liquidity risk in principle, is backed by a buffer of liquid funds. Information on managing the risk of illiquidity is included in the section entitled "Liquidity risk".

The operational risks are determined on the basis of the most relevant scenarios from the risk scenario assessments using a Monte Carlo simulation. The economic capital required for operational risks amounted to € 0.1 billion as at 31 December 2022 (previous year: € 0.1 billion).

Utilisation of risk coverage potential increased compared to the end of the previous year, and amounted to 68 % as at the reporting date (previous year: 41 %). On the one hand, this is due to the decrease in risk coverage potential through taking into account the proposed dividend payment in 2023. On the other hand, the risk potential increased due to the increased economic capital required for market risk. The primary reasons are the increased market volatility as well as the more restrictive monetary policy by the US central bank (Federal Reserve) and the European Central Bank (ECB). In addition, the Bank adjusted its interest rate position to the changed market environment during the course of 2022.

The risk-bearing capacity was ensured at all times during the reporting period.

ICAAP/risk-bearing capacity of the Group[1)]

(€ bn)	31.12.2022	31.12.2021
Economic risk coverage potential	**3.1**	**4.0**
Economic capital required	**2.1**	**1.6**
of which: for default risks	0.8	0.8
for market risks	1.0	0.6
Interest rate risks in the banking book (IRRBB)	0.6	0.3
Other market risks	0.4	0.3
for liquidity risks	0.2	0.1
for operational risks	0.1	0.1
Risk coverage potential buffer	**1.0**	**2.3**
Utilisation of risk coverage potential (%)	**68**	**41**

[1)] Total differences are rounding differences.

In addition to the above-described economic perspective, compliance with the regulatory capital requirements over a medium-term horizon (at least a 3-year perspective in the base and stress case) under the normative perspective is also assessed in accordance with the ECB Guide for the Internal Capital Adequacy Assessment Process (ICAAP). The normative approach is not limited to the Pillar 1 risks covered by the regulatory capital requirements, but also takes account of economic effects on the key regulatory ratios through reciprocal relationships.

Adherence to the regulatory capital requirements, including an internal management buffer, is checked by means of the quarterly calculation of the regulatory capital ratios as at the reporting date and over a multi-year scenario horizon. These requirements refer explicitly to the capital planning and to dynamic scenarios in the baseline and adverse scenarios (base and downside planning). Whilst all key ratio requirements must be met in principle in the base planning, the capital buffer requirements may also not be complied with temporarily in downside scenarios.

Scenario calculations

In addition to stress tests specific to risk types, the Bank also regularly conducts stress tests across all risk types in order to be able to better estimate the effects of potential crises on key parameters such as utilisation of the risk-bearing capacity, regulatory capital ratios and liquidity and thus Hamburg Commercial Bank's overall risk position. Based on observed market developments, the Scenario Steering Committee approves macroeconomic and segment-specific forecasts for the carrying out of dynamic stress tests. These expected and stress forecasts are incorporated in different simulation scenarios for the normative perspective and presented quarterly to the ALCO and Overall Management Board.

Significant macroeconomic risks regarding the capital ratios and risk-weighted assets (RWA) result from a potential deterioration in the market and risk parameters in the Bank's core markets, including interest forecasts and a stronger US dollar.

Therefore, the impact of macroeconomic scenarios, such as a severe economic downturn, asset-specific crises, as well as scenarios that reflect potential transitional, reputational and physical risks associated with climate change, is calculated on the Pillar 1 and 2 capital ratios and the leverage ratio. In addition, there are scenarios which, along with the capital burden of macroeconomic effects, also assume a significantly more difficult liquidity situation. In these so-called ICLAAP scenarios, capital and liquidity are stressed simultaneously and consistently. In addition, the effects of possible regulatory developments are regularly assessed.

Due to the economic restrictions triggered by the Ukraine conflict, the energy crisis, inflation and COVID-19, a significant deterioration in the risk parameters is possible. The Bank therefore continuously considers different scenarios, oriented towards the base and stress forecasts of the ECB, the Bundesbank, the German Council of Economic Experts (Sachverständigenrat), the OECD and other institutes.

In the event of a deterioration in key capital adequacy or SRF ratios, measures to strengthen the capital ratios would be necessary, in order to comply with the parameters required internally by the Bank and with the regulatory requirements at the level of the Hamburg Commercial Bank

Group. If capital buffer requirements are not met in such a scenario despite measures being taken, a capital conservation plan would then have to be prepared in accordance with Section 10i (3) KWG. A ratio significantly above the internally set minimum figure is expected for the overall capital ratio in the base scenario as well as in the downside scenario for the following year.

In addition, so-called ad hoc stress analyses are performed for purposes of the economic perspective, i.e. the impact of changes in risk parameters is investigated based on the current portfolio for a one year risk horizon.

The results are incorporated in Hamburg Commercial Bank's internal reporting system every quarter and analysed on a regular basis by the Management Board in terms of an action-oriented management dialogue. In addition to checking the adequacy of economic capital and liquidity, this analysis serves to determine the need for action options to strengthen the financial stability of Hamburg Commercial Bank.

Hamburg Commercial Bank's recovery plan drawn up in accordance with the Act on the Recovery and Resolution of Credit Institutions (*Sanierungs- und Abwicklungsgesetz, SAG*) has a comparable objective. It serves both the purpose of the early identification of any resource bottlenecks using appropriate indicators and their elimination in crisis situations by means of pre-defined options for action. The effectiveness of the options identified, the selected recovery plan indicators and related processes are reviewed and substantiated in the recovery plan on an annual basis by means of specific stress scenarios.

The indicators and action options used in the recovery plan are closely coordinated with the requirements of the SRF. The particular purpose of the stated processes is to ensure that the Bank is able to comply with the regulatory minimum requirements and internal guidelines even under stress conditions. In addition, Hamburg Commercial Bank carries out inverse stress tests at least once a year. In doing so, scenarios that could endanger the continuity of the Bank are identified. This information is also used by Hamburg Commercial Bank's Management Board as guidance for explaining and deciding upon any action required in the event of developments that threaten the Bank's existence.

In addition to stress tests across all risk types, Hamburg Commercial Bank has established procedures for the early identification of negative developments at the level of individual risk types, which are discussed in the following sections.

Default risk

Hamburg Commercial Bank breaks down its default risk into credit, collateral, NPE strategy, settlement, country and equity holding risk.

Credit risk is the risk of complete or partial loss in the lending business as a result of deterioration in the counterparty's credit standing.

Collateral risk is the risk that the unsecured portion of an exposure will increase due to a loss in value of the collateral provided, or that the collateral value cannot be realised upon liquidation of the collateral.

The NPE strategy risk is the risk of a complete or partial loss due to the choice of a restructuring or workout strategy that is not appropriate for the situation, or of a strategy change that is too late in the event of an unsuccessful restructuring strategy.

Settlement risk arises from trading activities and consists of clearing risk and advance performance risk. Clearing risk arises in the case of possible loss of value if delivery or acceptance claims pertaining to a transaction that is already due have not been met by both parties. Advance performance risk is the risk that Hamburg Commercial Bank performs its contractual obligations when settling a transaction, but the consideration is not provided by the contracting party.

Hamburg Commercial Bank understands country risk as the risk that agreed payments are not made or only made in part or delayed due to government-imposed restrictions on cross-border payments (transfer risk). The risk is not related to the creditworthiness of the debtor.

Equity holding risk is the risk of a financial loss due to impairments of the equity holding.

All of the above-mentioned components of default risk are taken into account in the framework of equity management. Additional management measures are in place for risk concentrations and equity holding risks.

Organisation of default risk management

The Credit Office business unit is responsible for managing credit risk over the entire term of the loan. The Credit Risk Center business unit is responsible for ensuring independent and appropriate control of the credit risk.

The Credit Office is responsible for credit risk analysis, including the preparation of ratings and drafting of the credit applications as well as contract and collateral documentation. This also includes the ongoing monitoring of loan exposures, including the recognition of warning signs and intensive supervision. The Credit Office is also responsible for designing the processes and rules that apply to the lending business within Hamburg Commercial Bank, in consultation with the Credit Risk Center business unit, which performs quality assurance for key processes on the basis of a material plausibility check

Among other things, the Credit Risk Center is responsible for preparing and developing credit standards as well as monitoring compliance therewith, setting ratings and also preparing a second assessment for normal and intensive exposures that are subject to a vote. Voting on credit transactions is not an integral part of, but rather a prerequisite for, the lending decision in the case of normal and intensive exposures. In addition, the Credit Risk Center has the right of veto and the right to issue binding conditions. Lending decisions below the committee competence levels are each made jointly by a competent manager in the sales units and the Credit Office business unit for normal and intensive exposures. The Credit Committee is responsible for lending decisions on major exposures (competence level 2). For loan applications at the competence level of the Overall Management Board (competence level 1), the Credit Committee makes a unanimous decision recommendation in advance.

In principle, for restructuring and workout cases there is joint management by the Credit Office and Credit Risk Center, whereby the specialised Restructuring & Work-Out department located in the Credit Risk Center is primarily responsible for restructuring and workout-specific activities. These primarily include the development of restructuring or workout concepts, their decisive implementation, the monitoring of success, the examination of whether a default is to be determined in the framework of ratings preparation, the classification as deferred or non-performing risk positions, the determination of loan loss provision amounts (IFRS 9 Stage 3) together with the Risk Control business unit, and ultimately the termination of the restructuring or workout process. Voting is not required due to the close involvement and responsibility of the Credit Risk Center. Decisions regarding restructuring and workout exposures below the committee competence level are made jointly by a competent manager from the Credit Office business unit and Credit Risk Center business unit, or by two competent managers from the Credit Risk Center. At competence level 2, as with normal and intensive exposures, decisions are made by the Credit Committee, and at competence level 1, decisions are made by the Overall Management Board. A positive lending decision against the back office recommendation is thereby excluded. Hamburg Commercial Bank makes use of the option to dispense with the involvement of the Credit Risk Center within the scope of the MaRisk opening clause for lending transactions in certain types of business and below certain amounts classified as not material in terms of risk.

The trading lines for counterparty and issuer risk are monitored by the Risk Control business unit. As part of the trading line monitoring, the potential future exposure on derivatives is recalculated daily for each client on the basis of a 95 % quantile and compared to the respective trading limit.

The Risk Control business unit is also responsible for the independent analysis and monitoring of risks at the portfolio level, the independent reporting and management of country risks and the calculation of loan loss provision amounts in accordance with IFRS 9. This also includes ensuring portfolio transparency and independent business area analysis (including scenario simulations), as well as operating an early warning system. In addition, in cooperation with the Credit Office and Credit Risk Center, there is maintenance of a credit watchlist at the individual transaction level, for identifying loan exposures and intensifying their monitoring on a timely basis, where they are beginning to show signs of increased risk.

Along with the process descriptions, the principles and regulations contained in Hamburg Commercial Bank's Credit Manual, in particular on voting and lending competencies (definition of voting and/or decision-making powers for lending decisions made by the Bank as well as for entering into, changing and terminating equity holdings) and reporting thereof, on assessing creditworthiness and the determination of ratings, on the treatment and valuation of collateral, on ongoing exposure monitoring and dealing with problem loans, including classification as deferred risk positions or non-performing, defaulted or impaired loans, form the basis for the operating activities within the lending business. Thereby, credit risks which fall under the definition as set out in in Article 389 CRR are considered and treated differently based on collateral, loan type, rating category and type of credit risk. The basis is Hamburg Commercial Bank Group's total exposure per group of connected clients (GCC) as defined in Article 4 (1) no. 39 CRR, whereby the bearer of the economic risk is always to be regarded as the relevant borrower.

Hamburg Commercial Bank has defined valuable collateral in order to differentiate between collateralised and non-collateralised loans. This is based on the fulfilment of the requirements under the CRR (for example, the exist-

ence of a market value, realisation possibilities, lack of correlation to the secured credit, legal enforceability, matching of maturity). The range of approved collateral can be expanded following an assessment carried out by a team independent of the market units, consisting of specialists from the Credit Risk Center, Credit Office, Risk Control and Legal, Board Office & Taxes units.

Credit risk management for single risks is supplemented in particular by instructions on exposure monitoring and early identification of risks, as well as limit monitoring based on default risk for specific sub-portfolios (Real Estate, Shipping, LBO, amongst others), which was approved in the SRF.

Management of the default risk

In line with Hamburg Commercial Bank's business strategy focus as a commercial bank and specialist finance provider, default risk represents a material risk. For its measurement and management, the risk management uses procedures and methods that are continuously reviewed for appropriateness and developed further.

The main parameters for the default risk are the expected and the unexpected losses. The expected loss is equivalent to the amount which is expected within one year on a given probability of default (PD), loss given default (LGD) and exposure at default (EAD) for a borrower. EAD is the expected loan amount outstanding taking into account a potential (partial) drawdown of commitments and contingent liabilities that will adversely impact the risk-bearing capacity in the event of a default. The maximum amount by which an actual loss can exceed the expected loss with a specified probability (99.9 %) within a specified time period (one year) is described as the unexpected loss. PD, LGD and EAD are also relevant risk parameters in this context. Based on the calculation of the regulatory capital backing in accordance with CRR, the economic capital required for internal management is determined, taking into account economically justified adjustments. In addition, institution-specific asset correlations and granularity adjustments designed to cover existing risk concentrations are taken into account in determining the economic capital required for default risk.

The NPE ratio, for which a corresponding risk guideline has been defined in the SRF, serves as an important management indicator for the non-performing exposure (NPE), which is the total of all risk positions of borrowers in default. In addition, the NPE coverage ratio AC (ratio of total loan loss provisions recognised on the non-performing exposure to the total non-performing exposure AC) is monitored at the Overall Bank level.

The syndication of lending transactions helps to actively shape the composition of the portfolio and align individual financing risks (so-called final takes) to the balance sheet ratios. The Bank subjects all potential new business from a certain loan amount to a market conformity review and a syndication assessment performed by the credit syndication unit within the Syndicate & Credit Solutions department. The Credit Committee then makes a joint decision together with the credit syndication unit and the deal team sales employees as to whether syndication should be arranged as part of the new business or underwriting process. The volume of the underwriting book as well as the maximum holding period of a loan intended for sale are limited by corresponding risk guidelines in the SRF.

RATING PROCEDURE, LGD AND CCF

Hamburg Commercial Bank uses rating modules for banks, corporates, international sub-sovereigns, country and transfer risks, insurance companies, leveraged finance, savings banks standard rating and leasing as well as for special financing for ships, real estate and projects. In addition to quantitative information, various qualitative characteristics are also part of each rating module. The result is a probability of default (PD) for each borrower and hence allocation to a concrete rating category. The Bank uses an identical rating master scale for all modules, which not only makes different portfolio segments comparable, but also enables mapping with external ratings.

In order to determine the expected utilisation of contingent liabilities and loan commitments in the event of a possible default, so-called credit conversion factors (CCF) are empirically determined and applied. The loan amount outstanding weighted by CCF is described as EAD.

Hamburg Commercial Bank uses a differentiated LGD methodology to forecast the loss given defaults. Based on historical loss information, collateral-specific realisation proceeds rates and borrower-specific recovery rates are estimated. The respective default amount expected is determined from the EAD using the LGD.

As part of the annual validation process, the predictive accuracy of the rating modules is reviewed in the reporting year with regard to the predicted probabilities of default using anonymous, aggregated data and the LGD and CCF procedures are validated in a comparable manner and continually enhanced.

RISK CONCENTRATIONS

Within the framework of regular business segment analyses, potential counterparty default risk concentrations, for example with regard to groups of connected clients (GCC), regions or industrial sectors in a broader sense, are identified and their trend is monitored. The material concentrations of credit risk within Hamburg Commercial Bank at the end of 2022 were in the real estate portfolio, which accounted for 25 % of the overall portfolio, which is slightly below the level seen in the previous year (previous year: 27 %).

In order to reduce risk concentrations, Hamburg Commercial Bank is actively focusing on a gradual expansion into new products, to increase the granularity and diversification of the portfolio. Further information is provided in the Group management report in the chapter entitled "Business development – significant developments and events in the 2022 reporting year".

There is an internal process for monitoring the upper limits of large exposures in accordance with Article 395 CRR, which ensures compliance with the regulatory requirements. As a supplementary measure, the material counterparty concentrations in the portfolio are identified and reported to the Management Board monthly and to the Risk Committee on a quarterly basis. In order to avoid future counterparty concentrations, the Bank's lending standards define upper limits per borrower.

As part of the management of risk concentrations, the country risk limitation provides an additional management dimension. Country limits are set for country risk concentrations at the Hamburg Commercial Bank Group level. The utilisation of the corresponding risk guidelines is monitored continuously, and is also reported to the Management Board monthly and to the Risk Committee on a quarterly basis.

EQUITY HOLDING RISK

Hamburg Commercial Bank has significantly reduced its equity holding portfolio and thereby equity holding risk over recent years, thus successfully bringing it in line with the Bank's strategic realignment. New equity holdings are only acquired if they meet Hamburg Commercial Bank's strategic objectives. Opportunities and risks of a possible equity holding commitment are analysed in detail prior to the conclusion of the transaction.

A key tool for monitoring and management of equity holding risk is regular corporate assessment. Impairment tests are performed at least once a year on all equity holdings of Hamburg Commercial Bank. When doing so, significant equity holdings are subjected to a more detailed analysis.

Furthermore, the articles of association and Rules of Procedure are formulated so as to ensure that the most intensive management possible can be exercised for the benefit of Hamburg Commercial Bank.

Hamburg Commercial Bank has issued a hard letter of comfort for two companies in the equity holdings portfolio and is therefore liable for the liabilities of these companies. These letters have so far not given rise to any liability on the part of Hamburg Commercial Bank. Hamburg Commercial Bank has concluded a profit-and-loss transfer agreement with a further two equity holdings.

MANAGEMENT OF THE DEFAULT RISK IN THE PRICING AND RECALCULATION

Hamburg Commercial Bank applies a uniform method across the Bank for the pricing of lending transactions through calculating the present value of the expected losses and the regulatory capital required to cover the unexpected losses arising on default risk positions. In addition to liquidity costs and full costs, the rating, LGD and EAD risk parameters determined internally on an individual transaction basis are incorporated in the pricing by means of the standard risk costs and the regulatory capital backing, which are calculated using the CRSA or F-IRB approach, depending on the transaction.

Similarly, a monthly recalculation (profit-centre calculation) of the transactions takes place, taking into account the above-mentioned cost components. Based on the current risk parameters of the individual transactions, the standard risk costs are determined and incorporated in the contribution margin calculation. Furthermore, utilisation of the capital commitment set as part of the Bank's annual plan is determined regularly at business unit level for the purposes of managing default risk.

DEFAULT RISK STRUCTURE

Hamburg Commercial Bank continuously and systematically monitors potential effects of the macroeconomic and political environment at the level of sub-portfolios and individual clients. During the reporting period, the focus of macroeconomic risks to the loan portfolio expanded beyond the pandemic and supply chain problems to also include the effects of the war in Ukraine, and it thus incorporates sectors and clients that are directly affected by the war as well as by the knock-on effects in the areas of energy and raw materials supply, inflation and the changing interest rate landscape, which are expected to have adverse effects on their business models. These clients are closely managed and the need for measures to manage credit risk is continuously reviewed.

The total exposure amounted to € 34,429 million as at 31 December 2022 (previous year: € 33,116 million).

The EAD broken down by internal rating categories is presented in the following table. EAD with an investment grade rating (rating category 1 to 5) remains high at 74 % of the total exposure at the Group level (previous year: 73 %).

Despite the challenging macroeconomic environment, the NPE ratio of 1.2 % decreased compared to the level of 31 December 2021 (1.4 %). The decrease is mainly attributable to successful winding down of NPE and only minor new defaults during the reporting period.

Default risk structure by rating category[1) 2)]

	31.12.2022		31.12.2021	
	EAD (€ m)	relative share (%)	EAD (€ m)	relative share (%)
1 (AAAA) to 1 (AA+)	8,801	25.6	6,647	20.1
1 (AA) to 1 (A–)	6,369	18.5	6,903	20.8
2 to 5	10,445	30.3	10,548	31.9
6 to 9	7,702	22.4	7,219	21.8
10 to 12	474	1.4	565	1.7
13 to 15	114	0.3	353	1.1
16 to 18 (default categories)	405	1.2	467	1.4
Other[3)]	119	0.3	414	1.3
Total	**34,429**	**100**	**33,116**	**100**

1) Mean default probabilities (%): 1 (AAAA) to 1 (AA+): 0.00–0.02; 1 (AA) to 1 (A–): 0.03–0.09; 2 to 5: 0.12–0.39; 6 to 9: 0.59–1.98; 10 to 12: 2.96–6.67; 13 to 15: 10.00–20.00; 16 to 18: 100.00.
2) No separate disclosure of the "Reconciliation" segment due to low materiality (< € 100 million).
3) Transactions for which there is no internal or external rating available are reflected in the "Other" line item, such as receivables from third parties of the Bank's consolidated equity holdings and G/L accounts.

EAD broken down by sectors important for Hamburg Commercial Bank is presented in the following table:

Default risk structure by sector[1)]

	31.12.2022		31.12.2021	
	EAD (€ m)	relative share (%)	EAD (€ m)	relative share (%)
Industry	3,604	10.5	4,061	12.3
Shipping	3,225	9.4	3,355	10.1
Trade and transport	1,731	5.0	1,938	5.9
Credit institutions	3,744	10.9	4,706	14.2
Other financial institutions	4,054	11.8	2,403	7.3
Land and buildings	5,962	17.3	6,363	19.2
Other services	4,346	12.6	3,955	11.9
Public sector	7,615	22.1	6,179	18.7
Private households	147	0.4	155	0.5
Other	–	–	–	–
Total	**34,429**	**100**	**33,116**	**100**

1) No separate disclosure of the "Reconciliation" segment due to low materiality (< € 100 million).

The following table shows EAD broken down by residual maturities:

Default risk structure by residual maturity[1)]

	31.12.2022		31.12.2021	
	EAD (€ m)	relative share (%)	EAD (€ m)	relative share (%)
Up to 3 months	6,516	18.9	2,498	7.5
> 3 months to 6 months	826	2.4	868	2.6
> 6 months to 1 year	2,056	6.0	2,161	6.5
> 1 year to 5 years	13,758	40.0	13,403	40.5
> 5 years to 10 years	6,400	18.6	9,379	28.3
> 10 years	4,873	14.2	4,807	14.5
Total	**34,429**	**100**	**33,116**	**100**

1) No separate disclosure of the "Reconciliation" segment due to low materiality (< € 100 million).

The following table provides an overview of the EAD by region:

Default risk structure by region[1)]

	31.12.2022		31.12.2021	
	EAD (€ m)	relative share (%)	EAD (€ m)	relative share (%)
Eurozone	25,283	73.4	25,563	77.2
thereof: Germany	15,814	45.9	17,253	52.1
thereof: Greece	–	–	–	–
thereof: Italy	226	0.7	160	0.5
thereof: Portugal	207	0.6	219	0.7
thereof: Spain	427	1.2	253	0.8
Western Europe	3,006	8.7	2,965	9.0
Eastern Europe[2)]	41	0.1	135	0.4
African countries[3)]	511	1.5	501	1.5
North America	3,220	9.4	1,230	3.7
Latin America	415	1.2	833	2.5
Middle East	48	0.1	56	0.2
Asia Pacific region	1,842	5.4	1,766	5.3
International organisations	63	0.2	66	0.2
Total	**34,429**	**100**	**33,116**	**100**

1) No separate disclosure of the "Reconciliation" segment due to low materiality (< € 100 million).
2) Hamburg Commercial Bank has gross exposure in the following Eastern European countries, which were not members of the eurozone as at the reporting date: Bulgaria, Croatia, Poland, Romania, Czech Republic, Turkey and Hungary.
3) The exposure in African countries primarily relates to Liberia, which is relevant as a country of registration for the shipping business, as well as a very low exposure to South Africa.

The allocation of business to the individual regions and for the presentation of selected countries is based on the gross exposure on the basis of the legal country of domicile. The information is reported without any further collateral allocations.

As part of the geographic diversification of the Hamburg Commercial Bank portfolio, the exposure to North America in particular was increased.

Hamburg Commercial Bank has no gross exposure with Russia, Belarus or Ukraine. As a result of the war between Russia and Ukraine, new business with both countries was prohibited immediately upon the attack of 24 February 2022. In the internal risk perspective, which takes into account the net exposure subject to transfer risk (taking into account the collateral relevant from a country risk perspective), there is only a single exposure that is largely hedged by cover from an Export Credit Agency (ECA). Accounting for the ECA coverage, the Bank's remaining transfer risk related to Russia is in the low single-digit million euro range.

Similarly, new business with Turkey remains suspended in the current economic and geopolitical environment.

Due to their unfavourable fiscal and economic data, a number of countries have long been subject to increased monitoring, and partly also to stricter limits. These include Greece and Italy in particular.

Changes in loan loss provisions in the lending business

(€ m)	01.01. - 31.12.2022				
	Stage 3 loan loss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Currency translation income on loan loss provisions	Other[1]	Total
Corporates	-12	5	–	-5	-12
Project Finance	-1	-5	–	–	-6
Real Estate	-33	44	1	-1	11
Shipping	8	11	-2	-1	16
Treasury & Group Functions	–	–	–	1	1
Reconciliation	–	–	–	1	1
Group	**-38**	**55**	**-1**	**-5**	**11**

[1] The "Other" item includes the result of other changes in loan loss provisions (direct write-downs, recoveries on loans and advances previously written off, result of non-substantial modifications).

LOAN LOSS PROVISIONS

Hamburg Commercial Bank pays the most attention to default risk within the context of risk management. Impairments of a loan exposure are covered by the recognition of provisions for loans and provisions for off-balance-sheet business (LECL Stage 3 loan loss provisions) in the amount of the potential loss in accordance with Group-wide standards. Furthermore, Hamburg Commercial Bank recognises loan loss provisions under Stages 1 (12-month ECL) and 2 (LECL Stage 2) to cover future risks, the amount of which is, however, not yet known to the Bank.

All restructuring and workout commitments as well as intensified loan management commitments with a rating greater than or equal to 13 are subject to a comprehensive two-step review process every quarter. The first step is to check whether the loan might be impaired (impairment identification) on the basis of objective criteria (so-called trigger events). If this is the case, the second step is to investigate whether the loans identified actually require a loan loss provision, and then to determine the amount (impairment measurement). Loan loss provisions are recognised for transactions categorised as AC and FVOCI under IFRS 9.

Changes in loan loss provisions in the lending business

(€ m)	01.01. - 31.12.2021				
	Stage 3 loan loss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Currency translation income on loan loss provisions	Other[1]	Total
Corporates	-4	10	-1	–	5
Project Finance	3	-9	–	-1	-7
Real Estate	-73	30	-1	1	-43
Shipping	17	44	-4	15	72
Treasury & Group Functions	–	-1	–	4	3
Reconciliation	1	-1	1	1	2
Group	**-56**	**73**	**-5**	**20**	**32**

[1] The "Other" item includes the result of other changes in loan loss provisions (direct write-downs, recoveries on loans and advances previously written off, result of non-substantial modifications).

The net additions at Stage 3 were mainly attributable to the Corporates and Real Estate segments. In the latter case, the addition is attributable to a small number of shopping centre/retail real estate financing arrangements.

The drivers for the net reversals at Stages 1 and 2 were improvements in portfolio quality in the Shipping and Real Estate segments, as well as the overall reduction in model overlays. In the Shipping segment, the recovery of charter rates in 2021 and 2022 led to an improvement in ratings. In Real Estate, a reassessment of risk parameters for larger clients led to significant reversals. In addition, a large part of the decrease in loan loss provisions at Stages 1 and 2 was due to reduced model overlays. While there were reduced overlays for case-by-case analysis of cases related to COVID-19, the hotels sub-portfolio and effects from macroeconomic forecasts, additional overlays were required for individual cases related to the Ukraine war as well as the retail and tankers sub-portfolios. Also, the overlays that were set up to reflect an adjustment of the Bank's internal credit risk models could be largely reversed once these models were successfully implemented.

For further details, particularly on the composition and development of the model overlays, we refer to Note 3 in the notes to the Group financial statements.

Total loan loss provisions

(€ m)	31.12.2022	31.12.2021
Volume of receivables AC	**19,430**	**20,180**
of which: volume of impaired loans (gross carrying amount Stage 3)[1]	387	441
Gross carrying amount (Stage 2)	1,573	2,163
Gross carrying amount (Stage 1)	17,470	17,576
Total loan loss provisions for balance sheet items	**-414**	**-446**
thereof: Total loan loss provisions (Stage 3)[1]	-238	-209
Total loan loss provisions (Stage 2)	-101	-169
Total loan loss provisions (Stage 1)	-75	-68

[1] Stage 3 including POCI.

Hamburg Commercial Bank's conservative loan loss provisions policy is reflected in the Bank's continued solid total loan loss provisions. Total loan loss provisions for balance sheet items determined under IFRS 9 amounted to € -414 million as at 31 December 2022 (previous year: € -446 million). In addition, provisions for off-balance sheet items amounted to € -35 million as at the reporting date (previous year: € -44 million).

The high level of risk coverage of the NPE portfolio through the Stage 3 loan loss provisions is reflected in the NPE coverage ratio AC, which at 68.9 % as at the reporting date was significantly above the level of the prior-year end (55.8 %).

In addition, the substantial total loan loss provisions at Stages 1 and 2 provide a significant buffer for mitigating potential future negative influences.

The coverage ratio of the total volume of receivables AC was a solid 2.1 % as at 31 December 2022 (previous year: 2.2 %).

Details regarding the total loan loss provisions are presented in Notes 15, 26 and 40 in the notes to the Group financial statements.

Market risk

Market risk represents the potential loss that can arise as a result of adverse changes in market values on positions held in the trading and banking book.

Hamburg Commercial Bank's market risk is made up of:

- Interest rate risk, denoting the potential loss that can arise from adverse changes in market value held as a result of a change in interest rates. This includes interest rate risks in the banking book (IRRBB) and in the trading book.
- Other market risks, denoting potential losses due to changes in credit spreads (credit spread risk), exchange rates (foreign exchange risk) and share prices, indices and fund prices (equity risk/funds risk), in each case including their volatilities (volatility risk).

This definition also includes pension risk as a potential loss resulting from an adverse net present value development of plan assets and/or pension liabilities, mainly due to the changes in interest rates, credit spreads, fund prices and currency exchange rates as well as an unfavourable development of the inflation trend and the biometric assumptions. The measurement and management of the pension risk takes place within the framework of market risk management.

Organisation of market risk management

The Management Board determines the methods and processes for measuring, limiting and managing market risk and budgets the maximum economic capital required by the Group for market risk based on an overall limit that covers all risk types. Within the scope of this upper limit of losses, the risks of all transactions with market risk are limited by a system of loss and risk limits.

The Bank Steering business unit performs the central management function for interest rate and foreign exchange risks in the banking book. The Overall Management Board is responsible for selected strategic positions with market risks. Market risk is actively managed in the Treasury & Markets division.

An organisational separation between market risk controlling, settlement and control, on the one hand, and the trading units responsible for positions, on the other, is ensured at all levels in accordance with MaRisk. All major methodological and operational risk measurement and monitoring tasks are consolidated in the Risk Control business unit.

Management of market risk

MEASURING AND LIMITING MARKET RISK

The system for measuring and managing market risks is based on the economic daily profit and loss and on a value-at-risk approach (VaR approach per historical simulation). The economic result is determined from the change in net present value compared to the end of the previous year. The Value at Risk (VaR) of a position represents the loss in value (in euros) which will not be exceeded until the position is hedged or realised within a predetermined period with a predetermined probability.

The VaR is determined by Hamburg Commercial Bank using the historical simulation method. It is calculated based on a confidence level of 99.0 % and a holding period of one day for a historical observation period of 250 equally weighted trading days. The VaR model used and continuously enhanced by Hamburg Commercial Bank contains all of the Bank's significant market risks in an adequate form.

To enable diversified asset backing and to secure the long-term pension liabilities, the Bank implemented a Contractual Trust Agreement (CTA) in 2020. The assets consist primarily of long-term investments in liquid exchange-traded funds (ETFs) and alternative investment funds (AIFs). The resulting equity/funds risk is part of the market risk of Hamburg Commercial Bank. Due to its structure that differs significantly from the rest of the Group, the CTA uses a Cornish-Fisher VaR with a holding period of one year and a confidence level of 99.9 %, which incorporates market data history dating back to 2008 in line with the long-term investment horizon and thereby also includes the period of the financial crisis. With appropriate scaling, this figure is included as an add-on in the Group VaR.

The basis risk is taken into account in determining the VaR. Basis risk constitutes the risk of a potential loss or profit resulting from changes in the price / interest rate relationship of similar financial products within a portfolio.

The monitoring of limit compliance on a daily basis takes place using a VaR limit for the Bank's overall market risk, VaR limits for specific risk types / portfolios and a stop loss limit for the economic result. In addition, the annualised economic capital required for market risk is determined on a monthly basis and compared with the economic capital allocated to market risk by the Management Board. Limits are also imposed on the potential net present value losses that would result from the six interest rate shock scenarios specified in the EBA/GL/2018/02 EBA guidelines. The limitation of net interest income risk will be adjusted in line with the new EBA guidelines (introduction of the supervisory outlier test (SOT) for net interest income risk) that will apply from mid-2023.

There are strict, clearly defined processes in place for limit adjustments and overdrafts.

During the reporting period, the Group limits approved by the Management Board were met at all times. The present value basis used in the measurement of market risk was expanded by an earnings-oriented perspective, under which the change in average interest income is simulated in different scenarios up to a 5-year time horizon. The relevant key figure was the difference between the interest income in the case of a development in line with forwards and the interest income in the most adverse plausible stress scenario.

Where necessary, Hamburg Commercial Bank enters into hedging transactions to manage or reduce market risk in order to offset the impact of unfavourable market movements on its own positions. Derivative financial instruments, such as interest rate and cross currency interest rate swaps, are used as hedging instruments. The effects of the hedging transactions entered into are included in the VaR reported. Further information on this and the type and categories of the hedging instruments and hedging relationships entered into by Hamburg Commercial Bank as well as the type of risks hedged is presented in the Notes. In particular we refer to Section I. F) of Note 8 "Accounting policies", Note 11 "Result from hedging", Note 27 "Hedge accounting" and Note 58 "Report on business in derivatives".

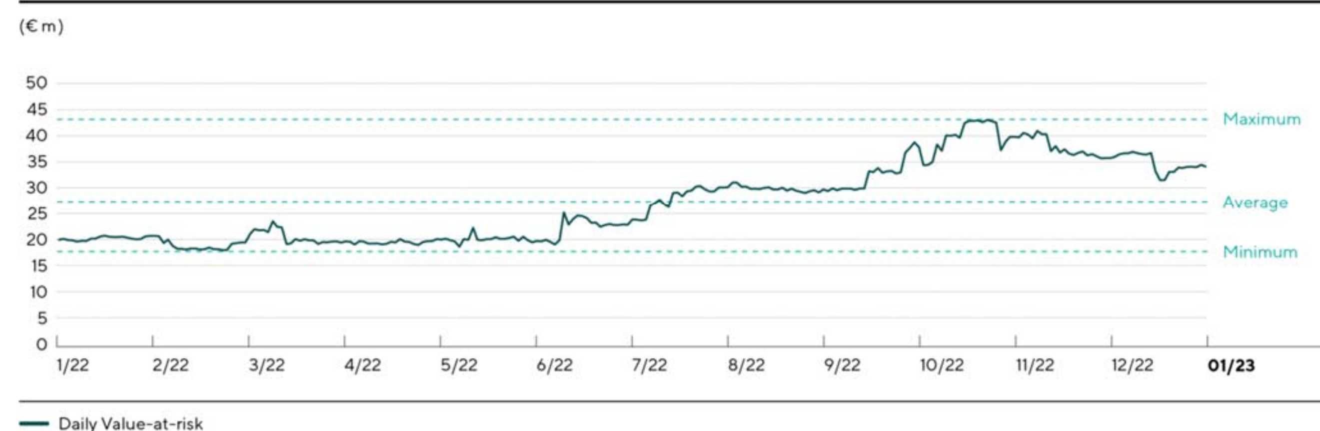
Market risks from the lending business and liabilities of Hamburg Commercial Bank are managed as part of a proactive portfolio management process and hedged through external transactions.

The VaR of Hamburg Commercial Bank also covers both the trading book and banking book. Positions are assigned to the banking and trading books on the basis of clearly defined guidelines, especially with regard to holding periods permitted in the trading book. The assignment of individual positions to the relevant book are clearly identifiable in the market risk systems. Different processes and controls were established to meet the requirements for proper management of the trading book, which are reviewed for appropriateness on a regular basis.

The material market risks at Hamburg Commercial Bank during the reporting period are particularly interest rate risk and also equity/funds risk as well as credit spread risk. Foreign exchange risk only plays a minor role.

The following chart shows the movement in the daily VaR for the total trading and banking book positions of Hamburg Commercial Bank over the course of 2022.

Daily Value-at-risk in the course of 2022



As at 31 December 2022, the daily market risk of the trading book positions was € 3.7 million and that of the banking book positions was € 33.1 million. The aggregated market risk, which cannot be derived from the total VaR of the trading and banking book positions due to risk-mitigating correlation effects, amounted to € 34.3 million. The daily interest rate risk in the banking book (IRRBB) was € 22.2 million, the funds/equity risk was € 7.1 million, the credit spread risk was € 6.6 million and the foreign exchange risk was € 0.8 million.

The following table shows the change in daily VaR in the banking book and the trading book for the individual market risk types and the overall VaR. The maximum and minimum represent the range over which the respective risk amount moved during the course of the year under review.

Daily Value at Risk of the Group

(€ m)	Interest rate risk[1]		Credit spread risk[1]		Foreign exchange risk		Equity/ funds risk		Total[2]	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Average	16.8	13.5	5.6	5.9	1.7	1.1	10.8	7.7	27.3	21.5
Maximum	28.7	23.2	7.4	13.0	4.9	3.2	13.7	10.4	43.2	31.8
Minimum	9.3	9.2	3.7	3.4	0.3	0.3	7.0	4.0	18.3	14.3
Period end value	22.4	13.3	7.0	3.9	2.6	0.4	7.1	9.0	34.3	20.6

[1] Interest rate risk excluding credit spread risk.
[2] Due to correlations the VaR does not result from adding up individual values.

The market risk of Hamburg Commercial Bank is characterised by interest rate and foreign exchange risk arising from the lending business, funding and the trading book, which predominantly contains positions resulting from trading in interest rate and currency derivatives with clients and bond trading. Market risk also includes credit spread risk on securities held in the liquidity buffer, cover pool and investment management portfolios, which have good credit quality. In addition to the risk determined by the system, the VaR of Hamburg Commercial Bank as at 31 December 2022 includes a VaR add-on at Group level of € 1.8 million for residual risks for corporate bonds, Pfandbriefe, government bonds and collateralised loan obligations (CLO).

For the CTA, there is an add-on to the rest of the Group VaR in the amount of € 6.7 million as at 31 December 2022.

Overall VaR increased during the reporting period compared to the previous year end. The primary reason for the increase in 2022 is the increased volatility in the financial markets in the wake of the Russian invasion of Ukraine along with the significant shift in monetary policy by the US central bank (Federal Reserve) and the European Central Bank (ECB). In addition, the Bank adjusted its interest rate position to the changed market environment during the course of 2022.

BACKTESTING

Hamburg Commercial Bank performs regular backtests to verify the appropriateness of its VaR forecasts. Assuming unchanged positions, the theoretical daily results achieved on the basis of the market development observed on the following day are compared with the VaR values forecast on the previous day by means of historical simulation. Based on the assumption of the confidence level of 99.0 % applied by Hamburg Commercial Bank, up to three outliers indicate that the forecasting quality for market risks is satisfactory. In order to ensure adequate forecasting quality at the level of the Hamburg Commercial Bank Group, the VaR calculated on the basis of the historical simulation is corrected by including an add-on, if more than three outliers are determined. Such an add-on is not required as at the reporting date.

STRESS TESTS

In addition to steering of the daily VaR, the interest rate shock scenarios specified by the EBA are performed along with further stress tests, in order to investigate the effects of unusual market fluctuations on the net present value of the Bank's positions.

Hamburg Commercial Bank makes a distinction for market risk between standardised, historical and hypothetical stress scenarios. Whereas standardised scenarios are defined specifically according to risk types (for example, shifting or turning of the interest rate curve), the historical and hypothetical stress tests affect multiple market risk factors at the same time. As such, historical scenarios reflect historical correlations between the various risk factors that have actually occurred in the past, while hypothetical scenarios represent fictitious changes in risk factors. With regard to the hypothetical scenarios, a distinction is also made between economic scenarios that simulate a downturn in the macroeconomic environment and portfolio-specific scenarios that can represent a potential threat for the value of individual sub-portfolios of Hamburg Commercial Bank. The ESG market risk stress test implemented in 2021 also falls into the category of hypothetical scenarios. The hypothetical scenarios are reviewed periodically and adjusted if necessary, depending on the change in the market environment.

INSTRUMENTS FOR MANAGING MARKET RISK IN THE CONTEXT OF ACCOUNTING FOR HEDGING RELATIONSHIPS

The Treasury & Markets business unit also uses derivative financial instruments to manage market risk arising from loans and advances and liabilities as well as securities. Interest rate swaps and other interest rate or currency swaps are used to hedge the interest rate and foreign exchange risk arising from the underlying transactions. The hedging of market risks can take place at micro, portfolio and macro level.

Changes in the value of derivatives are always recognised through profit or loss due to the FVPL classification. If underlying transactions classified as AC or FVOCI are hedged by derivatives, this gives rise to a distortion in the income statement that is not consistent with the economic facts. One way of avoiding these distortions is to use fair value hedge accounting. In fair value hedge accounting, the changes in value of hedged items which are attributable to the hedged risk are recognised through profit or loss. In doing so, the Bank only takes into account hedging of the fair value against interest rate risks. Fixed interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only third-party interest rate and cross currency interest rate swaps are designated as hedging instruments. Hamburg Commercial Bank recognises appropriate hedges of underlying transactions by external derivatives under portfolio fair value hedge accounting as well as micro hedge accounting in individual cases, insofar as the requirements of IFRS 9 are met.

Liquidity risk

Hamburg Commercial Bank assesses liquidity adequacy from both a normative and an economic perspective in accordance with the ECB's Internal Liquidity Adequacy Assessment Process (ILAAP) guide.

The normative perspective covers a multi-year assessment period, and thereby focusses on the ability to fulfil all regulatory, supervisory and in part internal liquidity requirements and guidelines at all times. The objective is the forward-looking assessment of liquidity adequacy. In addition to a baseline scenario, adverse scenarios are also taken into account in forecasting the parameters.

Conversely, the economic perspective ensures that all material risks that may negatively affect solvency are identified, quantified and covered by internal liquidity potential, so that the business strategy can be pursued continuously and the continuity of the institution is maintained at all times. The objective of the economic perspective is to manage economic risks and also ensure liquidity adequacy through stress test programmes. For economic liquidity management, internal parameters (Pillar 2 ratios) are considered, which are calculated on the basis of the Bank's current portfolios.

For the liquidity risk, a distinction is made between risk of illiquidity and liquidity maturity transformation risk.

The risk of illiquidity refers to the risk that present or future payment obligations cannot be met in part or in full. The key driver of this liquidity risk is the cash flow structure in the liquidity maturity profile, which is determined by the assets (maturity/currency structure) and liabilities (funding structure by maturity/currency/investor).

Liquidity maturity transformation risk refers to the risk that a pending loss will result from a mismatch in the contractual maturities of assets and liabilities, the so-called liquidity maturity transformation position, and from the change in the Bank's refinancing surcharge.

Organisation of liquidity risk management

Strategic liquidity management is the responsibility of the Bank Steering business unit. The objective of liquidity management is to ensure the solvency of Hamburg Commercial Bank at all times, at all locations and in all currencies, to adhere to the regulatory liquidity ratios, to manage the marketability of the liquid assets of the liquidity buffer and to avoid concentration risks in the refinancing structure. The Treasury & Markets business unit has operational responsibility for funding and market management.

The Risk Control business unit is responsible for the methods used to measure and limit liquidity risk within the Group, and performs the risk measurement, limit monitoring and the related reporting. Bank Steering uses the risk measurement results to support it in managing liquidity for all maturity bands and enable it to counter possible risks at an early stage.

Hamburg Commercial Bank has a liquidity contingency plan and regulated procedures and responsibilities in place in the event of a liquidity crisis. In addition, the emergency processes also take into account institute-specific, risk-oriented and capital market-oriented early warning indicators to avert a liquidity crisis. The liquidity contingency plan is closely linked to the recovery plan in accordance with the SAG.

Management of liquidity risk

MEASURING AND LIMITING LIQUIDITY RISK

The measurement of liquidity risk is broken down into the intra-day risk of illiquidity from payment transactions operations, the short-term risk of illiquidity and the long-term or structural liquidity maturity transformation risk. A separate liquidity buffer is held for the intra-day liquidity risk. Compliance with the intra-day risk limit, and thus the adequacy of the buffer, is monitored on a daily basis.

The transactions in the Group impacting liquidity are presented as cash flows and the resultant inflows and outflows allocated to maturity bands (liquidity maturity profiles) for the purposes of measuring the risk of illiquidity or the refinancing requirements. The difference between inflows and outflows represents a liquidity surplus or deficit (gap) in the relevant maturity bands.

For the multi-day risk of illiquidity, the gaps are calculated from the first day up to the twelfth month – accumulated by maturity band – in order to quantify future liquidity requirements. The cumulative requirements are compared to the respective liquidity potentials that are available for liquidity coverage per maturity band. The net amount of cumulative requirements and liquidity potentials is referred to as the net liquidity position. In the maturity bands up to the third month, the minimum net liquidity position is prescribed by a limit as well as risk guidelines. The utilisation of these limits or risk guidelines therefore constitutes the measure of the risk of illiquidity.

In addition to all on-balance sheet business, loan commitments already granted, guarantees, transactions with forward value dates and other off-balance sheet transactions are incorporated in the liquidity maturity profile. For better mapping of the economic maturities, maturity scenarios are used for some positions. For example, possible deposit bases from deposits as well as realisation periods and amounts of assets are modelled conservatively as a matter of principle. A regular review of the modelling assumptions is carried out, which is also required in MaRisk.

The liquidity potential available to close gaps is composed of a securities portfolio held as a precaution in the event of a crisis (liquidity buffer portfolio), other securities according to how liquid they are and industrial loans eligible for refinancing with central banks. Most of the portfolio of securities is invested in liquid markets and can be liquidated via the refinancing channels, namely central banks, Eurex repo market, bilateral repo market or the cash market.

The components of the liquidity potential – such as the liquidity buffer required under MaRisk for example – are monitored continuously and validated in accordance with internal and external minimum requirements.

Hamburg Commercial Bank measures the liquidity maturity transformation risk using a value-at-risk approach, the Liquidity Value at Risk (LVaR). The LVaR is calculated on a monthly basis through historical simulation (confidence level of 99.9 %, risk horizon of one year) of the liquidity spreads and their present value effect on the transactions which would theoretically be necessary in order to immediately close the current maturity transformation position. The limiting of LVaR takes place at the Group level and forms part of the risk-bearing capacity concept.

LIQUIDITY MANAGEMENT

The short-term liquidity base and the regulatory liquidity ratios are operationally managed by the Treasury & Markets business unit based on general parameters specified by the Bank Steering business unit. In addition to the regulatory requirements, the liquidity maturity profile is relevant, amongst other things, to determine these general parameters. The definition of or change to individual parameters or the framework is decided by the ALCO or the Management Board. This places Hamburg Commercial Bank in the position to react flexibly to market developments.

Hamburg Commercial Bank uses the so-called expected case liquidity maturity profile and stress case forecast, which contain expected cash flows and are prepared for a period extending beyond the current financial year, as the basis for managing the medium-term liquidity base. The stress case forecast is used to forecast how the worst stress case and/or stress case liquidity maturity profile develops over time.

The risk of illiquidity over more than one year is managed by means of the liquidity maturity profile for a portfolio ending without new business assumptions. It represents the pure portfolio maturity in the base case scenario.

The collateral pool of Hamburg Commercial Bank consisting of cash balances, securities and loan receivables that are eligible for funding is coordinated by Bank Steering in order to be able to utilise the potential for secured funding in the best possible manner.

If the relevant SRF limits were exceeded, measures to strengthen the liquidity position would be necessary in order to comply with the parameters required internally by the Bank and with the regulatory requirements at the level of the Hamburg Commercial Bank Group.

STRESS TESTS

The selection of stress tests is the result of an analysis of historical events and hypothetical scenarios. The selection is reviewed at least on an annual basis and adapted to current developments where necessary.

Within the different stress modelling processes, additional market-specific scenarios (e.g. rating downgrade of Hamburg Commercial Bank) are assessed for the risk of illiquidity on a monthly basis in addition to the daily calculation of the stress case liquidity maturity profile. A stressed US dollar exchange rate (gradual increase) is taken into account in the market liquidity crisis scenario.

As part of a stress test for the liquidity maturity transformation risk, it is investigated how the LVaR will change in the event of rising liquidity spreads and stressed liquidity gaps. Furthermore, regular inverse stress tests were performed during the reporting year, to determine if there were events that could have a critical impact on Hamburg Commercial Bank's solvency.

RISK CONCENTRATIONS

Risk concentrations refer to the risk of an unbalanced funding structure in terms of maturities, depositors or currencies.

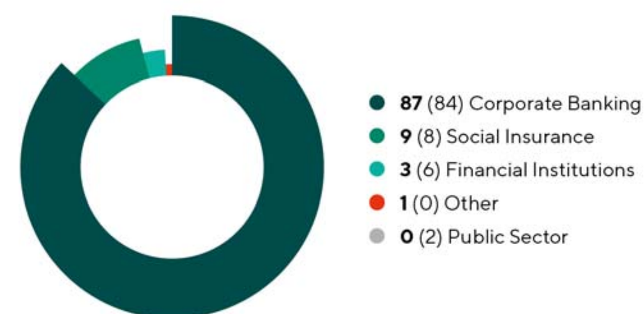
Hamburg Commercial Bank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors) and maturities (original and residual maturities).

In line with the Bank's strategy, the volume of deposits in 2022 increased compared with the previous year. As at 31 December 2022, the total volume amounted to approximately € 9.2 billion (previous year: € 7.7 billion). The counterparty concentrations increased slightly compared with the previous year. The ten largest depositors account for around 18 % of total deposits (previous year: 17 %). Based on the maturity structure, the proportion of deposits payable on demand of 47 % is still high (previous year: 58 %).

The following chart shows the composition of deposits by sector:

Depositor structure as at 31 December 2022

(%, previous year figures in brackets)



In addition to the analysis of the depositor structure with regard to existing depositor concentrations, risk concentrations with regard to the US dollar asset/liability position are also examined. For the purposes of analysing the dependency on the US dollar, a US dollar liquidity maturity profile is also prepared regularly and sensitivity analyses and US dollar stress tests are performed.

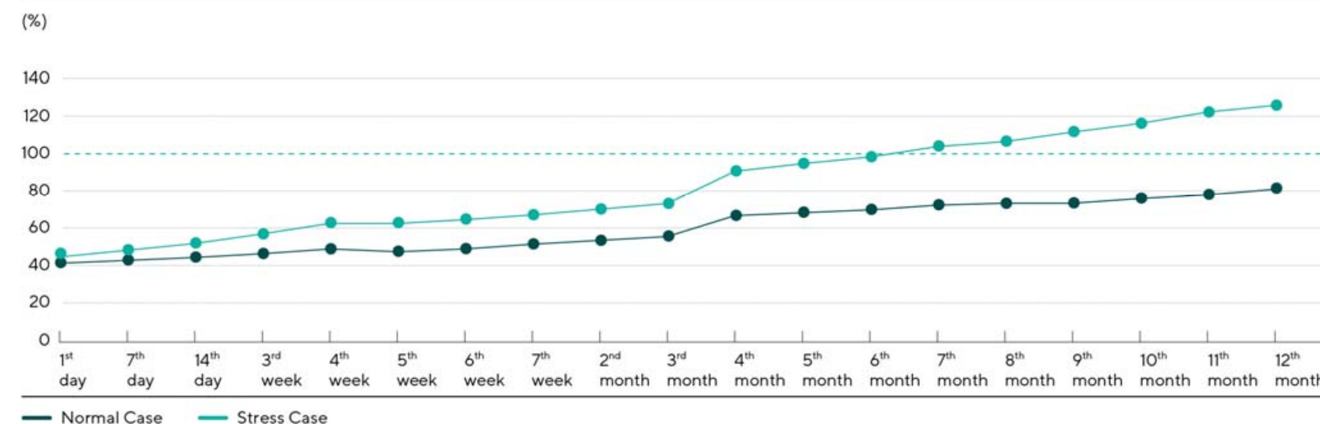
QUANTIFICATION OF LIQUIDITY RISK

Hamburg Commercial Bank's risk appetite with regard to liquidity risk is reflected, amongst other things, in the definition of a minimum survival period, which describes how long utilisation of a liquidity potential lower than 100 % is to be maintained under the stress cases for the risk of illiquidity.

The utilisation is 82 % in the twelfth month in the normal case assessment, which is based on the assumption of business development in a normal market environment. This means that all limits were complied with in the 12-month period under review. In the scenario that is relevant from a management perspective, the stress case liquidity maturity profile shows that the liquidity potential was not exceeded for the minimum survival period of one month defined in MaRisk. Instead, the minimum survival period as at the end of 2022 stood at over 6 months. Compared to the 2021 year end, utilisation levels have decreased slightly in the normal case and stress case in virtually all maturity bands. The improvements resulted particularly from a changed balance sheet structure. Critical limit utilisation levels were not reported in the normal case nor in the stress case liquidity maturity profile during the period under review. The results show that Hamburg Commercial Bank is prepared accordingly for the scenario assumptions assessed.

The following chart shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case liquidity maturity profiles as at 31 December 2022.

Utilisation of Liquidity Potential as at 31 December 2022



REGULATORY LIQUIDITY RATIOS

The regulatory indicator for liquidity risks is the liquidity coverage ratio (LCR), the purpose of which is to ensure that liquidity is safeguarded in an acute stress period of 30 days. When calculating the LCR, the amount of highly liquid assets is compared to the net outflows over the next 30 days. The minimum threshold of 100 % pursuant to CRR was maintained at all times in the reporting period. As at 31 December 2022, it amounted to 197 % (previous year: 164 %).

The net stable funding ratio (NSFR) is calculated as the ratio of available stable funding resources across all maturities to the stable funding required. As at 31 December 2022, the Bank's NSFR amounted to 113 % under the CRR (previous year: 114 %) and thus lies above the minimum ratio of 100 % required by the supervisory authorities. The NSFR for 2022 is disclosed with the proposed dividend payment of € 1.5 billion taken into account.

Hamburg Commercial Bank also calculates the additional liquidity monitoring metrics (AMM) including the preparation of the stipulated liquidity maturity profile.

By means of the AMM, the LCP (liquidity capacity period) is determined by the supervisory authorities. In so doing, inflows and outflows from a contractual point of view excluding any prolongation or new business assumptions are compared to the unencumbered liquid funds of the counterbalancing capacity less any haircuts The LCP is no longer maintained from the date on which the cumulative cash flows give rise to a need for liquid funds, which exceeds the liquidity position. This figure is determined by the Bank on a daily basis and was at least nine months as at 31 December 2022.

REFINANCING SITUATION

Hamburg Commercial Bank successfully implemented its funding strategy in the 2022 financial year. The refinancing situation in the reporting year was characterised by very volatile and difficult capital markets. The burden of COVID-19 and the geopolitical crisis situation led to sharply rising inflation, a significant increase in interest rates and rising credit spreads. As the Bank issued mainly Pfandbriefe, which are popular with investors even in this market environment, the deterioration of the capital market environment has had only a minor impact on the Bank's refinancing. In addition to the refinancing via the capital market, deposits from corporates in particular contributed to the refinancing of the business. In order to further strengthen the deposit structure, the focus is on diversifying and expanding the deposits from corporates.

A heightening of existing geopolitical tensions and a deterioration of the macroeconomic environment could make execution of funding measures in the market more difficult. Also, a monetary policy adopted by the central banks, which is more restrictive than currently already anticipated, could limit the refinancing options and potentially further increase funding costs.

The Association of German Banks (BdB) has implemented a reform of the protection of the Deposit Protection Fund (ESF) from 2023 (including transitional periods), which affects all members. Given the changed scope of protection provided in future by the guarantee scheme, there is a fundamental risk of increased liquidity outflows. There are no anomalies in the depositor behaviour to date.

Hamburg Commercial Bank's liquidity and funding planning for short-term deposits is based on assumptions about client behaviour based on the deposit base and durations. This means that, in critical market-wide, or particularly in idiosyncratic, special situations, there is the risk that even conservative behavioural assumptions used to simulate stress scenarios will fail to materialise as assumed, and that considerable unplanned liquidity outflows could occur instead. Without deliberate management measures, this would lead to a deterioration in the regulatory liquidity ratios as well as the economic survival period.

Part of the assets denominated in foreign currency are refinanced via derivatives (e.g. via EUR/USD basis swaps). With low USD funding requirements, the exchange rate only has a small influence on the liquidity position.

As part of the regular SREP process carried out within the Banking Union, it is possible that additional requirements in various areas of prudential regulation, such as liquidity, could arise as a result of discretionary decisions made by the banking supervisory authorities.

Non-financial risk

In addition to operational risk, business strategy risk and reputation risk are included in the non-financial risks (NFR) of Hamburg Commercial Bank.

Operational risk is defined as the risk of losses caused by inadequate or failed internal infrastructure, internal procedures (including the IT infrastructure) or staff or as a result of external factors. This definition includes the risk of losses resulting from legal risks.

The definition of operational risk therefore includes business process risks, legal risks, compliance risks including behavioural risks, information risks, HR risks, model risks, sourcing risks and project risks.

Business process risk is the risk of damages and losses as well as the risk of data quality deficiencies, if a business process fails or works incorrectly. Possible causes include missing or inadequate controls in the individual processes, errors in the implementation of change processes, as well as the loss of buildings, service providers, personnel or IT resources.

Legal risk refers to the risk of financial losses that arise if claims of the Bank cannot be enforced for legal reasons or claims are made against the Bank, because the underlying legal framework conditions (laws including tax laws, regulations and case law) have not been adhered to, or have changed after a transaction has been entered into.

Compliance risk arises as a result of non-compliance with legal regulations and requirements as well as codes of conduct, that may lead to sanctions being imposed by the supervisory authorities, financial losses or to a negative impact on the Bank's reputation.

Behavioural risk refers to the existing or future risk of losses resulting from the improper provision of financial services, including cases of wilful or negligent misconduct.

The information risk is the risk that IT systems, procedures, physical documents, areas or infrastructures as well as networks or communications are breached, regarding at least one of the protection objectives of "integrity", "availability", "confidentiality" or "authenticity". The term "information risk" includes IT risks, information security risks and cyber security risks.

HR risk refers to the risk of loss of earnings, losses and operational risks due to personnel problems or shortages, for example due to unplanned departures of key personnel as well as qualitative deficits.

Model risk is defined as the potential loss that could arise from decisions which are fundamentally based on the result of internal models, if these models have errors in their design, execution or use.

Sourcing risk in the event of outsourcing refers to the risk of losses resulting from contract, supplier and service risks arising from the outsourcing of activities or processes, as well as the loss of know-how and the risk of dependence on service providers. In the event of insourcing, there is a contract and services risk that can arise due to the permanent/regular provision of services by the Bank to third parties.

Project risk is the risk that a project will not deliver the defined results within the agreed quality standards, budget or deadline.

Reputation risk is the risk of incurring financial damage (e.g. in the form of reduced earnings or a loss, or the withdrawal of deposits) due to a negative perception of the Bank by the relevant stakeholders.

The business strategy risk comprises both financial and non-financial components. It refers to the risk of negative deviations from the qualitative and quantitative strategic goals, which may result from incorrect planning assumptions, unexpected changes in the external framework conditions as well as from strategic decisions.

Organisation of the management of non-financial risk

Hamburg Commercial Bank has adopted a non-financial risk framework that takes into account the diversity of the various sub-types of non-financial risk. It defines the framework for non-financial risk management, and describes the roles and responsibilities that follow the three lines of defence model.

The responsibility for identifying and managing the risks that they take, along with determining appropriate controls, lies decentrally with the individual organisational units of the Bank (first line of defence). The second line of defence defines the framework for the management of non-financial risks by setting uniform rules and methods, and monitors their implementation. The role of the overarching NFR function at Hamburg Commercial Bank lies with the Risk Control business unit. In addition, the second line of defence includes specialised non-financial risk functions, which are carried out by the Compliance, Human Resources, Legal, Board Office & Taxes, Strategy & Transformation, Risk Control and IT business units, depending on the respective risk type. The third line of defence in the process-independent audit is Internal Audit.

Non-financial risk management

The identification, analysis, assessment and monitoring of non-financial risks are an important success factor for Hamburg Commercial Bank. Various methods and procedures are used in this process.

Loss events above defined threshold values, which arise from operational risks, are recorded for Hamburg Commercial Bank and the relevant subsidiaries. The recording is carried out uniformly in a central risk event database, categorised according to risk types and causes.

As part of the annual Group-wide risk scenario assessment based on defined scenarios, detailed information is collected on the risk situation of the business units. Each business unit assesses its risk situation using defined scenarios, to identify required risk mitigation measures. The most relevant scenarios are then aggregated into the overall risk.

The regular ascertainment and assessment of risk indicators also aims to identify risks at an early stage and prevent their causes.

The results from the risk events data, the risk scenario assessment and the risk indicators are used for the preventive management and monitoring of non-financial risks. They are analysed, in order to avoid future risk events as far as possible by means of appropriate measures.

In order to quantify the operational risks for the risk-bearing capacity calculation, the unexpected losses of the individual scenarios are calculated and aggregated from the risk scenario assessment using a Monte Carlo simulation. The unexpected loss calculated in this manner is used for the economic perspective.

In addition to the methods mentioned above, specific procedures and responsibilities have been instituted within Hamburg Commercial Bank for the non-financial risk elements listed below.

Business continuity management

Hamburg Commercial Bank is exposed to risks arising from unforeseen events, which may result in business interruption. With the involvement of the relevant business units, the business continuity management system has established processes to limit the risks arising from the fact that the information technology fails, or that service providers, infrastructure or employees are unavailable. The objective of the business continuity plans established and to be periodically reviewed is to ensure the functional capability of critical business processes and activities, also in the event of an emergency, and the defined return to normal operations.

Internal control system

One possible cause of loss events arising from operational risks lies in missing or inadequate controls. A functioning ICS helps to prevent business process risks and is thus an essential part of the management of non-financial risks. Detailed information on the ICS is set out in the "Risk management system" section.

Management of HR risks

HR risks are countered through active personnel management. A large number of HR management tools for employee retention are used to prevent the unscheduled departure of key personnel. In addition, succession planning is performed and regularly reviewed for relevant positions.

Management of information risks

A decisive factor in the Bank's business processes is ensuring the protection objectives of availability, integrity, authenticity and confidentiality of information. Hamburg Commercial Bank has implemented appropriate procedures and instruments to identify information risks at an early stage, and to avert or reduce particularly severe losses.

As part of the IT strategy, it has defined the primary objective of IT risk management as identifying IT risks at an early stage and assessing them based on protection needs, in order to avert or reduce particularly severe losses on the basis of clear responsibilities. Specific risk tools are used, by means of which the risks in projects, in line functions and at outsourcing partners are actively managed, and reduced by a monitored implementation of measures.

Management of legal risks

The Legal, Board Office & Taxes business unit is responsible for managing these risks. In order to reduce, limit or prevent risks, all business units are given comprehensive legal advice by regularly trained staff, and by external consultants where necessary.

Management of sourcing risks

Outsourcing is only carried out if the integration into all relevant banking processes is ensured, and if the service providers involved have an appropriate risk controlling, information security management and internal control system as well as appropriate procedures to protect personal data. For significant outsourced activities and processes, rights to give instructions and audit rights must be agreed in the contracts for Hamburg Commercial Bank.

Insourcing is managed centrally. Insourcing only exists to a very limited extent, as this is not part of Hamburg Commercial Bank's business model.

Management of compliance risks

The active management and control of compliance risks includes, in particular, the topics of capital market compliance, money laundering, terrorism financing, financial sanctions and embargoes, misconduct, other criminal acts in accordance with Section 25h of the German Banking Act (KWG) and compliance with the General Data Protection Regulation (GDPR).

A firm anchoring of compliance in the corporate culture is essential, in order to strengthen compliance with the law and applicable regulations at Hamburg Commercial Bank. As a binding code of behaviour for all employees, the Code of Conduct serves as a central framework for this purpose.

The Bank's employees are given regular training on compliance-related topics. The objective of the training is to disseminate relevant standards and changes thereto and to enable new staff to quickly become familiar with corporate practices, and thereby ensure compliance with the legal requirements.

Regular risk analyses form an essential basis for risk-oriented planning of the monitoring, control, management and prevention activities of the Compliance business unit.

Through internal reporting channels and the so-called whistleblowing office, the Bank is informed of suspected cases of unlawful behaviour and passes them on to the appropriate authorities. The whistleblowing office also enables anonymous reporting of suspicions both by employees of the Bank and by external third parties, via an independent ombudsman.

The data protection officer is responsible for monitoring the implementation of and compliance with data protection regulations, as well as for consulting on data protection issues. The Bank has outsourced this key function to external specialists.

Management of model risks

Models are vitally important for the Bank's management processes. The use of models is naturally associated with uncertainties. The Bank's model risk management process includes careful development of models, independent validation of models and overarching model governance, which establishes and monitors the framework for dealing with models and model risk.

Management of reputation risks

As reputation risks can arise in all areas of the Bank, they are always taken into account in day-to-day operations. Hamburg Commercial Bank manages reputation risk particularly by means of preventive measures via the review of specific transactions, on the one hand, and via process-related rules, on the other, in order to prevent the occurrence of reputational damage if possible. The Strategic Risk Framework defines the Bank-wide principles for managing reputation risk as a supplement to the existing regulations and instructions, such as the Code of Conduct.

Management of business strategy risks

The business strategy risks are managed via the annual review and updating of the business strategy and the closely related Overall Bank planning process established in the Bank. The Overall Management Board is responsible for the strategy of Hamburg Commercial Bank, whereby the Strategy & Transformation business unit is responsible for the process involved in preparing the business strategy. The quantitative strategy management is the responsibility of the Bank Steering business unit. The Strategy & Transformation business unit is responsible for monitoring the non-financial business strategy risk.

Non-financial risks in the reporting year

The reporting year was characterised by the ongoing implementation of the comprehensive transformation of IT into a modern, cost-effective, cloud-based IT architecture. The IT risks that may arise during this IT transformation process are reduced through a step-by-step approach with parallel phases of the old and new system environment, as well as by sustainable partnerships, effective management and independent quality assurance.

As a result of the war of aggression by Russia against Ukraine, the sanctions situation tightened significantly during the reporting period. Hamburg Commercial Bank fully implements all sanctions and has stepped up the monitoring of current developments.

Moreover, the war in Ukraine has fundamentally increased the general threat of cyber attacks. There was no material increase in the current threat situation facing Hamburg Commercial Bank during the reporting period. The Bank is closely following developments regarding cyber attacks and continuously works to mitigate cyber security risks.

In addition, the 2022 financial year continued to be influenced by the COVID-19 crisis and the resulting uncertainties. Ensuring and maintaining the business operations is controlled by an interdisciplinary coronavirus working group within the framework of the business continuity management system. The impact of COVID-19 on loss events has been limited to additional costs, for example for increased hygiene measures, the provision of coronavirus tests, as well as IT measures for the increased use of digital services and teleworking.

As at the reporting date, Hamburg Commercial Bank recognised provisions for the legal risk category, which is a component of operational risk, in particular for litigation risks and costs, amounting to € 110 million (previous year: € 124 million). In addition, there are also contingent liabilities arising from legal disputes.

A significant portion of the provisions is due to complaints and litigation that investors and former borrowers are pursuing against the Bank.

The Cologne public prosecutor's office has been conducting an investigation into two former senior employees of HSH Nordbank since April 2018. As part of the investigation, the Bank was interviewed as a potential co-defendant in the case. In July 2021, the Cologne public prosecutor's office searched the premises of the Bank. In the course of thereof, the charges were extended to other (mostly former) employees. HSH Nordbank, as the predecessor institution of Hamburg Commercial Bank, had already proactively investigated the matter in 2013, long before the start of the investigation by the Cologne public prosecutor's office, disclosed all findings of its internal investigation at the time to the tax authorities responsible for large companies in Hamburg and the Hamburg public prosecutor's office, made provisions amounting to € 127 million in the 2013 financial statements, and repaid taxes totalling around € 112 million plus interest in January 2014. Hamburg Commercial Bank is cooperating with the Cologne public prosecutor's office. The case may potentially result in a fine for the Bank. The likelihood of this happening or the amount of the potential fine are currently not foreseeable.

As a component of legal risks, tax risks mainly result from the fact that the binding interpretation of rules that can be interpreted may sometimes only be known after several years. At present, the assessment periods from 2011 onwards can still be changed under procedural law. In connection with the tax audits that are currently being conducted, the new and/or amended publications by the tax authorities, as well as the case law on tax matters that has meanwhile come into effect, appropriate provisions are recognised for the resulting tax risks where necessary. As at the reporting date, the provisions made for back tax payments together with interest on arrears amounted to € 13 million (previous year: € 37 million). On the other hand, appropriate tax receivables have been capitalised for tax refunds that are anticipated.

Summary of risk assessment and outlook

The 2022 financial year was characterised by a volatile market environment with a high degree of uncertainty as a result of Russia's war of aggression against Ukraine. Despite these underlying conditions, Hamburg Commercial Bank continued to successfully improve its portfolio quality.

Hamburg Commercial Bank is facing major challenges regarding its future development, which are described in detail in the "Forecast, opportunities and risks report".

The risk management and bank management systems we have presented are designed to systematically take risks into account. This also applies to our expectations regarding the future market and business development. We believe that we have appropriately presented the overall risk profile of the Hamburg Commercial Bank Group as well as the opportunities and risks inherent in the future development of our business activities in the "Forecast, opportunities and risks report" section and in this Risk Report in an appropriate and comprehensive manner.

Comment on the annual financial statements of Hamburg Commercial Bank AG in accordance with the German Commercial Code (HGB)

Report on earnings, net assets and financial position

Earnings

Hamburg Commercial Bank AG reports a very high positive net result of € 2,385 million for the 2022 financial year – also in comparison to the IFRS Group net result (previous year: € 109 million). With operating performance that was slightly higher than expected, the net income for the year was clearly characterised by reversals from the funds for general banking risks, as well as reversals of global valuation allowances in the lending business. In addition, there were positive one-off effects in net interest income and in the context of income tax expense, as well as – with the opposite effect – valuation losses resulting from the significant change in interest rates.

At € 917 million, net interest income was about half the level seen in the previous period, which, in addition to a marked increase in net interest income in the operating business, is due in particular to positive effects from the termination of interest rate hedging transactions. The cost base was stable as against the previous year. In a year-on-year comparison, the increase in net income from the trading portfolio largely compensated for more substantial negative effects in the other operating result due to interest-induced valuation losses on the fund assets for pension obligations.

Due to the increase in net interest income, the operating result before loss provisions/valuation rose significantly to € 550 million (previous year: € 259 million).

The result from loan loss provisions/valuation was primarily responsible for the high net income for the year. This amounted to € 1,993 million in the 2022 financial year, after being clearly in the red at € -390 million in the previous year. Reversals from the funds for general banking risks and the positive loan loss provisions in the lending business made a substantial contribution to this result. The latter are mainly the result of the significant reduction in the balance sheet provisions for portfolio risks in the loan book. To a much lesser extent, the changes in the interest rate environment resulted in valuation-related negative effects in the securities business. In the reconciliation to the net result, a moderately negative extraordinary result (€ -35 million) was recorded, as well as income tax expense (€ 123 million) that was characterised by deferred tax expenses and tax refunds for previous years. The composition and year-on-year development of the statement of income can be seen in the following overview.

Statement of Income

(€ m)	2022	2021	Change in %
Net interest income	917	615	49
Income from profit transfers	6	–	>100
Net commission income	34	38	-11
Net income from the trading portfolio	42	13	>100
Administrative expenses	-365	-363	1
thereof: Personnel expenses	-154	-140	10
thereof: Operating expenses	-211	-223	-5
Other operating result	-84	-44	-91
Operating result before loan loss provisions/valuation	**550**	**259**	**>100**
Loan loss provisions/valuation	1,993	-390	>-100
Operating result after loan loss provisions/valuation	**2,543**	**-131**	**>100**
Extraordinary result	-35	-29	-21
Income tax expense	-123	269	>-100
Net result	**2,385**	**109**	**>100**

The following developments in the individual income items were decisive to the Bank's earnings situation:

Net interest income amounted to € 917 million and was up significantly on the previous year (€ 615 million), with an increase of € 302 million. One-off effects from the termination of legacy derivatives in the investment portfolio in the course of the continued reduction in the complexity of the derivatives book, made a significant contribution to the increase in the reporting year. These exceeded the one-off effects (from the liquidation of derivatives and the sale of risk-weighted assets) that arose in 2021 by a significant margin. Net interest income from the operating business also, however, increased considerably. Net interest income from the lending and money market business increased by € 98 million compared to 2021 with a largely stable volume of interest-bearing receivables. The decisive factor in this development was the fact that the net operating interest margin was expanded again. In addition, the ongoing optimisation of asset allocation, in the context of which the proportion of the high-margin international corporates business in relation to the loan book increased further, also had a positive effect.

At € 34 million, **net commission income** was down by around 11 % on the previous year (€ 38 million). The drop is due to lower net commission income in the lending business. On the other hand, net commission income from payment transactions and foreign business, as well as documentary business, which accounted for around 46 % of the total position in 2022 (2021: 39 %), increased slightly.

Net income from the trading portfolio was moderately positive and amounted to € 42 million (previous year: € 13 million). This was mainly due to the positive net result from interest rate derivatives of € 40 million. The other components of the net result largely balanced each other out overall. Net income from the trading portfolio does not include any reversals from the fund for general banking risks in accordance with Section 340e HGB (previous year: addition of € 1 million).

Administrative expenses were stable year-on-year at € 365 million (previous year: € 363 million). In this context, the Bank's efficiency measures established in the past successfully counteracted the ongoing substantial investments in IT infrastructure/HR, as well as general inflationary pressures.

Personnel expenses, which increased to € 154 million (previous year: € 140 million), reflect, among other things, salary adjustments, new hires in the course of the moderate growth course (also at foreign locations) and the inflation compensation bonus that the Bank paid out to all employees. The number of employees had decreased by 43 FTEs to 860 FTEs by the end of the year.

The increase in personnel expenses was almost offset by the drop in operating expenses. The latter totalled € 211 million in 2022, compared to € 223 million in the previous year. The costs of ongoing operations ("run the bank" costs) decreased further, due in particular to lower IT provider costs, which account for about one-third of these costs. The decline demonstrates that the investments made in the transformation of IT systems during the transformation process are increasingly paying off in the form of sustainable cost reductions. The forward-looking "change the bank costs", on the other hand, increased slightly. They were once again mainly attributable to Hamburg Commercial Bank's IT projects, including the changeover in the payment transaction system.

Regulatory expenses, the main item of which is the bank levy, remained roughly on a par with the previous year (€ 32 million) at € 30 million.

At € -84 million, the **other operating result** (including other taxes) was more negative than in the previous year (€ -44 million) due to lower income and higher expenses. Other operating income fell by € 22 million to € 101 million (previous year: € 123 million). It mainly includes income from the reversal of provisions, to a lesser extent than in the previous year, as well as interest income from receivables from the revenue authorities. Other operating expenses increased by € 18 million to € 183 million (previous year: € 165 million). The increase results from the significant rise in net expenses from the expenses and income from pension provisions and fund assets to be offset in accordance with Section 246 (2) sentence 2 HGB. These amounted to € 145 million in total (previous year: € 60 million). This was due to the much lower fair value of the fund assets as a result of the interest rate environment. Within other operating expenses, this was partly offset, among other things, by the fact that expenses from additions to provisions and for option trading were € 55 million lower than in the previous year in total. As in the previous year, other taxes amounted to € 2 million.

Operating result before loan loss provisions/valuation up significantly due to higher net interest income

The operating result before loan loss provisions/valuation increased significantly by € 291 million to € 550 million (previous year: € 259 million). This was due to the € 307 million increase in net interest income. The higher net income from the trading portfolio largely compensated for the decline in the other operating result, while administrative expenses remained stable compared to the previous year.

Result from loan loss provisions/valuation characterised by positive one-off effects overall primarily decisive for very high net income for the year

The result from loan loss provisions/valuation, which was characterised by positive one-off effects overall, amounted to € 1,993 million, making it primarily decisive for the very high net income for the year, after having a marked negative impact in the previous year in a total amount of € -390 million. Reversals from the funds for general banking risks and the positive loan loss provisions in the lending business made a substantial contribution to this result.

Hamburg Commercial Bank AG recorded a high positive result of € 498 million for loan loss provisions in the lending business in the reporting period (previous year: € -430 million). This was driven by the significant reduction in the balance sheet provisions for portfolio risks in the loan book, mainly attributable to the holdings added in the previous year. In addition, loan loss provisions include additions to individual valuation allowances (mainly in the Corporates segment), which were moderate in view of the low level of new defaults.

The result in the securities business was negative at € -65 million (previous year: € 32 million). This was due to write-downs (required in line with the strict lower-of-cost-or-market principle) on securities in the liquidity reserve totalling € 116 million (net), mainly as a result of the significant rise in interest rates. In contrast, but to a lesser extent, there were realisation gains from the sale of securities and income from the reversal of 340f reserves. In the previous year, the result was supported by realisation gains from the sale of securities.

In the year under review, the valuation result from equity holdings in non-affiliated companies was balanced at € 0 million (previous year: € 8 million).

Reversals from the funds for general banking risks were made in the amount of € 1,560 million (previous year: € 0 million). The reversal reflects the significantly reduced general banking risks compared to the previous year.

Extraordinary result characterised by transformation expenses as in the previous year

Moderate negative effects, which were roughly on a par with the previous year's level, came from the extraordinary result, which amounted to € -35 million in the 2022 financial year (previous year: € -29 million). The result from restructuring in the amount of € 24 million (previous year: € 0 million) includes reversals of restructuring provisions. Expenses from transformation of € 58 million (previous year: € 29 million) mainly related to project activities in the context of the switch to the new payment transaction system and the IT transformation process.

Income tax expense characterised by deferred tax expense, current taxes relieved by positive special effects for previous years

Net income before taxes came to € 2,508 million (previous year: € -160 million).

Income tax expense amounted to € 123 million (previous year: income of € 269 million). The low income tax rate is mainly due to the fact that the income that plays a decisive role in net income before taxes has no tax effects due to the reversals from the funds for general banking risks. Income tax expense for the reporting period includes current taxes (€ 28 million) and expenses from deferred taxes (€ 95 million). Current taxes benefited from relief of € 66 million due to income for past assessment periods. This was due to the expected results of tax audits for the assessment periods from 2012 to 2015 (inclusive). The expenses from deferred taxes resulted on the one hand from the change in deferred taxes on temporary differences (€ 63 million). This effect was driven by the reversal of global valuation allowances for loans and advances to customers. In addition, deferred taxes on loss carryforwards decreased due to consumption. The expense from the change in deferred taxes on loss carryforwards amounted to € 32 million.

Very high positive net result much higher than expected due to one-off effects

After income tax expense, Hamburg Commercial Bank reported a very high positive net result of € 2,385 million for the

2022 financial year (previous year: € 109 million). In operational terms, the HGB net result was slightly ahead of the Bank's expectations overall. Thanks to the positive effects in the result from loan loss provisions/valuation, but also in net interest income, as described above, the HGB result outstrips the Bank's expectations very significantly.

Net assets and financial position

Balance sheet

(€ m)	2022	2021	Change in %
Assets			
Cash reserve	1	3,261	-100
Loans and advances to banks	5,462	772	>100
Loans and advances to customers	18,954	19,099	-1
Securities	7,134	6,595	8
Trading portfolio	294	564	-48
Equity holdings in non-affiliated companies and interests in affiliated companies	9	6	50
Deferred tax assets	755	863	-13
Remaining assets	929	781	19
Total assets	**33,538**	**31,941**	**5**
Liabilities			
Liabilities to banks	4,569	5,530	-17
Liabilities to customers	13,248	11,112	19
Securitised liabilities	8,341	8,768	-5
Trading portfolio	227	442	-49
Subordinated debt	921	913	1
Fund for general banking risks	808	2,368	-66
Equity	4,217	1,828	>100
Remaining liabilities	1,207	980	23
Total assets	**33,538**	**31,941**	**5**
Contingent liabilities	823	750	10
Other commitments	3,652	3,944	-7
Total off-balance sheet business	**4,475**	**4,694**	**-5**
Business volume	**38,013**	**36,635**	**4**

Moderate growth in total assets as planned
The balance sheet grew moderately in the 2022 financial year as planned. Total assets amounted to € 33,538 million at the 2022 year-end, around 5 % higher than the level at 31 December 2021 (€ 31,941 million). On the assets side, the increase is attributable to loans and advances to banks. On the liabilities side, the increase in total assets is reflected primarily in liabilities to customers, whose share in refinancing has increased at the expense of liabilities to banks. In addition, the development of the liabilities side was characterised by reversals from the funds for general banking risks, with the income from the reversal reflected in a significant increase in equity via the high positive net result. In detail, the developments were as follows:

Liquidity positions were strengthened in the reporting year in view of a market environment that was characterised by high levels of uncertainty and volatility, and also against the backdrop of the proposed dividend payment for 2023. Compared to the end of the previous year, there were opposing developments in the items cash reserve and loans and advances to banks: while the cash reserve decreased compared to the previous year from € 3,261 million to € 1 million, loans and advances to banks increased to € 5,462 million (31 December 2021: € 772 million). As at the reporting date, the latter mainly relate to overnight balances in the deposit facility at Deutsche Bundesbank, which, in contrast to the IFRS reporting, are not reported under the cash reserve under HGB, but rather under loans and advances to banks.

The loan book, reflected by the balance sheet item loans and advances to customers, was on a similar level to 31 December 2021. As at the reporting date, the carrying amount of loans and advances to customers was € 18,954 million (31 December 2021: € 19,099 million). In terms of portfolio composition, the Bank's diversification strategy is increasingly making its mark. As planned, the share of loans in the high-margin Corporates International segment increased further, while the relative shares attributable to the national Real Estate and Corporates business, as well as Shipping, decreased.

The securities position was expanded further, up by 8 % compared to the previous year. As at 31 December 2022, its carrying amount came to € 7,134 million, compared to € 6,595 million as at the previous year's reporting date. The increase is mainly due to the implementation of the diversification strategy. Please also refer to the comments in the chapter on "Business development" (section entitled "Total assets increased as planned – diversification strategy successfully continued").

Trading assets fell further by almost half compared to the end of the previous year's reporting period to € 294 million (31 December 2021: € 564 million). This was mainly due to a lower carrying amount of interest-related derivative financial instruments. The debentures and other fixed-interest securities reported in the trading portfolio increased slightly.

Deferred tax assets decreased to € 755 million (previous year: € 863 million). The drop was due primarily to the reduction in temporary differences on loans and advances to customers.

Remaining assets totalled € 929 million (31 December 2021: € 781 million), above the previous year's level. This item mainly includes other assets (€ 761 million, previous year: € 624 million). The increase in other assets results from receivables from the revenue authorities and the reconciling item from currency translation, which were both higher than at the end of the previous year.

Liabilities to banks fell by 17 % to € 4,569 million (31 December 2021: € 5,530 million). Borrowings from the ECB under the TLTRO III programmes are also reported within this item, with drawdowns still amounting to € 1.55 billion on reporting date (31 December 2021: € 1.75 billion, nominal amount in each case).

In line with the Bank's funding strategy, which aims to increase the share of organic funding, liabilities to customers account for an increasing share of refinancing. These were up considerably by 19 % year-on-year from € 11,112 million to € 13,248 million. The increase was due primarily to the scheduled increase in the deposit portfolio.

With a carrying amount of € 8,341 million, the portfolio of securitised liabilities remained largely stable compared to the end of the previous year (€ 8,768 million). Within this item, other debentures issued decreased, while the portfolio of Pfandbriefe (mortgage and ship Pfandbriefe, as well as public-sector Pfandbriefe) increased slightly.

The carrying amount of the subordinated liabilities increased slightly due to the appreciation of the US dollar and amounted to € 921 million as at 31 December 2022 (31 December 2021: € 913 million).

Amounts of € 1,560 million were reversed from the funds for general banking risks. The amount of € 808 million remaining after the reversals as at 31 December 2022 in accordance with Sections 340g/e German Commercial Code (HGB) represents, according to the Bank's own assessment, an appropriate consideration of the special risks associated with the business of credit institutions (essentially general banking risks).

Due to the very high net income for the year, which was significantly influenced by the aforementioned reversals from the funds for general banking risks, reported equity increased significantly compared to the end of the previous year and amounted to € 4,217 million as at 31 December 2022 (31 December 2021: € 1,828 million). For information on the development of the regulatory capital ratios for the individual institution according to the HGB accounting standards, please refer to the Risk Report in the combined management report of Hamburg Commercial Bank. The dividend payment of € 1.5 billion proposed for 2023 was already taken into account in advance in the CET1 capital and, as a result, when determining the capital ratios at the end of 2022. In contrast, the effects can only be recognised in the balance sheet at the time the dividend liability arises in legally effective terms, which requires a corresponding resolution by the Annual General Meeting in 2023.

Remaining liabilities increased from € 980 million to € 1,207 million. The increase of € 227 million was mainly due to deferred income, which, at € 240 million, was € 148 million higher than at the end of the previous year as a result of higher deferrals for derivatives. Provisions also increased by € 88 million to € 646 million. This was due to the significant increase in provisions for pensions as a result of the lower fair value of the fund assets. At € 308 million, other liabilities were almost on a par with the end of the previous year (€ 316 million).

Business volume

The business volume increased at a slightly slower rate than total assets, namely by 4 % to € 38,013 million (31 December 2021: € 36,635 million), as off-balance-sheet business declined. Contingent liabilities, which essentially comprise guarantees and warranties, increased by around 10 % to € 823 million (31 December 2021: € 750 million). Other commitments, whose essential component is irrevocable loan commitments, decreased significantly. These amounted to € 3,652 million as at 31 December 2022, 7 % lower than as at 31 December 2021 (€ 3,944 million).

Refinancing

Hamburg Commercial Bank AG successfully implemented its funding strategy in the year under review by using various funding sources. The regulatory requirements for the liquidity ratios were consistently exceeded during the reporting period. Further details can be found in the combined management report of Hamburg Commercial Bank.

Hamburg, 14 March 2023

Ian Banwell Ulrik Lackschewitz

Christopher Brody Marc Ziegner

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Group statement of income

for the period from 1 January to 31 December 2022

(€ m)	Note	2022	2021	Change in %
Interest income from financial assets categorised as AC and FVOCI		761	586	30
Interest income from other financial instruments		324	303	7
Negative interest on investments categorised as AC and FVOCI		-13	-16	-19
Negative interest on other cash investments and derivatives		-32	-79	-59
Interest expenses		-456	-365	25
Positive interest on borrowings and derivatives		43	97	-56
Net interest income	(9)	**627**	**526**	**19**
Net commission income	(10)	33	38	-13
Result from hedging	(11)	2	1	100
Result from financial instruments categorised as FVPL	(12)	9	37	-76
Net income from financial investments	(13)	-1	3	>-100
Result from the disposal of financial assets classified as AC	(14)	3	37	-92
Total income		**673**	**642**	**5**
Loan loss provisions	(15)	11	32	66
Total income after loan loss provisions		**684**	**674**	**1**
Administrative expenses	(16)	-332	-328	1
Other operating result	(17)	75	14	> 100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(18)	-30	-32	-6
Net income before restructuring and transformation		**397**	**328**	**21**
Result from restructuring and transformation	(19)	-34	-29	-17
Net income before taxes		**363**	**299**	**21**
Income tax expense	(20)	62	52	-19
Group net result		**425**	**351**	**21**
Group net result attributable to Hamburg Commercial Bank shareholders		425	351	21

Earnings per share

(€)	Note	2022	2021
Undiluted	(22)	1.41	1.16
Diluted	(22)	1.41	1.16
Number of shares (millions)		**302**	**302**

Group statement of comprehensive income

for the period from 1 January to 31 December 2022

Reconciliation with total comprehensive income/loss

(€ m)	2022	2021
Group net result	**425**	**351**
Income and expenses that have been reclassified to the statement of income or may be reclassified at a later date		
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement (before taxes)		
Unrealised gains and loss (before taxes)	-170	-54
Gains and losses (before taxes) reclassified to the statement of income	3	-4
Income taxes recognised	54	18
	-113	**-40**
Differences resulting from currency translation	-	16
Subtotal	**-113**	**-24**
Income and expenses that will not be reclassified to the statement of income at a later date		
Credit risk-induced changes in the value of liabilities designated at fair value (before taxes)	6	-7
Income taxes recognised	-2	2
	4	**-5**
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	187	69
Income taxes recognised	-60	-22
	127	**47**
Subtotal	**131**	**42**
Other comprehensive income for the period	**18**	**18**
Total comprehensive income	**443**	**369**

Group statement of financial position

as at 31 December 2022

Assets

(€ m)	Note	2022	2021	Change in %
Cash reserve	(23)	4,974	3,261	53
Loans and advances to banks	(24)	777	1,236	-37
Loans and advances to customers	(25)	19,592	20,198	-3
Loan loss provisions	(26)	-414	-446	-7
Positive fair values of hedging derivatives	(27)	–	26	-100
Positive adjustment item from portfolio fair value hedges		-152	32	>-100
Trading assets	(28)	441	689	-36
Financial investments	(29)	5,490	4,524	21
Intangible assets	(30)	55	34	62
Property, plant and equipment	(31)	16	19	-16
Investment property	(31)	1	1	–
Non-current assets held for sale and disposal groups	(32)	–	10	-100
Current tax assets	(33)	81	10	>100
Deferred tax assets	(34)	697	616	13
Other assets	(35)	260	100[1]	>100
Total assets		**31,818**	**30,310**	**5**

[1] The previous year's amount was adjusted; for more details please refer to Note 2.

Liabilities

(€ m)	Note	2022	2021	Change in %
Liabilities to banks	(36)	4,606	5,504	-16
Liabilities to customers	(37)	13,243	11,141	19
Securitised liabilities	(38)	7,065	6,704	5
Negative fair value of hedging derivatives	(27)	65	149	-56
Negative adjustment item from portfolio fair value hedges		-192	181	>-100
Trading liabilities	(39)	335	289	16
Provisions	(40)	361	493[1]	-27
Current tax liabilities	(42)	90	39	>100
Other liabilities	(44)	150	172	-13
Subordinated capital	(45)	930	921	1
Equity	(46)	5,165	4,717	9
Share capital		302	302	–
Capital reserve		1,529	1,524	0
Retained earnings		2,915	2,437	20
Revaluation reserve		-6	103	>-100
Group net result		425	351	21
Total liabilities		**31,818**	**30,310**	**5**

[1] The previous year's amount was adjusted; for more details please refer to Note 2.

Group statement of changes in equity

(€ m)	Note	Treasury shares	Share capital	Capital reserve	Retained earnings	Currency conversion reserve	Revaluation reserve	Group net result	Total before non-controlling interests	Non-controlling interests	Total
As at 1 January 2021		**–**	**3,018**	**82**	**1,010**	**–16**	**148**	**102**	**4,344**	**–**	**4,344**
Group net result		–	–	–	–	–	–	351	351	–	351
Changes resulting from the revaluation of net defined benefit liabilities		–	–	–	47	–	–	–	47	–	47
Credit risk-induced changes in the value of liabilities designated at fair value		–	–	–	–	–	-5	–	-5	–	-5
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		–	–	–	–	–	-40	–	-40	–	-40
Exchange rate changes[1]		–	–	–	–	16	–	–	16	–	16
Other comprehensive income		–	–	–	47	16	-45	–	18	–	18
Comprehensive income as at 31 December 2021		**–**	**–**	**–**	**47**	**16**	**–45**	**351**	**369**	**–**	**369**
Purchase of treasury shares		-2,716	–	2,716	–	–	–	–	–	–	–
Reduction in capital through cancellation of shares		2,716	-2,716	–	–	–	–	–	–	–	–
Compensation for the Group net loss for the previous year		–	–	–	102	–	–	-102	–	–	–
Changes in the capital reserve		–	–	-1,278	1,278	–	–	–	–	–	–
Share-based remuneration		–	–	4	–	–	–	–	4	–	4
As at 31 December 2021		**–**	**302**	**1,524**	**2,437**	**–**	**103**	**351**	**4,717**	**–**	**4,717**
As at 1 January 2022		**–**	**302**	**1,524**	**2,437**	**–**	**103**	**351**	**4,717**	**–**	**4,717**
Group net result		–	–	–	–	–	–	425	425	–	425
Changes resulting from the revaluation of net defined benefit liabilities		–	–	–	127	–	–	–	127	–	127
Credit risk-induced changes in the value of liabilities designated at fair value		–	–	–	–	–	4	–	4	–	4
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		–	–	–	–	–	-113	–	-113	–	-113
Other comprehensive income		–	–	–	127	–	-109	–	18	–	18
Comprehensive income as at 31 December 2022		**–**	**–**	**–**	**127**	**–**	**–109**	**425**	**443**	**–**	**443**
Compensation for the Group net loss for the previous year		–	–	–	351	–	–	-351	–	–	–
Share-based remuneration		–	–	5	–	–	–	–	5	–	5
As at 31 December 2022	(44)	–	**302**	**1,529**	**2,915**	**–**	**–6**	**425**	**5,165**	**–**	**5,165**

Group cash flow statement

Group cash flow statement

(€ m)		2022		2021
Net result for the period		425		351
Reconciliation with cash flow from operating activities				
Depreciation, impairments and write-ups on loans and advances, property, plant and equipment, financial investments, intangible assets and investment property		7		-11
a) Loans and advances to customers and banks	3		-17	
b) Financial investments	-		1	
c) Property, plant and equipment/intangible assets/investment property	4		5	
Changes in provisions		-178		-61
Other non-cash expenses/income		119		412
Profit/loss from disposal of financial investments and property, plant andequip-ment/investment property		1		-1
a) Financial investments	1		-3	
b) Property, plant and equipment/investment property	-		2	
Other adjustments		-599		-493
Subtotal		**225**		**197**
Changes in loans and advances		1,060		3,086
a) to banks	461		321	
b) to customers	599		2,765	
Changes in trading assets		470		917
Changes in other assets from continuing operations		-19		225
Changes in liabilities		1,198		-3,918
a) to banks	-901		-1,975	
b) to customers	2,099		-1,943	
Changes in securitised liabilities		350		1,031
Changes in trading liabilities		-410		-679
Changes in other liabilities from continuing operations		-130		-290
Interest and dividends received		1,012		845
Interest paid		-382		-308
Income tax payments		-45		11
Cash flow from operating activities		**2,879**		**1,117**
Receipts from disposals of		1.083		1,000
a) securities	1,083		994	
b) interests in affiliated companies and equity holdings	-		7	
c) property, plant and equipment	-		-1	
Purchases of		-2,246		-554
a) securities	-2,220		-532	
b) interests in affiliated companies and equity holdings	-2		-	
c) property, plant and equipment	-24		-22	
Cash flow from investing activities		**-1,163**		**446**

Group cash flow statement

(€ m)	2022	2021
Payments made (-) from subordinated capital	-3	-31
Payments made (-) from silent participations	-	-12
Cash flow from financing activities	**-3**	**-43**
Cash and cash equivalents at the beginning of the period	**3,261**	**1,741**
Cash flow from operating activities	2,879	1,117
Cash flow from investing activities	-1,163	446
Cash flow from financing activities	-3	-43
Cash and cash equivalents at the end of the period	**4,974**	**3,261**

Cash and cash equivalents are equivalent to the Cash reserve item in the statement of financial position and comprise cash on hand, balances at central banks, treasury bills, discounted treasury notes and similar debt instruments issued by public-sector bodies and bills of exchange.

The cash flow from operating activities is calculated using the indirect method, whereby the Group net income/loss for the year is adjusted for non-cash expenses (increased) and non-cash income (reduced), and for cash changes in assets and liabilities used in operating activities.

Group explanatory notes

General information

1. Accounting principles

Hamburg Commercial Bank AG prepares Group financial statements as the ultimate parent company.

HCOB has the legal form of a German Aktiengesellschaft (AG). Its registered office is in Germany, Gerhart-Hauptmann-Platz 50, Hamburg.

Hamburg Commercial Bank is a private commercial bank that provides conventional credit finance and supplementary financial solutions to their customers as a specialist finance provider.

Hamburg Commercial Bank AG has issued debt instruments as defined in Section 2 (1) sentence 1 of the German Securities Trading Act (WpHG) on an organised market as defined in Section 2 (11) WpHG and is thus obliged, as a publicly traded company as defined in Regulation (EC) 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 in conjunction with Section 315e (1) of the German Commercial Code (HGB) to prepare its Group financial statements in accordance with the International Financial Reporting Standards. International accounting standards, hereinafter IFRS or standards, refer to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) and the associated interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), published by the International Accounting Standards Board (IASB) and adopted under the IAS Regulation as part of the EU endorsement.

The supplementary provisions of Section 315e German Commercial Code (HGB) are taken into account and are shown individually in Notes 61 and 64.

The Group financial statements are prepared in accordance with IFRS as published by the IASB and adopted as European law by the European Union (EU).

The Group financial statements of Hamburg Commercial Bank are prepared in line with IFRS 10 according to uniform Group-wide measurement and accounting policies. In accordance with IAS 1, the Group financial statements consist of the statement of income, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the explanatory notes, including segment reporting. In addition to the Group financial statements, a Group management report in accordance with Section 315 German Commercial Code (HGB) was prepared.

Group income and expenses are accrued on a pro rata temporis basis. They are recognised and disclosed in the period to which they must be assigned economically. Accounting for assets, liabilities, income and expenses takes place on a consistent basis. Deviations are only made in justified exceptional cases, which are explained separately in the notes on the relevant items in the Hamburg Commercial Bank Group financial statements.

Unless explicitly stated otherwise, all amounts are stated in millions of euros (€ m).

The reporting year corresponds to the 2021 calendar year.

IFRS 7.31 et seqq. contains rules on presenting risks arising from financial instruments. In this regard, IFRS 7.B6 allows for the possibility of disclosing risk in a suitable medium separate from the Group financial statements. Availing itself of this option, Hamburg Commercial Bank has published risk disclosures about financial instruments as permitted by IFRS 7.31 et seqq. partly in the explanatory notes and partly in the Risk Report section of the Group management report. Specifically, this pertains to the qualitative disclosures on credit risk, which are explained in the Risk Report. In addition, quantitative disclosures on credit risk, in particular on the development of loan loss provisions and the impairment of financial instruments, including the development of gross carrying amounts, are made in the Disclosures on financial instruments section of the notes to the Group financial statements. This also concerns qualitative disclosures on market risk included in the Market risk section of the Risk Report. The sensitivity analyses as required by IFRS 7.40–42 for the assessment of market risk are included in the Disclosures on financial instruments section of the notes to the Group financial statements. The maturity analyses as required by IFRS 7.39 (a) and (b) for derivative and non-derivative financial liabilities are also included in the Disclosures on financial instruments section of the notes to the Group financial statements. The description of how liquidity risk is managed as required by IFRS 7.39 (c) is included in the Group Risk Report.

In addition, as part of the supplementary German commercial regulations, the Group observed the following German Accounting Standards (GAS) in preparing these Group financial statements and this Group management report.

- GAS 20 Group Management Report
- GAS 17 Reporting on the Remuneration of members of corporate bodies

Apart from the new standards and interpretations stated in the following, which may have a significant influence on the Group financial statements, a number of additional standards and interpretations have been adopted but are not expected to have any material effect on the Group financial statements.

In the financial year under review, the following accounting standards had to be applied for the first time.

Amendments to IFRS 3 Business Combinations
The amendments include an update of the reference in IFRS 3 to the Revised Framework for IFRS (2018) and an addition to IFRS 3 to specify that an acquirer shall apply the requirements of IAS 37 or IFRIC 21 instead of the Framework in identifying assumed obligations that fall within the scope of IAS 37 or IFRIC 21. An exception to this is contingent liabilities, for which the exception in IFRS 3.23 continues to apply.

Furthermore, the amendments relate to a supplement to IFRS 3 with an explicit prohibition on the recognition of acquired contingent assets.

The amendments to IFRS 3 are applicable for the first time to business combinations for which the acquisition date falls on or after 1 January 2022.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IAS 16 Property, Plant and Equipment
Among other things, the amendments clarify that in future no deduction from the cost of an item of property, plant and equipment of income earned during the period in which the item is brought to its location or into its working condition will be permitted. This includes, but is not limited to, income from the sale of products manufactured as part of test runs of the asset. In future, such income must be recognised directly in profit or loss.

In addition, the term "cost of testing whether the asset is functioning properly" is clarified. Accordingly, these are costs incurred to determine whether the asset is technically and physically capable of performing its intended use. However, the achievement of a certain financial capacity is irrelevant.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
The amendments clarify that in future, when determining whether a contract is an onerous contract, in addition to the incremental costs arising from the contract, other costs directly attributable to the performance of the contract (e.g. pro rata depreciation of an item of property, plant and equipment used to perform the contract) must also be included in the determination of the cost of fulfilling a contract.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Annual Improvements to IFRS 2018-2020
The Annual Improvements to IFRS 2018-2020 amended four IFRSs.

In accordance with the exemption in IFRS 1.D16(a), a subsidiary (except investment companies) that prepares IFRS consolidated financial statements for the first time after its parent company may recognise its assets and liabilities at the values previously recognised for this purpose in the consolidated financial statements of the parent company. The amendments extend this rule to include the cumulative currency translation differences of the subsidiary, so that in future these can also be carried forward unchanged with the values previously carried in the consolidated financial statements of the parent company. However, other equity items remain excluded from the exemption.

The amendments to IFRS 9 relate to the so-called 10% test to be performed as part of the disposal test for financial liabilities. In future, this may only include fees that have been incurred between the company and the creditor. If the derecognition test for modified or exchanged financial liabilities leads to repayment, any costs and fees must be recognised in profit or loss. If, however, the modification or exchange does not result in settlement, costs and fees should be amortised over the remaining life of the modified liability by adjusting the carrying amount and effective interest rate, unless they are compensation for modifying the cash flows of the liability (for example, a fee to offset a decrease in interest rates). The latter must be recognised in profit or loss as part of the modification posting.

In the illustrative example No. 13 of IFRS 16, the part on lease incentives was deleted in connection with reimbursements by the lessor for leasehold improvements made by the lessee.

Finally, IAS 41 is amended to remove the requirement not to recognise cash flows for taxes relating to the measurement of biological assets at fair value.

For Hamburg Commercial Bank, the above-mentioned regulations do not have any significant impact on the consolidated financial statements.

Hamburg Commercial Bank is not planning the early application of the following new or amended Standards or Interpretations for which application is only mandatory in later financial years. To the extent not indicated otherwise, all effects on the financial statements of Hamburg Commercial Bank are currently under review.

Already endorsed by the EU:
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies
The amendments to IAS 1 clarify that an entity is now required to disclose its material accounting policy information in the notes instead of its significant accounting policies. Whether or not the accounting policy information can be classed as material is determined based on whether a user of the entity's financial statements needs this information to make decisions. The accounting policy information must therefore be related to material transactions or other events, and there must be a reason for its disclosure. The amendments to IAS 1 were included in the IFRS Practice Statement 2 and examples were added.

The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
The amendments to IAS 8 clarify the difference between accounting policies and accounting estimates. Accounting estimates are now defined as monetary amounts in financial statements that are subject to measurement uncertainty.

The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
The amendments limit the initial recognition exemption of deferred taxes on assets or liabilities in accordance with IAS 12 to the extent that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This pertains in particular to deferred taxes on transactions such as leases and decommissioning obligations. In these cases, entities are now obliged to recognise deferred taxes upon initial recognition.

The amendments are mandatory for application for annual periods beginning on or after 1 January 2023.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information
IFRS 17 addresses the accounting treatment of assets and liabilities arising from insurance contracts. The amendments concern transitional provisions for the simultaneous application of IFRS 17 and IFRS 9. The provisions of IFRS 17 and the amendments are mandatory for application for annual periods beginning on or after 1 January 2023. They have no impact on the Group financial statements of Hamburg Commercial Bank.

EU endorsements still pending:
Amendments IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current – Deferral of Effective Date and Non-current Liabilities with Covenants
The amendments to IAS 1 concern the classification of liabilities as non-current or current. If an entity has a right at the reporting date to defer settlement of the liability for at least 12 months after the reporting date, the liability is classified as non-current. The mere existence of a right is considered sufficient. In case this right depends on certain covenants, these do not affect the classification of debt as current or non-current at the reporting date, provided that the covenants have to be complied with after the reporting date. However, the classification of a liability as current or non-current is affected if covenants have to be complied with on or before the reporting date, even if the covenant itself is not assessed until after the entity's reporting date. If the liability can be settled by issuing equity instruments of the reporting entity because of an option of the counterparty, it is clarified that this does not affect the classification of the liability as current or non-current, provided that the option is presented separately as an equity component of a compound financial instrument in accordance with IAS 32.

Subject to the still pending adoption into EU law, the amendments are effective for annual periods beginning on or after 1 January 2024. Earlier application is permitted.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback
The amendments to this standard add to requirements explaining how a company accounts for a sale and leaseback after the date of the transaction. The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains.

Subject to the still-pending adoption into EU law, the amendments to IFRS 16 need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2024. Earlier application is permitted.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Going concern assumption
Accounting and valuation are based on the assumption that HCOB is a going concern. HCOB's corporate planning forms the basis for the going concern assumption.

2. Change in previous year's figures

I. Adjustments of prior-year figures

A retrospective adjustment was made for the following:
In the Group financial statements as at 31 December 2021, the "Other assets" and "Provisions" items in the statement of financial position were understated by € 39 million (and by € 30 million as at 1 January 2021).

The incorrect disclosure in the Group statement of financial position is related to the contractual claims of Hamburg Commercial Bank AG against the Contractual Trust Arrangement (CTA) for the pension benefits paid to the pensioners. The claims no longer meet the definition of plan assets according to IAS 19.8 and are therefore to be reported as other receivables. However, in the Group financial statements as at 31 December 2021, the corresponding amount of € 60 million was not transferred from plan assets to claims against the CTA. The failure to reclassify this item resulted in an incorrect asset surplus as at 31 December 2021 (positive difference between the fair value of the plan assets and the covered pension liabilities), which led to an incorrect capitalisation of this asset surplus in the amount of € 21 million. If the item had been reclassified correctly, there would have been a surplus of liabilities as at 31 December 2021 with the following consequences:

- Capitalised asset surplus in the amount of € 0 instead of € 21 million recognised (no correction as at 1 January 2021, as the disclosure of the asset surplus in the amount of € 0 was correct).
- Claim against CTA recognised in other assets in the amount of € 60 million instead of € 0 (corrected amount as at 1 January 2021: € +30 million).
- Provisions increased by € 39 million (net liability under the Provisions for pensions and similar obligations item) due to surplus on the liabilities side from the negative difference between the fair value of the plan assets and the covered pension liabilities (corrected amount as at 1 January 2021): € +30 million).

As a result, the failure to transfer this amount from plan assets as at 31 December 2021 led to an incorrect balance sheet contraction of € 39 million (and in the opening balance sheet as at 1 January 2021 to an incorrect balance sheet contraction of € 30 million)

The previous year's figures have been adjusted accordingly.

This error also affects the amounts stated for 31 December 2021 in the explanatory notes (Note 35 on "Other assets", Note 40 on "Provisions", Note 41 on "Pension obligations and similar obligations", Note 51 on "Disclosure of fair value in accordance with IFRS 7 and IFRS 13" and Note 53 on "Credit risk analysis of impaired financial assets"). In the aforementioned notes, the corrected previous year's amounts are marked by corresponding footnotes.

3. Impact of COVID-19 and the war in Ukraine on the Group financial statements of Hamburg Commercial Bank

I. Estimates and discretionary decisions

Uncertainties with regard to future market developments have increased due to the effects of the COVID-19 pandemic, which have not yet been fully overcome, and Russia's invasion of Ukraine. This has an impact on the estimates required in line with impairment provisions according to IFRS 9. This relates both to the integration of forward-looking macroeconomic scenarios and their weighting in determining expected losses in Stage 1 and Stage 2 credit exposures and to the estimation of future cash flows in Stage 3 credit exposures.

Determining the extent to which a significant deterioration in credit quality occurs and the associated movement between Stages 1 and 2 is per se a key discretionary decision.

Additional information on the calculation of loan loss provisions is provided in Note 8 of the HCOB Group financial statements (IFRS) as at 31 December 2022 (Accounting and measurement principles, section D). In determining the model overlays, the credit exposures potentially particularly affected by the COVID-19 pandemic or the war in Ukraine as well as the sub-portfolios retail and tankers were already classified as Stage 2, even before this would have been required pursuant to the stage transfer concept. In addition, the risk parameter surcharges applicable in the measurement of the model overlays are reviewed and adjusted on a regular basis.

II. Change in loan loss provisions as at 31 December 2022

The impact of forward-looking information on the credit risk parameters Probability of default (PD) and Loss given default (LGD) is generally determined using statistical procedures and is taken into account when calculating the expected credit losses. In this process, various macroeconomic forecasts (cf. table on "Macroeconomic forecasts for 2023") are taken into account and regular checks are performed to analyse whether alternative macroeconomic developments have a material non-linear impact on the amount of loan loss provisions.

So-called model overlays take risk factors that are relevant to the valuation into account, unless they are already included in the calculation parameters of the models. Loan loss provisions are then adjusted either directly or indirectly by altering the credit risk parameters to reflect these effects.

IFRS 9 loan loss provisions (for on- and off-balance-sheet transactions) amount to € 449 million as at 31 December 2022 (previous year: € 490 million). Of this amount, € 144 million (previous year: € 186 million) pertain to the adjustment of loan loss provisions because of model overlays. Here, € 59 million are allocated to Stage 1 loan loss provisions and € 85 million to Stage 2 loan loss provisions. No model overlays have been formed for Stage 3 loan loss provisions.

Composition of model overlays

(€ m)	2022	2021
Effect of macroeconomic forecasts	47	52
Address and portfolio related adjustments		
Individual cases related to COVID-19 (credit watch list)	27	84
Individual cases of borrowers potentially impacted by the war in Ukraine (credit watch list)	21	-
Hotels sub-portfolio	-	1
Retail sub-portfolio	12	3
Tankers sub-portfolio	29	19
Additions to ECL method	8	27
Total	**144**	**186**

A) EFFECT OF MACROECONOMIC FORECASTS

The after-effects of the COVID-19 pandemic and the impact of the war in Ukraine on Hamburg Commercial Bank's macroeconomic environment in the reporting period were calculated in separate scenarios. For this purpose, HCOB takes into account two weighted scenarios (basis and stress scenario). These scenarios are based on the following macroeconomic forecasts:

Significant macroeconomic forecasts for 2023 (as at 31 December 2022)

	Basis Scenario	Stress Scenario
GDP USA (%)	0.5	-0.3
GDP eurozone (%)	0.5	-0.6
Unemployment rate Germany (%)	-0.5	-1.4
Fed Funds rate (%)	4.625	3.625
ECB MRO rate (%)	3.50	3.00
3M EURIBOR (%)	3.32	2.60
10Y Bunds (%)	2.61	1.80
EUR/USD exchange rate	1.08	0.90
Unemployment rate Germany (%)	5.60	5.90
Inflation Germany (%)	7.2	8.5

The basis scenario (60% probability of occurrence) represents the expected development, while the stress scenario (40% probability of occurrence) also takes into account additional uncertainties resulting from the pandemic and geopolitical crisis situations, in particular the future effects of the energy embargo on Russian as well as the current high inflation rate and the generally increased interest rate level. Depending on the macroeconomic scenarios for determining the model overlays, the risk parameters (PD and LGD) are adjusted for the entire portfolio. The overall assessment includes the delta between the calculation with the adjusted risk parameters and the original loan loss provisions as a model overlay.

The additional loan loss provisions resulting from the two scenarios amount to € 47 million (previous year: € 52 million). This reflects the slowdown in economic recovery due to a dampened outlook in certain economic sectors, mainly as a result of the effects on the overall economic situation resulting from the war in Ukraine. The effects from macroeconomic forecasts were also taken into account for exposures of HCOB's special credit funds. As at the reporting date, € 2 million of the model overlays for effects from macroeconomic forecasts are attributable to these exposures.

B) ADDRESS AND PORTFOLIO RELATED FORECASTS

In addition to the purely macroeconomic forecasts, possible effects on individual borrowers in the bank portfolio are also taken into account. These concern not only customers who are affected by the consequences of the COVID-19 pandemic, but also customers who can expect their business model to be negatively affected by current macroeconomic or economic policy developments. In addition to the sub-portfolios retail and tankers, this also comprises customers who have to tackle significant challenges because of supply chain, energy or price issues resulting from the war in Ukraine. It should be noted that Hamburg Commercial Bank had no significant direct exposure to Russia or Ukraine as at the reporting date.

The risk parameters (PD and LGD) for those customers identified are adjusted for the calculation of the model overlays, while the exposures are moved to Stage 2 if they were not yet in this stage already or have not already been migrated due to macroeconomic assumptions. The delta between this calculation and the original loan loss provisions is included in the overall assessment as the model overlay.

HCOB has analysed its loan portfolio at the level of sub-portfolios as well as at a case-by-case level with respect to the impact of macroeconomic developments. Based on close co-operation between the front and back office, HCOB has identified customers with a medium to strong negative exposure to the pandemic and geopolitical crisis situations; these are closely monitored for credit risks through the credit watch list. This pertains to a total exposure at default (EaD) of € 3,039 million (previous year: € 3,609 million), of which € 2,496 million are attributable to Stages 1 and 2 as at 31 December 2022 and were taken into account for the calculation of the model overlays in the individual cases. It should be noted that the credit watch list was expanded in the reporting period to include customers potentially negatively affected by the consequences of the war in Ukraine.

The model overlays for individual borrower risks amounted to € 48 million as at the reporting date (previous year: € 84 million). Of this amount, € 27 million are attributable to cases affected by the aftermath of the COVID-19 pandemic (previous year: € 84 million) and € 21 million (previous year: € 0 million) to individual exposures with a potentially negative impact from the consequences of the war in Ukraine.

The reduction in model overlays related to the COVID-19 pandemic corresponds with a substantial reduction in EaD volume on the credit watch list as well as changes in risk parameters. While at 31 December 2021, the EaD for COVID-19-related address risks had still amounted to € 3,609 million, this amount has decreased very significantly to € 1,316 million as at year-end 2022. This decrease was driven by the fact that for many of the exposures still on the watch list at the end of 2021, the ongoing effects of the COVID-19 pandemic were included in the risk parameters of the internal models in financial year 2022, which led to a reduction in the model overlays for these cases. Further, the effects of the pandemic on the economy as a whole have decreased. Model overlays formed for the first time in financial year 2022 for exposures that may be affected by the war in the Ukraine amount to € 21 million and are based on EaD of € 279 million. Some of this exposure relates to customers who were still included in the individual case assessment for COVID-19 at the end of 2021, but who were transferred to the customer group potentially affected by the war in Ukraine for the measurement of the model overlays on the reporting date due to their business models.

At the portfolio level, retail properties (especially department stores and shopping centres) were identified as a portfolio particularly affected by the aftermath of the COVID-19

pandemic. In total, this pertains to EaD of € 1,634 million (previous year: € 1,434 million). Model overlays amount to € 12 million (previous year: € 3 million). The increase of € 9 million mainly relates to exposures that are no longer included in the credit watch list as at the reporting date, but for which the loan loss provisions were nevertheless adjusted by way of the sub-portfolio valuation using model overlays, as the negative effects are expected to last despite the ongoing improvement in the pandemic situation. The model adjustments in the hotel sub-portfolio were released, as the occupancy rate in the hotel industry returned to the pre-crisis level, which means that the corresponding model overlays were no longer necessary (previous year: € 1 million).

Additional model overlays were formed in the shipping portfolio. The market situation remains very volatile, especially in the tankers segment. Despite the current recovery in charter rates and ship values, which is caused by the oil embargoes against Russia and expected to be temporary, this development is not expected to be long-term. This is also reflected in the fact that there is no investment in new tankers in the market despite the increase in charter rates. As a result, adjustments to loan loss provisions in the form of overlays of € 29 million (31 December 2021: € 19 million) were made for tanker financing with EaD of € 910 million (31 December 2021: € 764 million). The increase in model overlays is mainly due to the significantly higher PD shifts in the Shipping segment due to the sharp deterioration in forecasts for charter rates and second-hand prices.

C) ADDITIONS TO ECL METHOD

Independently of adjustments to loan loss provisions that are related to either the pandemic or the geopolitical situation, HCOB determines mark-ups for pending adjustments to internal models. As at 31 December 2022, these amount to € 8 million (previous year: € 27 million). The reduction of € 19 million is mainly due to the completed transition to the new rating model in the field of domestic real estate and the implementation of new LGD models, which eliminated the basis for the formation of technical adjustments due to weaknesses in the models and uncertainties in the form of model overlays.

D) SENSITIVITY ANALYSIS

If the duration and impact of the COVID-19 crisis as well as the war in Ukraine turn out to be either more or less significant than currently assumed in the ECL model, the macroeconomic assumptions taken into account will have to be adjusted. The sensitivity of Hamburg Commercial Bank's ECL model to future adjustments is shown by an upward and downward shift in the forecast assumptions.

Greater or lesser impacts of the crises would particularly influence the ratings of borrowers that are expected to be significantly affected by the COVID-19 pandemic or the war in Ukraine in the ECL model. To simulate the potential effects on the loan loss provisions a rating shift of two notches and one notch respectively was simulated.

A rating downgrade for the portfolios affected by two notches would result in an increase in the model-overlays of € 88 million, while a downgrade by one notch would result in an increase of € 40 million. A rating upgrade by two notches would reduce the modeloverlays by € 53 million, while an upgrade by one notch would lead to a reduction of € 33 million. A change in the weighting between the basis and stress scenarios of ten percentage points would result in an increase or decrease in the macroeconomic model overlays of € 5 million.

E) OTHER EFFECTS

There were no other modification effects caused by forbearance measures in connection with COVID-19 or the war in Ukraine in the reporting period.

An increase or decrease in deferred tax assets has the corresponding offsetting effect on the Group net result.

4. Implementation of the Interest Rate Benchmark Reform at Hamburg Commercial Bank

Interbank Offered Rates (IBORs) are used as benchmarks for pricing and determining cash flows of a variety of financial instruments.

The Interest Rate Benchmark Reform replaces IBOR reference rates and the Euro Overnight Index Average with other, more neutral reference rates, the so-called Risk-Free Rates (RFRs).

The IBOR transition has an impact on a wide range of products in the lending and capital market business of Hamburg Commercial Bank, as the interest rate calculation or interest payments for these products are based on an IBOR (e.g. interest rate swaps, interest rate options, securities, issues or loans). Moreover, numerous valuation models for discounting or determining forward rates include IBOR-based interest curves.

The discontinuation of IBORs/EONIA and the transition to RFRs lead to a number of challenges that are mainly procedural or operational in nature. In order to manage these challenges and to control and coordinate the transition process, Hamburg Commercial Bank has set up a dedicated IBOR project.

In 2021, the capacity to enter new business contracts based on the new RFRs across all products and for all currencies concerned as well as the conversion of interest rate curves as required because of the discontinuation of LIBOR rates were successfully completed. In addition, the existing portfolio was successfully transitioned for almost all contracts in the relevant non-USD currencies (EUR / GBP / CHF / JPY) by 31 December 2021. In the first half of 2022, the capacity to enter new business contracts was also achieved for term rates on an RFR basis. Moreover, relevant contract clauses were prepared on the basis of the new RFRs (ON compounded and term rates).

The conversion of relevant USD contracts will continue beyond 31 December 2022 and will be completed by 30 June 2023 at the latest, when USD LIBOR will also no longer be quoted.

The portfolio yet to be converted as at 31 December 2022 is composed as follows:

USD portfolio

	2022		2021	
USD	Nominal value outstanding in million	Number of customers/ISINs	Nominal value outstanding in million	Number of customers/ISINs
Non-derivative receivables	2,644	142	4,329	253
Loans	2,528	137	3,758	164
Securities	116	5	571	89
Non-derivative liabilities	212	14	221	50
Deposits	3	10	12	46
Own issues	209	4	209	4
Derivatives	574	18	1,243	22

GBP portfolio

	2022		2021	
GBP	Nominal value outstanding in million	Number of customers/ISINs	Nominal value outstanding in million	Number of customers/ISINs
Non-derivative receivables	–	–	21	5
Loans	–	–	11	1
Securities	–	–	10	4

In contrast to the previous year, there were no GBP amounts left to be transitioned as at the reporting date.

5. Consolidation principles

The Group financial statements present the parent company Hamburg Commercial Bank AG together with the consolidated subsidiaries as an economic unit. Subsidiaries also include structured entities that are controlled by Hamburg Commercial Bank. Structured entities are entities in which voting rights and similar rights do not constitute the dominant factor in assessing control. These also include entities whose relevant activities are predetermined by a narrow objective defined in the articles of association/partnership agreements or in other contractual agreements or in which there is a lasting restriction of the decision-making powers of the management. Hamburg Commercial Bank mainly classifies ABS conduits and other securitisation and refinancing vehicles as well as investment funds (including private equity funds) as structured entities. Structured entities are included in the scope of consolidation if they are subsidiaries and are material to the presentation of net assets, financial position and results of operations or to the assessment of the risk situation of the Hamburg Commercial Bank Group.

Disclosures on the nature of risks associated with interests in consolidated structured entities are provided in Note 6 . Reference is made to Note 55 with regard to unconsolidated structured entities.

Control over a subsidiary prevails when Hamburg Commercial Bank is exposed to variable incoming cash flows from the exposure to this entity or has rights to such cash flows and is able to influence the cash flows through its decision-making power over the entity. Hamburg Commercial Bank possesses decision-making power over an entity if it has rights that confer on it, either directly or indirectly via third parties, the current possibility of controlling the entity's relevant activities. Relevant activities are deemed to be those which materially affect the entity's incoming cash flows depending on the nature and purpose of the entity. Variable incoming cash flows are all those which can vary depending on the entity's performance. Incoming cash flows from the exposure to another entity may accordingly be positive as well as negative. Variable incoming cash flows include dividends, fixed and variable interest, remuneration and fees, fluctuations in the value of investments and other financial advantages.

The assessment as to whether decision-making power exists is made on the basis of the relevant activities of the entity and the powers of Hamburg Commercial Bank to influence them. Voting rights as well as other contractual rights are considered in reviewing the control of relevant activities provided there are no economic or other obstacles to the exercise of the existing rights and Hamburg Commercial Bank would benefit from exercising those rights. Hamburg Commercial Bank has decision-making power based on voting rights if as a result of equity instruments or contractual agreements Hamburg Commercial Bank holds more than 50% of the voting rights and this proportion of the voting rights is allied to a substantial decision-making right with regard to the relevant activities. Other contractual rights that may facilitate a controlling influence are primarily rights to appoint members of corporate bodies, recall them, to liquidate and to make other decisions. Hamburg Commercial Bank controls a subsidiary if based on the total contractual rights it has the possibility to control the relevant activities of the entity.

A subsidiary is also controlled by Hamburg Commercial Bank if the decision-making power is exercised by third parties in the interests of and for the benefit of Hamburg Commercial Bank. Whether such delegated decision-making power exists is judged by considering the existing powers to appoint members of corporate bodies, the legal and de facto scope for making decisions and the structure of the economic incentives. Hamburg Commercial Bank itself does not exercise any delegated powers to make decisions that would benefit third parties.

In individual cases, Hamburg Commercial Bank has a controlling influence based on contractual rights, although it holds less than 50% of the voting rights.

Shares held by third parties in the equity of the subsidiary are shown as non-controlling interests in Group equity, provided these are not shares of external shareholders in consolidated commercial partnerships. Non-controlling interests are that part of the net results for the period and net assets of a subsidiary related to shares not directly held by the parent company or by a Group subsidiary. Non-controlling equity shares in subsidiaries and the resulting profit or loss as well as summarised financial information on subsidiaries with material non-controlling shares are presented in Note 6 . Shares of external shareholders in consolidated commercial partnerships constitute puttable financial instruments, which are to be classified as debt in the Group financial statements under IAS 32 and disclosed under Other liabilities. Changes in value are recognised in Other operating income/expenses in the consolidated statement of income.

Subsidiaries are included by way of full consolidation in the Group financial statements of Hamburg Commercial Bank. In consolidating the capital, the carrying amount of the equity holding in each subsidiary is set off against the share of Hamburg Commercial Bank in the subsidiary's equity capital. Goodwill connected to this is accounted for using the acquisition method in accordance with IFRS 3. Intra-Group receivables, liabilities and income are eliminated within the framework of debt and/or expense and income consolidation for the purpose of the Group financial statements. Expenses and gains arising from the transfer of assets within the Group are eliminated as well.

Shares in subsidiaries which were not consolidated because of their subordinate importance for Hamburg Commercial Bank Group's net assets, financial position and results of operations are accounted for as financial instruments at fair value through profit & loss (FVPL) based on the recognition and measurement guidelines of IFRS 9.

Structured entities within the meaning of IFRS 12 are entities designed so that voting rights or similar rights do not represent the dominant factor in terms of assessing whether control is being exercised. Voting rights in such entities only relate to contractually specified administrative functions. Similar rights would refer, for example, to potential voting rights such as options on voting rights. Structured entities like securitisation vehicles are controlled by Hamburg Commercial Bank and included as subsidiaries in the Group financial statements if Hamburg Commercial Bank has decision-making power over the relevant activities and is subject to variable return flows from these activities.

Hamburg Commercial Bank does not classify single asset companies and project companies as structured entities, because as a rule they are not designed to ensure that holding voting rights is only for the purpose of performing contractually governed administrative functions. Structured entities are also characterised by a narrowly defined business purpose, a limited field of activity and comparatively low equity capital. If a company is not controlled by voting rights but by means of contractual rights, it is classified as a structured entity.

Joint arrangements are based on contractual agreements under which two or more partners establish an economic activity under shared management. Joint control is when the partners must cooperate in order to steer the relevant activities of the joint arrangement and decisions require unanimous consent of the participating partners. Such a joint arrangement is a joint venture if the partners who exercise joint control hold rights and obligations to the net assets of the arrangement. If, conversely, the partners have direct rights to the assets or liabilities attributable to the joint arrangement for their debts, the arrangement is a joint operation.

If a joint arrangement is embodied in a legally independent partnership or corporation with its own assets, so that Hamburg Commercial Bank only has a proportionate claim to the net assets of the company based on its shares in the company, this entity is normally a joint venture. In order to determine whether a joint venture or a joint operation is concerned in the case of joint arrangements, the contractual provisions and the purpose of the joint arrangement are used in addition. If neither the legal form nor the contractual provisions or other facts and circumstances provide an indication that Hamburg Commercial Bank has direct rights to the assets and/or obligations for the debts of the joint arrangement, it is a joint venture.

Associates are companies where Hamburg Commercial Bank AG can exercise a significant but not controlling influence directly or indirectly via subsidiaries. Significant influence refers to the possibility of influencing decisions affecting the financial and business policy of another entity but not controlling it. Significant influence is found in principle if Hamburg Commercial Bank as an investor directly or indirectly holds 20% or more of the voting rights through subsidiaries. It may also be an associate if Hamburg Commercial Bank has less than 20% of the voting rights but because of other factors has the possibility of influencing the company's decisions concerning financial and business policy. This in particular includes the representation of Hamburg Commercial Bank in the entity's decision-making body and contractual rights to manage or dispose of assets including investment decisions in the case of investment funds. If Hamburg Commercial Bank only holds rights to approve, agree or veto, significant influence is not presumed to exist.

Interests in joint ventures and associates that are material to the proper presentation of the Group's net assets, financial position and results of operations are consolidated under the equity method. In doing so, the Group's interest in a joint venture/share in an associate is initially measured at cost of acquisition and therefore increased or decreased depending on the Group's share in the joint venture's/associate's profit or loss. The relevant shares are stated in the statement of financial position under a separate line item.

Interest in joint ventures and associates, respectively, which were not consolidated under the equity method because of their subordinate importance for Hamburg Commercial Bank Group's net assets, financial position and results of operations have been accounted for as financial instruments at fair value through profit & loss (FVPL) based on the recognition and measurement guidelines of IFRS 9 and are disclosed under financial investments. Where Hamburg Commercial Bank has no information as at the reporting date that would allow for the fair value of these interests to be reliably determined, measurement is based on acquisition cost.

6. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg, the scope of consolidation includes 14 fully consolidated subsidiaries (31 December 2021: 13).

As at 31 December 2021, there are no associates or joint ventures accounted for using the equity method.

The subsidiaries included in the Group financial statements and those subsidiaries, joint ventures and associates that are not included due to their immateriality for the presentation of net assets, financial position and results of operations of the Hamburg Commercial Bank Group can be found in the list of shareholdings (Note 63). The list of shareholdings also includes explanatory information regarding classification as a subsidiary, joint venture or associate that differs from that indicated by voting rights.

The changes in the scope of consolidation during the financial year relate to the following subsidiaries:

I. Disclosures on subsidiaries – Changes in the scope of consolidation

A) ADDITIONS

The following companies are fully consolidated and included in the Group financial statements for the first time in 2022:

- Apollo Alster Lending Fund (Lux) SCSp, Luxembourg
- HI-Hafen Global-Fonds, Frankfurt am Main

Due to contractual regulations, HCOB exercises control over Apollo Alster Lending Fund (Lux) SCSp, Luxembourg, founded on 24 March 2022, as the regulations mean that the operating decision-makers of the company must be classified as agents of Hamburg Commercial Bank. The primary business purpose of this special fund (loan fund) is the investment in receivables from third parties. It was established for the purpose of the Bank diversifying its activities in the international corporates business through the loan fund, with the focus on North America and Western Europe.

For the same reason (operating decision-makers classified as agents due to contractual rights of Hamburg Commercial Bank), the Bank has control over the special fund HI-Hafen Global-Fonds, Frankfurt am Main. This was also founded with the purpose of diversifying the Bank's activities in the International Corporates business. The primary investment objective of the fund is to invest in corporate bonds, again with a focus on the North American and European markets. The Fund commenced operations with its first issue on 14 April 2022; all fund shares issued were acquired by Hamburg Commercial Bank.

B) DISPOSALS

Compared to 31 December 2021, the following companies are no longer included in the group of consolidated companies:

- RESPARCS Funding II Limited Partnership, St. Helier

This company, which originally served as a refinancing vehicle for a capital market transaction, was liquidated in the reporting year after the transaction was completed. The company was deconsolidated from the date of liquidation, 10 February 2022. The deconsolidation had no significant effect on earnings.

C) MODIFICATION OF HOLDINGS IN SUBSIDIARIES

There were no changes in the ownership interests held by Hamburg Commercial Bank in a subsidiary in the period under review that did not lead to a loss of control.

II. Information on shares held in associates and joint ventures accounted for under the equity method

A) GENERAL INFORMATION

At the reporting date, Hamburg Commercial Bank did not hold any shares in associates or joint ventures accounted for using the equity method that are material for the Group's net assets, financial position and results of operations.

III. Information on consolidated structured entities

Hamburg Commercial Bank's scope of consolidation includes seven fully-consolidated structured entities. Two of these companies are controlled on the basis of a majority of voting rights. For five of these companies, control is based solely on contractual rights.

The following disclosures represent the type of risks in connection with business relationships with consolidated structured entities.

The underlying silent participation and the associated bonds were already repaid in the previous financial year, but Hamburg Commercial Bank AG is still obliged to bear the operating expenses of one consolidated structured entity as at the reporting date. This obligation will continue until the structured entity has been fully liquidated, which is scheduled for financial year 2023.

During the reporting year, Hamburg Commercial Bank did not provide consolidated or unconsolidated structured entities with any non-contractual support.

As at the reporting date, there is no current intention to provide a consolidated structured entity with financial or other support within the definition of IFRS 12.17.

7. Management estimates and discretionary decisions

Estimates:

As permitted, estimates and assumptions for the measurement of assets and liabilities have been incorporated into the Group financial statements of Hamburg Commercial Bank. All estimates and judgements necessary for accounting and measurement according to IFRS were undertaken in accordance with the appropriate standard, are continuously reassessed and are based on past experience and other factors, including expectations of future events which appear reasonable under the circumstances. In particular, the following topics are affected by estimation uncertainties (please refer also to the explanatory information under Note 8):

- the allocation to stages and the determination of the amount of loan loss provisions under the impairment provisions set out in IFRS 9
- allocations to provisions for litigation risks
- allocations to provisions for pension obligations and similar obligations and other provisions
- the recognition and measurement of deferred taxes
- the calculation of fair values

Where there is greater uncertainty regarding estimates relating to other aspects, the underlying assumptions are presented in greater detail in the relevant note.

Discretionary decisions:

With the exception of estimates, major discretionary decisions by management in the application of accounting and measurement methods include in particular (cf. also explanations under Note 8):

- the allocation to stages and the determination of the amount of loan loss provisions under the impairment provisions set out in IFRS 9
- allocations to provisions for litigation risks
- the definition of business models and the classification of financial instruments in accordance with IFRS 9
-
- the determination of fair values for certain financial instruments, including the assessment of whether an active or inactive market exists
- the utilisation of the fair value option for financial instruments
- the assessment whether Hamburg Commercial Bank controls another entity

Within the context of the impairment provisions set out in IFRS 9, both significant estimates and significant discretionary decisions are made with regard to the allocation to stages and the calculation of the amount of the loan loss provisions (cf. Note 8 and Note 3).

The transfer of a financial instrument between Stage 1 and 2 and the associated definition of the extent giving rise to a significant deterioration in credit quality (significance threshold) is a central discretionary decision within the context of the impairment provisions.

When calculating the loan loss provisions Stage 1 and 2, Hamburg Commercial Bank estimates the associated credit risk parameters over a one-year period and extrapolates them on the basis of appropriate assumptions over a period of several years. Within this context, there are considerable uncertainties relating to estimates, particularly when including forward-looking macroeconomic scenarios.

The calculation of Stage 3 loan loss provision also involves estimates. In particular, the estimates for various scenarios, including associated probabilities of occurrence and the recoverable amount in the respective scenario, involve discretionary decisions.

For estimates and discretionary decisions made in connection with the COVID-19 pandemic and the war in Ukraine, please refer to the comments in Note 3 ("Impact of COVID-19 and the war in Ukraine on the Group financial statements of Hamburg Commercial Bank").

Major discretionary decisions in connection with the application of the classification and measurement provisions of IFRS 9 relate to the definition/classification of the Bank's business models and the corresponding allocation of portfolios of financial assets based on the objectives and control activities within the context of the business activity.

In particular, the definition of what constitutes harmless sales and materiality thresholds for harmful sales within the "Hold to collect" business model are discretionary decisions. The business models defined at Hamburg Commercial Bank and the resulting impact on the classification and measurement of financial instruments are shown in brief in the section entitled "Accounting and measurement principles".

The analysis of the contractual cash flows with regard to the contractual cash flow characteristics criterion, as well as the classification of modifications in terms of their materiality, constitute a further discretionary decision (please also refer to the "Accounting and measurement principles" section).

Hamburg Commercial Bank applies the fair value option through profit or loss for financial assets at its own discretion in order to avoid accounting mismatches. The designation of financial liabilities using the fair value option to avoid an accounting mismatch or due to management on a fair value basis is also at the discretion of the Bank.

8. Accounting and measurement principles

I. Financial instruments

A) CATEGORISATION OF FINANCIAL ASSETS AND LIABILITIES

Recognition and initial measurement of financial assets and liabilities

A financial instrument is an agreement that simultaneously creates a financial asset for one company and a financial liability or equity instrument for the other company. Under IFRS 9, all financial assets and liabilities including financial derivatives must be stated in the statement of financial position and measured according to the category to which they are assigned.Financial assets and liabilities are stated in the statement of financial position if Hamburg Commercial Bank is counterparty under the contract for the corresponding financial instrument. Expected future transactions or contracts are not recognised.

Provided that they fulfil the criteria of IFRS 9, pending transactions in the form of derivatives must always be stated in the statement of financial position as financial assets or liabilities and measured at fair value on the trading date. Spot transactions in non-derivative financial assets (so-called regular way contracts) are recognised as of the settlement date. The change in fair value between the trading date and settlement date is recognised according to the measurement rules for the category of asset. Other non-derivative financial assets that do not result from spot transactions, for example loans granted, are recognised as of the settlement date.

Non-derivative financial liabilities are recognised if one of the two parties to the contract has fulfilled the contract (settlement date).

Initial recognition is measured at fair value, which generally corresponds to the acquisition cost of the financial instrument.

Derecognition of a financial asset takes place on the settlement date. In the case of derivatives, derecognition takes place on the trading date.

Definition of business models

In order to arrive at the classification of financial instruments, financial assets are first of all allocated to business models in accordance with IFRS 9. The Management Board and the Supervisory Board of Hamburg Commercial Bank AG are responsible for defining these business models. Financial instruments are allocated to the business models based on groups of homogeneous portfolios. The internal rules and objectives, which are applied in practice in the strategic management and administration of the portfolios, are decisive when it comes to identifying and allocating the holdings. In addition, the definition and differentiation of the business models take into account how the results of the portfolios are assessed, which risks influence these earnings contributions and how these risks are managed.

Another aspect that is important for the purpose of defining business models at Hamburg Commercial Bank in connection with the assessment of business activity and objectives for the management of the instruments is the analysis of transactions in past periods. This involves determining the frequency, volume and timing of disposals. The reason behind disposal transactions is also taken into account when assessing the disposal activity. If disposals are related, among other things, to the management of credit risk and are motivated by a significant increase in credit risk, they can still be consistent with a business model that serves to collect cash flows by holding the instruments to maturity.

The reclassification of financial assets is only possible in exceptional cases and subject to specific disclosure requirements. Financial liabilities cannot be reclassified.

Analysis of contractual cash flow characteristics

In addition to the appraisal of the business model, the categorisation of financial assets depends on the nature of the cash flows. Within this context, Hamburg Commercial Bank analyses the contractual cash flow characteristics criterion by assessing the contractual cash flows to determine whether they merely relate to payments of principal and interest on the principal amount. The analysis is carried out once at the time of initial recognition at the level of the individual transaction. When identifying and assessing the cash flows accordingly, all characteristics contained in the contractual components must be taken into account.

The contractual cash flow characteristics criterion defines interest as those payments that are consistent with a basic lending arrangement. This means that payments essentially serve as a form of compensation for the time value of money and the credit risk assumed by the counterparty. They can also include compensation for the assumption of liquidity risks and a profit margin. IFRS 9 uses the fair value at the time of initial recognition as a basis for determining the nature of principal repayments on the outstanding nominal amount.

Based on these requirements, all contractually agreed conditions are analysed to determine whether they give rise to opportunities for early termination or extension options, leverage effects or other effects on cash flows that depend on the occurrence of future circumstances. Within this context, Hamburg Commercial Bank examines the contractual structure of the instruments to determine whether they contain components that modify the fair value element of the money and contradict the interest rate characteristics defined under IFRS 9. It also examines whether there are "non-recourse" structures that impose restrictions on the Bank's ability to access the payments to which it is entitled.

The analysis of the contractual cash flow characteristics criterion for contractually linked instruments, which usually arise in securitisation transactions, is subject to special requirements. First, the cash flow characteristics are assessed by looking at the claims from the asset pools underlying the securitisation. In addition, the contractual structure of the securitisation tranche and the structuring of the claims to the cash flows from the underlying assets are examined with regard to the cash flow characteristics and diversification of credit risk.

If Hamburg Commercial Bank's analysis of the contractual structure of the financial assets leads it to the conclusion that the payments are not just interest and principal payments, the cash flow criterion is deemed not to have been met.

Reclassifications

Reclassifications are made in the event of actual changes in the business model used to manage the assets. Consequently, from the date of the change, all affected instruments are to be allocated to the newly defined business model and classified accordingly. No reclassifications have been made to date.

Classification and subsequent measurement of financial assets and liabilities

Financial assets are classified depending on the business model and the structure of the contractual cash flows under IFRS 9. In connection with the first-time application of IFRS 9, Hamburg Commercial Bank has defined the business models "Hold to collect", "Hold & sell" and "Other", which includes the business model strategies "Held for trading" and "Other not hold to collect (remaining)" on the basis of its business activities.

Loans in the lending area and securities related to the lending business are assigned to the "Hold to collect" business model. The "Hold & sell" business model mainly comprises the capital markets business. Instruments intended to generate a profit in the short term are managed under the "Held for trading" business model. This mainly relates to interest-bearing treasury securities. In addition, syndication shares from underwriting activities subject to an obligatory syndication requirement in the lending business are allocated to this category.

Derivatives are generally allocated to this business model. Financial assets in the "Other not hold to collect (remaining)" business model relate primarily to equity portfolios in the non-trading portfolio.

Provided that the cash flow criterion is fulfilled, subsequent measurement depends on the business model allocation and is derived from the following measurement categories: Debt instruments assigned to the "Hold to collect" business model are recognised at amortised cost. "Hold & sell" assets are measured at fair value, with the result from fair value changes being recognised in Other comprehensive income (OCI) within equity. Upon the derecognition of the debt instruments, the cumulative valuation result is derecognised from Other comprehensive income via the statement of income (known as "recycling"). Debt instruments in the "Other not hold to collect (remaining)" business model are subject to measurement at fair value through profit or loss.

Financial assets that do not meet the cash flow criterion are measured at fair value in the statement of income, taking the valuation results into account, irrespective of the business model. These instruments include, first of all, debt instruments that do not pass the cash flow test in the analysis of the contractual structure and second, equity instruments that generally do not meet the criterion.

In the case of structured financial assets, there is no requirement to separate embedded derivatives under IFRS 9. The instruments are to be assessed, depending on the business model, in their entirety based on their contractual structure in the analysis of the contractual cash flow characteristics criterion.

Financial obligations are measured at amortised cost under IFRS 9 in the "Not held for trading" category. Derivatives and instruments that are held for trading are allocated to the "Held for trading" category and are measured at fair value through profit or loss. This measurement standard is also applied, in general, to financial liabilities irrevocably designated within the fair value option, although the amount of the fair value change resulting from the change in HCOB's own credit risk is recognised directly in OCI.

In cases involving structured financial liabilities that are not included in measurement at fair value through profit or loss due to categorisation or designation, derivatives requiring separation must be separated and also measured at fair value through profit or loss. The host contract is recognised at amortised cost.

The financial assets/liabilities of Hamburg Commercial Bank are allocated to the following holding categories in order to arrive at the measurement categories depending on the business model allocation and the results of the cash flow criterion analysis. For the purpose of presentation in the Group financial statements, they are also grouped into reporting categories:

Reporting category	Holding category	Measurement category
AC assets/AC liabilities	AC HTC/ AC LIA	AC
FVOCI Mandatory	FVOCIR HAS	FVOCIR
FVPL Held For Trading	FVPL HFT	FVPL
FVPL Other	FVPL HTC	FVPL
	FVPL HAS	
	FVPL RES	
FVPL Designated	FVPL DFV/ FVPL DFP	FVPL

"AC assets" and "AC liabilities" are subsequently measured at amortised cost. Interest payments are recognised in net interest income. Profits/losses from the disposal of financial assets that are not credit-impaired and prepayment penalties are reported under "Result from the disposal of financial assets classified as AC".

Instruments classified as FVOCI as a mandatory requirement in the "Hold & Sell" business model are stated at fair value and booked directly to equity. Impairments and currency translation results, however, are reported directly in the statement of income. When the instruments are derecognised, the cumulative valuation result recorded under Other comprehensive income is rebooked to the statement of income. Realised gains from the disposal of Stage 1 and 2 assets are recorded, in cases involving fixed income securities under the "Financial investments" item in the statement of financial position, under "Net income from financial investments". Gains from the corresponding disposal of Stage 3 assets are recognised in the Result from loan loss provisions. Interest and prepayment penalties, current results and realised gains on Stage 1 and Stage 2 loans are shown in Net interest income. Loan impairments are shown under loan loss provisions in the statement of income.

For those instruments stated at fair value through profit or loss in the FVPL Held for Trading, FVPL Designated and FVPL Other reporting categories, the fair valuation and the realised gains and losses are reflected via the result from financial instruments categorised as FVPL. Commission results in the FVPL Held for Trading category resulting from non-round tripping transactions in securities and promissory note loans are also shown under this item. Ongoing earnings contributions from instruments stated at fair value through profit or loss, such as dividends, interest results and prepayment penalties, as well as realised gains from the buy-back of own issues in the FVPL Held for Trading category form part of net interest income.

Net commission income contributions from derivatives and from loans in all categories are shown under Net commission income. This item also includes commission from securities and promissory note loans in the FVPL Held for Trading category resulting from round tripping transactions. Gains from currency translation is generally a component of the Result from financial instruments categorised as FVPL.

This results in the following distinctions, based on reporting category, for subsequent measurement at Hamburg Commercial Bank:

1. Financial assets valued at amortised cost (AC) are stated, at the time of initial recognition, at cost, equivalent to fair value at the time of initial recognition, and taking transaction costs into account. Financial liabilities are also recognised at fair value at the time of issue, taking transaction costs into account. Fair value at the time of acquisition generally corresponds to the transaction price. This valuation category includes all instruments in the following reporting categories:

a. Financial assets in the "AC assets" reporting category are allocated to the "Hold to collect" business model and meet the cash flow criterion
b. Those liabilities that neither fall under the trading portfolios nor belong to the FVPL Designated reporting category, are allocated to the "AC liabilities"
c. For instruments on both the assets and the liabilities side, subsequent measurement is at amortised cost; premiums or discounts are amortised according to the effective interest method over the term and are recognised in net interest income

2. Financial assets in the "FVOCI mandatory" reporting category include all assets in the "Hold & sell" business model for which the cash flow criterion is met. The holdings within Hamburg Commercial Bank relate mainly to marketable interest-bearing securities.

The initial measurement of financial assets in the "FVOCI mandatory" reporting category is at the fair value, which generally corresponds to the transaction price, plus transaction costs. The subsequent measurement of the financial instruments is at fair value.

Changes in the value of instruments stated at fair value, insofar as these are not attributable to an impairment of currency translation, are recorded under Other comprehensive income (OCI) in equity, after allowing for deferred taxes. By contrast, where hedged instruments are concerned, the fluctuation relating to the hedged risk is recognised in the statement of income under Result from hedging and is separately disclosed as an adjustment item arising from the portfolio fair value hedge. When the instruments are derecognised, the cumulative valuation result recorded under Other comprehensive income is rebooked to the statement of income.

Amortisation of the difference between costs of acquisition and repayment amount for interest-bearing securities is stated under net interest income, using the effective interest method.

3. Financial assets and liabilities valued at fair value through profit or loss (FVPL) include instruments held for trading (FVPL Trading), financial assets that have to be measured at fair value because they do not meet the cash flow criterion (FVPL Other), and those instruments that are voluntarily designated at fair value in a manner that is irrevocable for the future (FVPL Designated).

a. At Hamburg Commercial Bank, the category FVPL Trading includes all financial instruments held for trading that are assigned to the "Held for trading" business model accordingly, and all derivatives that are not part of a hedging relationship (hedge accounting).
They are initially and subsequently measured at fair value. Transaction costs are recognised through profit or loss on acquisition date. In accordance with IFRS 9.5.1.1, transaction costs are only included in the initial recognition in the case of financial assets or liabilities not measured at fair value through profit or loss. Where a market price is available in the form of a stock exchange listing, this is used for the purposes of measurement. In other cases, the market price of comparable instruments or recognised measurement models, especially net present value methods and option pricing models, are used to determine fair value.
b. The financial assets in the FVPL Other category are assigned to the "Hold to collect", "Hold & sell" and "Other not hold to collect (remaining)" business models. The instruments in the "Hold to collect" and "Hold & sell" business models within this category do not meet the cash flow criterion.
c. The financial assets and liabilities in the FVPL Designated reporting category relate primarily to securities and loans that form part of an economic hedging relationship with interest rate derivatives and do not meet the requirements for hedge accounting, as well as complex structured registered and bearer securities with embedded interest, currency, equity and other risks. In such cases, the fair value option serves to prevent/reduce any accounting mismatch.

In addition, designation within the fair value option can be applied, within Hamburg Commercial Bank, to portfolios of financial liabilities whose management and performance measurement is based on the fair value in line with the documented risk management strategy in order to allow the instruments to be accounted for in line with the internal control system.Financial instruments in the fair value option are stated at fair value in the statement of financial position and are valued through profit or loss for the purposes of subsequent measurement accordingly.

B) CLASSIFICATION OF FINANCIAL INSTRUMENTS
The classification of financial instruments required for reporting by IFRS 7.6 is similar to the categorisation of financial instruments according to IFRS 9 for the items in the statement of financial position in order to ensure a uniform and clear picture of net assets, financial position and results of operations. The following table shows the categories of financial instruments at Hamburg Commercial Bank in accordance with IFRS 9.

Measurement method	Categories	
	IFRS 9 reporting category	Statement of financial position item/sub-item
Financial instruments measured at amortised cost	AC assets	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
	AC liabilities	Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
		Other liabilities
Financial instruments measured at Fair Value through Other Comprehensive Income (OCI)	FVOCI Mandatory	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
Financial instruments measured at Fair Value through profit or loss	FVPL Held For Trading	Trading assets
		Non-current assets held for sale and disposal groups
		Trading liabilities
		Liabilities relating to disposal groups
	FVPL Designated	Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
		Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
	FVPL Other	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
	n/a	Positive fair values of hedging derivatives
		Negative fair value of hedging derivatives
Off-balance-sheet transactions	n/a	Contingent liabilities
		Irrevocable loan commitments
		Other commitments

C) MODIFICATIONS

If a financial instrument, in particular a loan, is altered in its contractual components, then Hamburg Commercial Bank assesses whether this change results in the disposal of the financial instrument, leading to the derecognition of the previous, and the recognition of a new, financial instrument at fair value (substantial modification) or whether, based on the modified contractual cash flows, the gross carrying amount is to be recalculated and a modification result recognised (non-substantial modification).

The result of a non-substantial modification corresponds to the difference between the gross carrying amount immediately prior to the modification and the recalculated gross carrying amount. The modification gain or loss is recognised within loan loss provisions in the statement of income.

Hamburg Commercial Bank has included guidelines in its written regulations regarding how to distinguish between substantial and non-substantial modifications. These stipulate that both qualitative criteria, such as a change in currency or a significant change in Hamburg Commercial Bank's risk position, and the 10% net present value test as a quantitative criterion are to be used. This test involves comparing the net present value of the contractual cash flows before and after every modification of contractual components. If they differ by 10% or more, then this is deemed to constitute a substantial modification.

D) LOAN LOSS PROVISIONS AND IMPAIRMENT OF FINANCIAL INSTRUMENTS

The calculation of loan loss provisions and impairments in accordance with IFRS 9 uses a model that is based on the calculation of expected credit losses. The scope of the model includes financial instruments that are recognised at amortised cost or at fair value through other comprehensive income, irrevocable loan commitments and financial guarantees that are not recognised at fair value through profit or loss, leasing receivables and contract assets.

The basic principle of the model relates to the creation of loan loss provisions depending on changes in the credit quality of the financial instrument since initial recognition over the term. Depending on the extent of the change in credit quality, the financial instrument is assigned to one of the following three stages:

a. Stage 1: No significant increase in loan default risk, 12-month expected loss

For financial instruments whose loan default risk is not significantly increased, the portion of expected credit lossesthat is attributable to defaults within the next twelve months is recognised under loan loss provisions.

b. Stage 2: Significant increase in loan default risk, lifetime expected loss

For financial instruments whose loan default risk has increased significantly since the time of initial recognition, expected credit losses are recognised over the entire remaining term of the financial instrument.

c. Stage 3: Financial assets that are credit-impaired, lifetime expected loss

Financial instruments for which one or more events have occurred that have an adverse impact on the expected future cash flows are assigned to Stage 3.

Input parameters, assumptions and methods for calculating expected credit losses at Stage 1 and 2

Expected credit losses at Stage 1 and 2 are calculated based on the following credit risk parameters:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EaD)

The internal credit risk models which – where necessary – are expanded to include forward-looking information are taken as a basis in this regard.

In the context of credit risk modelling, the default risk over a certain period is described by the PD. In order to assess the loan default risk associated with financial instruments or debtors, specific rating procedures are used that allow statements to be made on the probability of default within one year. As part of the development and validation of these procedures, a check is performed, on the basis of historical observations for different pieces of qualitative and quantitative information, to determine whether these explain the default risk as risk drivers. Using the rating procedures modelled on the basis of historical information, current and forward-looking information on the risk drivers can be condensed to arrive at a preliminary rating as part of the rating process. This information is then adjusted to include assessments of the debtor's creditworthiness to arrive at a final rating.

The rating classifications resulting from rating procedures each correspond to a specific 12-month PD which is used to calculate the loan loss provisions at Stage 1. At Stage 2, the 12-month PD is adjusted over a multi-year horizon to arrive at lifetime PDs on the basis of migration matrices.

The migration matrices used reflect the observed rating migrations of debtors within a year and are calculated based on an extensive cross-economic historical observation period. The 12-month and lifetime PDs calculated in this manner are enhanced to reflect macroeconomic information where necessary. This involves aggregating internal and external macroeconomic forecasts to arrive at economic scenarios that are used as standard for various bank functions. The impact of the scenarios on the PDs is determined using statistical methods.

The LGD describes the amount of the loss expected in the event of default. Statistical procedures are used, on the basis of historically measured losses, to estimate expected recovery ratios from the realisation of collateral and collection ratios for unsecured loan portions. Together with the market value of the collateral and the amount of the claim, this produces the LGD for the financial instrument in question that is used to calculate the loan loss provisions for Stage 1. The LGD includes not only the collateral relevant to the financial instrument in question, but also transaction-specific and debtor-specific information such as the seniority of the financial instrument or the debtor's sector. By way of derogation from this type of LGD modelling, procedures based on the simulation of cash flows from the financed object are used for project and ship financing. The forward projection of the LGD over the multi-annual period is based primarily on the expected collateralisation ratio of the financial instrument, which comprises the expected collateral value and the expected amount of the receivable. The estimate of the collateral value takes into account both expected ageing effects associated with the collateral and forecast macroeconomic developments, such as property prices, which influence the collateral value. The receivable amount is influenced by repayment and amortisation effects.

The EaD represents the outstanding receivables volume of the financial instrument at the time of default. For the balance sheet business, the outstanding receivables volume corresponds to the gross carrying amount calculated using the effective interest method. As part of EaD modelling, the balance sheet gross carrying amount is adjusted over a 12-month period (Stage 1) or over a lifetime horizon (Stage 2) to reflect amortisation and repayment effects. Within this context, fixed cash flows that have been contractually agreed and expectations regarding the exercise of options and their impact on the cash flows are taken into account. The impact of optionalities is determined both on the basis of historical information and on the basis of financial mathematical methods.The gross carrying amounts adjusted in this way over the term are grouped to form an average EaD for each year.

For the off-balance-sheet business in the form of irrevocable loan commitments and financial guarantee contracts, the EaD constitutes the expected future utilisation of the financial instrument up until the time of default. The borrower's expected drawdown behaviour within a year prior to the default event is reproduced via the credit conversion factor (CCF). The EaD for Stage 1 is calculated by multiplying the CCF by the line that is open on the reporting date. In order to calculate the EaD at Stage 2, the drawdown behaviour several years prior to the default is also calculated based on drawdown rates. The drawdown rates are modelled subject to the proviso that no default occurs within a year. The multi-year EaD for the year in question for Stage 2 is calculated by combining the expected drawdown one year before the assumed default event based on the CCF by the expected drawdown behaviour based on the drawdown rates for the prior years.

When calculating expected credit losses, Hamburg Commercial Bank takes into account the maximum contractually agreed term during which the Bank is exposed to a credit risk. Debtor extension options are also taken into account. Longer terms are not taken into account even if this is in line with standard business practice.

One exception is current accounts and credit lines for which there is no set term or repayment structure and in respect of which the Bank does not enforce its option of forcing immediate repayment in daily management. The calculation of expected losses for these financial instruments is based on the behavioural term. The behavioural term is derived from the existing Credit Risk Management processes that serve to minimise the credit risk. At Hamburg Commercial Bank, a debtor's credit quality is monitored on a regular and ad hoc basis and, if necessary, corresponding credit risk-mitigating measures are taken. As a result, the average monitoring interval is used as the estimate for the behavioural term.

Expected credit losses are calculated at the level of the individual financial instrument. Groups of financial instruments with risk features in common are not grouped for the purposes of calculating the loan loss provisions. The 12-month expected loss is calculated by multiplying the (one-year) credit risk parameters. The lifetime expected loss is calculated by multiplying the period-specific credit risk parameters determined during the term.

Discounting to the reporting date is based on the effective interest rate in each case.

Incorporation of forward-looking information

Hamburg Commercial Bank uses the same economic forecasts for planning, internal control and loan loss provisions. As at each quarter end date, forecasts for selected parameters are prepared in three scenarios: base, stress and upside. Forecasts are made for the next five financial years (end of year). The base scenario reflects the development that is deemed most likely to occur.

This can be both an economic upswing and an economic downturn. The other two scenarios reflect more optimistic (upside) or more pessimistic (stress) developments in relation to the base scenario.

The scenario estimates are based on internal Bank economic forecasts, which are discussed within the affected areas, taking into account the forecasts of the Bundesbank and the ECB, Bloomberg consensus estimates as well as actual forward rates for the relevant areas. Segment-specific parameters are added to these market forecasts.

The estimates parameters cover forward-looking information in the following areas:

- Economy (gross domestic product and inflation rate for various regions)
- Direction of interest rates
- Movement in exchange rates
- Bond market (credit spreads)
- Oil prices
- Share prices
- Shipping (in particular charter rates and second-hand prices)
- Real estate prices (broken down by location and type of property)

The impact of this forward-looking information on the credit risk parameters PD and LGD is determined using statistical procedures and is taken into account when calculating the expected credit losses. Within this context, PD and LGD are adjusted to reflect base scenario forecasts. In addition, regular checks are performed to see whether other scenarios have a material non-linear impact on the amount of loan loss provisions. Model overlays take risk factors that are relevant to the valuation into account, unless they are already included in the calculation parameters of the models. In this case, the loan loss provisions are adjusted either directly or indirectly by altering the credit risk parameters to reflect these effects. In addition, the Bank's portfolios are regularly screened for potential climate risks based on the already implemented ESG risk management and ESG stress testing functions.At the moment, the Bank's main portfolios do not show any significant, unconsidered climate-related credit risks. The only area with potential ESG issues is tanker financing. However, these have already been taken into account in the forecasts of charter and ship prices in this segment and are thus included in the risk provisioning calculation based on the inclusion of macroeconomic scenarios.

Significant increase in loan default risk

In order to assess a significant increase in loan default risk associated with a financial instrument, Hamburg Commercial Bank uses internal ratings. Within this context, Hamburg Commercial Bank constantly furnishes proof that the change in rating and corresponding change in the 12-month PD takes the main risk drivers into account that lead to the change in the lifetime PD, meaning that changes in rating constitute a suitable assessment criterion for the allocation to stages. In the case of non-substantial modifications, it must be reassessed at the time of modification whether there has been a significant increase in credit risk since the time of initial recognition. The rating of substantially modified financial instruments is determined based on the adjusted conditions.

At Hamburg Commercial Bank, the assessment object that is relevant for the purposes of allocating financial instruments to specific stages is the individual financial instrument as a general rule. The rating of the corresponding debtor that applies at the time of addition is allocated to each financial instrument. One exception relates to securities for which different purchases of the same security are assessed jointly. This involves dividing the purchases in terms of similar credit quality at the time of initial recognition. The securities are then categorised at the level of the ISIN based on the best initial securities rating.

The rating expected, based on the time at which a financial instrument was recognised for the first time, for the reporting date in question serves as a benchmark for assessing a significant deterioration in credit quality. The expected rating is compared with the current rating to determine whether the change in rating that is defined as significant is exceeded. As such, a sector-specific deviation of three or two rating levels was defined as significant. If this is the case then the financial instrument in question is allocated to Stage 2. Otherwise, it remains at Stage 1.

In addition, financial instruments are allocated to Stage 2 at the latest if forbearance measures have been applied to the financial instrument, the default has lasted more than 30 days or the PD has increased by more than 3% in absolute terms since the transaction was entered into. In addition, the level of supervision and any covenant breaches are also included as indicators of a significant deterioration in credit quality.

HCOB does not make use of the option set out in IFRS 9.5.5.10, which allows financial instruments with a low risk of loan default to be assigned to Stage 1. Nor does HCOB make use of the option provided for in IFRS 9.5.5.15 on the constant recognition of loan loss provisions in the amount of the lifetime expected losses for trade receivables, leasing receivables and contract assets.

A financial instrument is transferred from Stage 2 to Stage 1 if the loan default risk is no longer significantly increased based on the rating.

Definition of default

On the basis of the permission of the Governing Council of the ECB (banking supervision) of 13 March 2020, the default guideline of the Hamburg Commercial Bank was adjusted effective from 21 March 2020.

This implemented requirements of the ECB and the EBA respectively, which clarified the application of the default definition under Article 178 of EU Regulation No. 575/2013 with the detailed guidance EBA/GL/2016/07.

Financial assets that are credit-impaired within Stage 3

Defining Stage 3 of the impairment model involves assessing on each reporting date whether there are objective indications of an impairment that could have a detrimental impact on the expected future cash flows from the financial instrument.

The criteria for the impairment of loans essentially comprise considerable financial difficulties of the debtor as well as indications of a massive and permanent inability to service debt, whereby an improvement in the situation cannot be demonstrated. In the case of securities, Hamburg Commercial Bank's holdings are first filtered using a trigger test, and the triggered securities are then approved.

Triggered are those securities to which at least one of the following trigger events applies.

Price-based trigger events

- Credit spread induced loss compared to the acquisition value at the end of each month of the last 12 months of at least 10% in the respective nominal currency;

or

- Credit spread induced loss against the acquisition value at the end of a month of the last 6 months of at least 20% in the respective nominal currency;

or

- Credit spread induced loss of at least 10 percentage points between the last assessment date and the current reference date (3 months).

Rating-oriented trigger events

The following trigger events, driven by rating changes by the rating agencies Moody's, S&P or Fitch certified in accordance with the EU Rating Regulation, are defined for the period between the last assessment point and the current reporting date:

- rating downgrade of at least 3 notches within the investment grade range;

or

- rating downgrade to the sub-investment grade range;

or

- any rating downgrade within the sub-investment grade range;

or

- rating below B / B2.

Loans and securities with objective evidence of impairment are accounted for by setting up specific loan loss provisions for the receivable in question. To calculate the specific loan loss provisions, the net present value of the anticipated cash flows arising from the loan or advance – that is achievable amount – is compared to its carrying amount. The anticipated cash flows may comprise capital repayments, interest payments or the proceeds from disposal of collateral less liquidation costs. The realisable amount is calculated using various scenarios and compared against the carrying amount. If the carrying amount is higher than the realisable amount for the scenario in question, then this scenario results in a loss in the amount of the difference. The specific loan loss provision is set up in the amount of the average losses from among the various scenarios, weighted to reflect the probability of occurrence.

Assessments as to the need for loan loss provisions are frequently made on the basis of information which is partly provisional in nature (e.g. planned restructuring of borrowers, draft reorganisation reports) or are subject to increased volatility (e.g. collateral value of real estate and ships). This results in increased uncertainty regarding estimates of key parameters of loan loss provisions. In such cases the large degree of uncertainty is mainly due to the assessment of expected cash flows which are dependent on borrowers, industries, the assessment of the overall economy among other factors. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary

If the estimate of the expected cash flows leads to the complete reversal of a debtor's specific loan loss provisions, the sustainability of the debtor's recovery must be determined: a recovery is only deemed to have occurred after various conditions have been fulfilled. These include the condition that the "90 days in arrears" or "unlikeliness to pay" criteria no longer apply, the reversal of the setting of transactions to a non-accrual basis and measures to make up for the debt servicing that was not provided during the default period. In addition, a good conduct period must be observed.

Depending on the default event, this lasts at least 92 or 365 days, respectively. During this period of good conduct, the debtor is still considered to be in default.

Recognition of impairment losses in the balance sheet
As the recognition of the impairment depends on the category of financial assets, the following distinctions must be made with regard to measurement:

a. Financial instruments which are measured at amortised cost

Impairments to loans and advances to banks and customers are recorded in separate valuation allowance accounts under the item Loan loss provisions. Loan loss provisions thus created are written off at the time when the amount of the actual default of the receivables is determined or the receivable defaults. Irrecoverable receivables for which no specific loan loss provisions existed are written off directly as is the case for losses in the case of impaired receivables which exceed the recorded loan loss provisions.

b. Financial instruments which are measured at fair value in OCI and are not recognised in the statement of income

In cases involving these financial instruments, the cumulative income previously recognised in equity is reclassified to profit or loss. If the reasons for impairment no longer apply, a reversal of the write-down up to the amount of amortised cost is made in profit or loss. The effect of the change in fair value is recognised directly in equity in the revaluation reserve in other comprehensive income (OCI).

c. Purchased or originated credit-impaired financial assets (POCI)

Financial instruments that are purchased or originated credit-impaired are assigned to a separate stage. The criteria for classification as purchased or originated credit-impaired are the same as for general classification. The general approach pursuant to IFRS 9.5.5.1 does not apply to these financial instruments. No loan loss provisions are set up through profit or loss at the time of initial recognition. The subsequent measurement reflects changes in the cash flows expected by the lender, taking into account the expected loan losses in subsequent periods through profit or loss as loan loss provisions. Reversals of impairment losses are also to be reflected in loan loss provisions. The loan losses expected at the time of initial recognition are distributed over the term of the loan using the credit-adjusted effective interest rate. If the debtor recovers, the debtor is still to be allocated to the stage in question. In such cases, however, the calculation method is based on the standard credit risk parameters in the same way as for Stage 2 cases.

For the off-balance-sheet business, expected losses are also calculated on the basis of the three-stage model and recognised as provisions in the lending business.

E) DETERMINING FAIR VALUE

Under IFRS 13, the fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is determined on the basis of the listed price on an active market (mark-to-market), or if this is not possible on the basis of recognised valuation techniques and models (mark-to-matrix or mark-to-model). Irrespective of whether and to what extent the inputs applied in determining the fair value are observable in the market, financial instruments are assigned to one of the three fair value hierarchy levels as defined in IFRS 13.

Fair value can be determined using the mark-to-market method if a market price is available at which a transaction could be entered into or has been entered into for an identical financial instrument as at the measurement date. This is generally the case for exchange-traded shares that are traded on liquid markets.

Such an unadjusted market price at the measurement date for the identical instrument is classified as Level 1 of the valuation hierarchy under IFRS 13.

If such a market price is not available for the identical instrument, the measurement is carried out using valuation techniques or models.

VALUATION TECHNIQUES AND MODELS

When using valuation techniques, the market approach is the preferable method for determining the fair value. The fair value is determined to the extent possible on the basis of prices that come from transactions executed on the measurement date. If the fair value cannot be determined from market or transaction prices for the identical financial instrument, prices of comparable financial instruments or indices, which are representative for the financial instrument, are used as an alternative and adjusted where necessary (mark-to-matrix method). The fair value is assigned to Level 2 of the fair value hierarchy if the adjustment to the prices or parameters observable in the market is not material. However, if the adjustment is material and affects unobservable inputs, the fair value is assigned to Level 3.

The fair value is determined based on the income approach using a valuation model if the market approach using the mark-to-market or mark-to-matrix method is not possible or is not of sufficient quality. Where available, inputs observable in the market as well as quality assured market data from appropriate pricing agencies or also validated prices from market partners (arrangers) are also used as a primary source for model valuations. Fair values determined by means of model valuations, for which only observable inputs are used or which are only based to an insignificant extent on unobservable inputs, are assigned to Level 2 of the fair value hierarchy. If the fair values determined using valuation models are based to a significant extent on unobservable inputs, they are assigned to Level 3 of the fair value hierarchy.

The fair value of receivables ad liabilities measured at amortised cost is mainly determined by discounting the contractual future cash flows of the financial instruments. In the case of receivables with a default rating, the fair values are determined based on the still to be expected future cash flows.

VALUATION ADJUSTMENTS

If the value of a financial instrument measured at fair value as determined by a valuation technique or model does not take adequate account of factors such as bid-offer spreads or closing costs, liquidity, model risks, parameter uncertainties and credit and/or counterparty default risks, the Bank makes corresponding valuation adjustments, which a purchaser of similar positions would also take into account. The methods used make partial use of parameters that are not observable on the market in the form of estimates.

Funding costs and benefits arise on the hedging of the risks relating to an uncollateralised OTC derivative with a collateralised OTC derivative. A funding valuation adjustment is determined as part of the method used to determine fair values for derivatives and is included in the fair value of the uncollateralised OTC derivative for funding costs/benefits arising on the provision or receipt of collateral due to the hedging asymmetry of the derivatives.

The value adjustment for the credit risk is determined for OTC derivatives at the level of a group of financial instruments of a business partner (so-called portfolio-based valuation adjustment). This is permitted if the conditions stipulated in IFRS 13.49 for a portfolio-based measurement are met.

The portfolio-based valuation adjustment for the credit risk is allocated to assets or liabilities in proportion to the fair value of the asset or liability respectively before the valuation adjustment is taken into account. Allocation only takes place to the assets or liabilities depending on whether there is an excess of assets or liabilities (so-called "relative fair value approach" –net approach).

DAY ONE PROFIT AND LOSS

The use of a valuation model may give rise to differences between the transaction price and the fair value determined using such a valuation model on the initial recognition date. If the relevant market for the fair value calculation differs from the market in which the transaction was contracted and the valuation model is not based exclusively on observable parameters, these differences (so-called day one profits and losses) are accrued as day one profit and loss reserves. This reserve is reversed over the term. Implicitly, the time factor is thereby considered significant to the difference accrued and is taken into account accordingly, and it is assumed that this is also the procedure that would be followed by a third-party market participant in its pricing.

MEASUREMENT PROCESSES

The Bank has implemented various processes and controls for the purpose of determining the fair values of financial instruments and has embedded principles regarding the use of measurement methods in a guideline in the written rules of procedures. These measures also ensure that financial instruments to be assigned to Level 3 of the fair value hierarchy are measured in accordance with IFRS 13. The Risk Control division, which is independent from the Bank's market departments, is responsible for ensuring that the measurement methods applied are in accordance with external accounting requirements. Information available on the methods applied by other market participants is also taken into account in this regard.

Fair values of financial instruments assigned to Level 3 are determined again on a periodic basis – but at least on a monthly basis. Any changes in value that have occurred since the previous period are reviewed for plausibility. If the relevant market to be used to determine the fair value differs from the market in which the transaction was contracted and the valuation model is based on significant unobservable parameters such differences (so-called day one profits and losses) are deferred as a day one profit and loss reserve. If there are material differences between the fair values determined by the Bank and prices offered by counterparties, the valuation model used is subjected to an ad hoc validation process.

F) HEDGE ACCOUNTING

Hamburg Commercial Bank makes use of the option provided for in IFRS 9 of continuing with portfolio fair value hedge accounting subject to the provisions set out in IAS 39. Changes in the value of items in the IFRS 9 measurement categories AC and FVOCI are not recognised through profit or loss. Changes in the value of derivatives are always recognised through profit or loss. If underlying transactions that are not recognised at fair value through profit or loss are hedged by derivatives, this creates a mismatch relating to the measurement/presentation of the results in the statement of income, which does not reflect the economic facts. One way of avoiding these distortions is to use fair value hedge accounting. In fair value hedge accounting, the changes in value of hedged items which are attributable to the hedged risk are recognised through profit or loss.

Hamburg Commercial Bank uses derivatives to hedge market risks resulting from loans, issues and securities portfolios. Individual loans, issues and securities items as well as entire portfolios of such financial instruments are hedged in this way.

The Bank uses portfolio fair value hedge accounting to account for portfolio-based hedging relationships in order to avoid distortions in the statement of income. Currently only hedges of fair value against interest rate risk are taken into account. Fixed interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only third-party interest rate swaps are designated as hedging instruments.

Where portfolios comprising lending, issuing or securities transactions are hedged by derivatives with non-Group counterparties and this hedging arrangement satisfies the requirements of IAS 39, portfolio fair value hedge accounting is applied. The portfolio fair value hedge on interest rate risks takes into account portfolios of assets and liabilities that are hedged against interest rate risks. This involves an iterative procedure. At the start of the hedging period, the financial instruments in the portfolios are allocated to maturity ranges on the basis of their anticipated maturity or interest adjustment dates, and the hedged amount is then determined for each maturity range. The hedging transactions are also allocated at the start of the hedging period. At the end of the hedging period, the hedge is recognised and measured and a new hedge is designated. The changes in the fair values of the hedged amounts of the underlying transactions due to the hedged risk are recognised in a separate item in the statement of financial position (asset or liability reconciling items from the portfolio fair value hedge). The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IFRS 9 category.

Using fair value hedges accounting requires a series of conditions to be met. These principally relate to the documentation of the hedge and its effectiveness. Hamburg Commercial Bank documents all hedging relationships in accordance with the requirements of IAS 39, including the hedging instrument, the hedged item (underlying transaction), the hedged risk and the result and method of measuring effectiveness.

Future changes in value of underlying and hedging transactions are simulated using a regression model within the framework of the prospective effectiveness test. Any actual changes in value are used in retrospective effectiveness testing. Hamburg Commercial Bank uses the dollar offset method for the retrospective effectiveness measurement. This tests whether the relationship between the changes in value of underlying and hedging transactions lies within an interval of 80% to 125%.

Changes in value of underlying and hedging transactions in effective hedges which are attributable to the hedged risk are recognised in the Result from hedging.

Income and expenses from the amortisation of reconciling items for the fair value hedge portfolio are reported as part of the Net interest income. Amounts reversed on the disposal of hedged items that contributed to the reconciliation item are recognised in Net interest income or Net income from financial investments in the amount they were realised.

G) DERECOGNITION

A financial asset is derecognised when all material risks and opportunities associated with ownership of the asset have been transferred, i.e. when contractual claims on cash flows from the asset have been extinguished. Where not all risks and opportunities are transferred, Hamburg Commercial Bank carries out a control test to ensure that no continuing involvement due to opportunities and risks retained prevents it from being derecognised. Financial assets are also derecognised if the contractual rights to cash flows have expired or lapsed. Financial liabilities are derecognised when they are repaid, i.e. when the associated liabilities are settled or lifted or when due respectively. If the material contractual elements of an asset of liability are altered, this also results in a derecognition.

H) REPURCHASE AGREEMENTS AND SECURITIES LENDING TRANSACTIONS

Hamburg Commercial Bank only enters into genuine repo transactions. Genuine repo transactions, repo agreements or sell-and-buy-back transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being the same in both cases.

For genuine repo transactions with assets sold under repurchase agreements, the securities continue to be recognised by Hamburg Commercial Bank, as the interest, credit rating and other material risks associated with the securities continue to be borne by Hamburg Commercial Bank. According to counterparty, the inflow of liquidity from the repo transaction is shown in the statement of financial position as a liability either to banks or customers Interest payments are recognised under interest expense over the term of the transaction. Outflows of liquidity caused by reverse repos are reported as loans and advances to banks or customers. Correspondingly, the securities bought under repurchase agreements are not carried or measured in the statement of financial position. Agreed interest payments are booked as interest income over the term of the transaction. Receivables arising from repos are not netted against liabilities from repos involving the same counterparty, since the criteria for netting are not met.Securities lending transactions are carried on the statement of financial position in a similar way to genuine repurchase agreements. Lent securities remain in the securities portfolio, while borrowed securities are not capitalised on the statement of financial position. Cash collateral furnished for securities lending transactions is shown as a receivable, while collateral received is shown as a liability. Repo and securities lending transactions are carried out primarily in bonds.

I) FINANCIAL GUARANTEE CONTRACTS

Pursuant to the definitions set out in IFRS 9, a financial guarantee is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for the loss that the holder incurs because a specified debtor fails to make payment when due under the original or amended terms of a debt instrument. A credit derivative is treated as a financial guarantee if the requirements set out in IFRS 9 are met. Credit derivatives that do not meet the definition of a financial guarantee are allocated, in accordance with the general valuation rules, to the FVPL Trading category and are measured at fair value.

Financial guarantees at Hamburg Commercial Bank are provided in the form of warranties, bank guarantees and letters of credit. Corresponding contingent liabilities are based on past events that may result in possible liabilities in the future. These liabilities arise as a result of the occurrence of unspecified future events where the amount required to meet them cannot be estimated with sufficient reliability. Financial guarantees are recognised at the higher amount resulting from the calculation of the expected losses in accordance with the impairment provisions set out in IFRS 9 and the premium capitalised at the time of initial recognition, which corresponds to the fair value, less the cumulative earnings contributions recognised in accordance with IFRS 15, with provisions having to be set up if necessary. If the premium payment to Hamburg Commercial Bank is distributed over the term of the financial guarantee, the guarantee will be stated as zero and the premium payment recognised on an accrual basis. If Hamburg Commercial Bank is the holder of a contract, the financial guarantee will be presented as collateral for the Group.

II. Notes on selected items relating to financial instruments in the statement of financial position

CASH RESERVE

Cash on hand, balances with central banks, treasury bills and discounted treasury notes are stated under cash reserve.

The instruments reported under this item are allocated to the holding categories AC HTC, FVOCIR HAS and FVPL RES within Hamburg Commercial Bank under IFRS 9 and are measured accordingly.

RECEIVABLES

Loans and advances to banks and customers mainly comprise money market transactions, loans and promissory note loans, but also securities which are registered securities and non-negotiable bearer bonds. Financial assets are allocated to the AC HTC, FVOCIR HAS and FVPL RES, FVPL DFV, FVPL HAS and FVPL HTC holding categories, resulting in the corresponding subsequent measurement.

Loans and receivables in the “AC assets” reporting category are reported in gross terms, i.e. before the deduction of impairments. Impairments are shown in the separate item Loan loss provisions, which is shown under Loans and advances as a deduction. Financial instruments in the FVPL Other, FVPL Designated and FVOCI Mandatory reporting category are reported in net terms. Accrued interest is also allocated to this item in the statement of financial position. Where loans and receivables have been acquired or incurred with the intention of trading, they are stated under trading assets.

Depending on their classification, interest income from loans and advances to banks and customers is recognised under interest income from AC and FVOCI financial assets or interest income from other financial instruments, lending and money market transactions. Premiums and discounts are accrued using the effective interest rate method.

If, in the case of non-genuine securitisation transactions, loans and advances are not derecognised and the risk on such loans and advances remains fully with Hamburg Commercial Bank, any necessary loan loss provisions are recognised solely on our original loans and advance amounts.

POSITIVE AND NEGATIVE MARKET VALUE OF HEDGING DERIVATIVES

The item shows the market value of derivatives that have a positive or negative fair value and that are used in hedge accounting. Only interest rate and cross currency interest rate swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading assets or Trading liabilities.

RECONCILING ASSET AND LIABILITY ITEMS FROM THE FAIR VALUE HEDGE PORTFOLIO

The asset-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for assets. Similarly, the liability-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for liabilities.

TRADING ASSETS AND TRADING LIABILITIES

Only financial assets in the FVPL HFT holding category are reported under Trading assets. These include primary financial instruments held for trading purposes, particularly fixed income securities and pro rata interest, and also equities and other trading portfolios such as precious metals. Loans and loan commitments with hard syndication conditions are also reported here. A significant component continues to be derivatives with a positive market value which are either trading derivatives or not designated as a hedging derivative because they do not meet the requirements of hedge accounting.

The valuation results from changes in fair value are recognised in the Result from financial instruments categorised as FVPL. Interest income and expenses, as well as dividend income, is recognised as net interest income and commission income and expenses are recognised in net commission income.

In a similar way to trading assets, trading liabilities only include financial obligations belonging to the FVPL HFT holding category, which includes derivatives with a negative market value which are either trading derivatives or which have not been designated as hedging derivatives because they do not meet the requirements of hedge accounting. Delivery commitments from short sales of securities and pro rata interest from these are also stated in this category.

FINANCIAL INVESTMENTS

Financial investments include all securities not acquired for trading purposes (mainly debentures and equities) and equity holdings in non-affiliated companies under commercial law. The equities and equity holdings in non-affiliated companies are mainly categorised as FVPL RES. The dominant business model for debentures is Hold & Sell, meaning that most of them are categorised as FVOCIR HAS.

The products included in this item include fixed-interest securities including accrued interest, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, and holdings in joint ventures and associates not carried at equity.

All realisation effects from FVOCIR HAS securities are reported in Net income from financial investments, while realisations of AC HTC securities are reported in the Result from the disposal of financial instruments classified as AC. All valuation results associated with impairments in these two holding categories are shown under loan loss provisions. The effects on earnings resulting from the measurement and disposal of FVPL items within financial investments are shown in the Result from financial instruments categorised as FVPL.

If a decision had been made on the disposal of financial investments and this disposal had been initiated as at the reporting date, and it is highly probable that it can be completed within the following 12 months, these financial investments are reclassified as "Non-current assets held for sale and disposal groups".

FINANCIAL INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

In this item, HCOB reports shares in associates and joint ventures that are accounted for in the Group financial statements using the equity method. Such ownership interests are measured in accordance with the guidelines of IAS 28 in conjunction with IFRS 11.

For the impairment testing of financial investments accounted for under the equity method, the total carrying amount of the investment measured under the equity method is assessed for impairment as a single asset in accordance with IAS 36. Its realisable amount is always compared with the carrying amount for this purpose, if there are indications on applying IAS 28 that the investment could be impaired.

The realisable amount is defined as the greater of fair value less costs to sell and value in use (for information on the calculation of the value in use, please refer to Note 8. III.).

LIABILITIES

Liabilities that are not instruments defined as trading liabilities include financial obligations in the "AC liabilities" and "FVPL Designated" reporting categories. As a result, the relevant holding categories are AC LIA and FVPL DFP. The relevant instruments are recognised as Liabilities to banks, Liabilities to customers, Subordinated liabilities and Securitised liabilities.

Financial liabilities are recognised at fair value at the time of issue plus transaction costs, which generally corresponds to the transaction price. In subsequent periods, debt classed as AC liabilities are measured at amortised cost applying the effective interest method.Changes in the value of these financial instruments are only recognised when the relevant instrument is sold. Differences between acquisition costs and the repayment amount (e.g. premiums and discounts) are allocated within Net interest income through profit or loss in line with the effective interest rate method. Valuation results resulting from financial instruments in the "FVPL Designated" reporting category are recognised in the Result from financial instruments categorised as FVPL.

Repurchased own debentures are set off against securitised liabilities. For repurchased debentures categorised as FVPL DVP, the non-recyclable pro-rata credit rating-driven effects from own issues measured at fair value through profit or loss, which were initially recognised in the revaluation reserve, are transferred to retained earnings.

SUBORDINATED CAPITAL

Subordinated liabilities, silent participations and profit-sharing certificates are shown under Subordinated capital, due to their different nature compared with other liabilities. No obligation to other creditors for premature redemption of subordinated liabilities is possible. In the case of liquidation or insolvency, subordinated liabilities may only be repaid after the claims of all senior creditors have been met.

Subordinated capital categorised as AC liabilities is recognised and measured initially at fair value (taking the transaction costs into account) and at amortised acquisition cost subsequently. Premiums and discounts are allocated on a constant effective interest rate basis via Net interest income.

III. Notes on other items in the statement of financial position

INTANGIBLE ASSETS

Software acquired or developed in-house and acquired goodwill are accounted for under Intangible assets. In accordance with IAS 38.21, Hamburg Commercial Bank capitalises software development costs if the production of the in-house software is likely to generate an economic benefit and the costs can be reliably determined. If the criteria for capitalisation are not met, expenses are recognised in profit or loss in the year they are incurred. Subsequent costs are only to be capitalised if they lead to a significant improvement of the software in the form of an expansion of the software's functionality. Since Hamburg Commercial Bank does not apply the full goodwill approach, goodwill arises on acquisition of subsidiaries, when the cost of acquisition exceeds the Group's share in the remeasured net assets (shareholders' equity) of the company acquired.

The initial measurement of intangible assets is made at acquisition or production costs in accordance with IAS 38.24. They are subsequently measured at amortised acquisition or production cost.

Software developed in-house is subject to linear depreciation over two to ten years.

If there are indications of impairment, intangible assets are subject to an impairment test. For this test the carrying amount of the intangible assets is compared with the realisable amount. The realisable amount is defined as the greater of fair value less costs to sell and value in use. An asset is impaired if its carrying amount exceeds its realisable amount. Intangible assets with an indefinite useful life, intangible assets not ready for use as well as goodwill are subject to an annual impairment test even if there are no signs which suggest impairment.

Examination of the value of goodwill is carried out on the basis of cash-generating units. Cash-generating units of Hamburg Commercial Bank for non-strategic investments are defined based on the internal management level (global head structure). Each global head unit forms a separate cash-generating unit. A company is regarded as a non-strategic investment if underlying subsidiaries are integrally involved in the business activities of the respective global heads. However, if the value in use is expected to be realised by cash flows or an increase in value of a subsidiary alone, then the subsidiary itself

continues to be a cash-generating unit (so-called strategic investment). Where the anticipated benefit can no longer be determined, a write-down is recognised.

The value in use of a cash-generating unit is determined on the basis of forecast and discounted net cash flows. Net cash flows are usually determined on the basis of Group planning for a detailed planning period of five years. For subsequent periods, the planned cash flows of the last year of the plan are taken into account, allowing for a growth trend. The planned cash flows are based on a risk-adequate discount rate.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises land and buildings, including rights of use related to property rented under a lease agreement that conforms to the definition of investment property, plant and equipment and leasing assets under operating leases where Hamburg Commercial Bank acts as lessor. With the exception of rights of use in accordance with IFRS 16, property, plant and equipment is carried at cost less scheduled straight-line depreciation in accordance with their expected useful lives. The treatment of rights of use in accordance with IFRS 16 is explained in the following section IV- Leasing transactions. Subsequent costs of acquisition or production are capitalised provided they increase the economic utility of the asset concerned. Interest paid to finance acquisition costs of property, plant and equipment is recorded as an expense in the period concerned.

Physical wear and tear, technical obsolescence and legal and contractual restrictions are taken into consideration when determining useful life. For property, plant and equipment, linear depreciation is calculated over the following periods:

Classes of property, plant and equipment

	Useful life in years
Buildings	50
Leasehold improvements	Calculation of residual life is based on the remaining term of the rental agreement.
Other operating equipment	3 to 15
Lease assets from operating leases in which Hamburg Commercial Bank acts as a lessor	Customary useful life
Rights of use from leasing (property, plant and equipment Lessee)	Contractual, non-terminable basic leasing period, taking into account highly probable renewal or termination options

Property, plant and equipment is reviewed at each reporting date for signs which suggest impairment. If this is the case, the recoverable amount is compared with the carrying amount. If the carrying amount exceeds the recoverable amount, a write-down is recognised in profit or loss under administrative expenses.

Gains and losses from the disposal of property, plant and equipment are shown under Other operating income in the statement of income. Repairs, servicing and other maintenance costs are recorded as an expense in the period concerned.

INVESTMENT PROPERTY

Under the Investment property item, all property (land or buildings including the right-of-use assets resulting from properties rented as part of a lease that meet the requirements for definition as investment property) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of HCOB. For mixed-use properties, a percentage allocation of the carrying amount is made. Owner-occupied properties are reported under Property, plant and equipment; rented-out or empty parts are reported as Investment property. The properties are recognised at acquisition cost and depreciated on a straight-line-basis. A useful life of 50 years is used for depreciation purposes. At the reporting date, checks are performed to determine whether there are any indications of impairment. If this is the case, the recoverable amount is compared with the carrying amount. If the carrying amount exceeds the recoverable amount, a write-down is recognised in profit or loss under administrative expenses.

The capitalised income method is used in determining the fair value of investment properties, using market data from internal certified appraisers. The fair value is disclosed in Note 31.

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS AND LIABILITIES RELATING TO DISPOSAL GROUPS

Non-current assets whose carrying amounts will be predominantly or primarily realised through a sale and not through continuing use must be classified as held for sale in accordance with IFRS 5 on the condition that a sale has already been decided on and initiated as of the reporting date, and is extremely likely to be completed within the following twelve months.

A disposal group is a group of assets which are sold to the same purchaser in a single transaction and at a single price. A disposal group can also include liabilities, if these are taken over by the purchaser together with the assets. Hamburg Commercial Bank recognises as disposal groups and liabilities relating to disposal groups specifically the assets and liabilities of consolidated subsidiaries which meet the requirements of IFRS 5 for classification as held for sale.

Non-current assets and disposal groups held for sale are to be measured at the lower of carrying amount or fair value less sale costs. Financial instruments continue to be measured according to the requirements of IFRS 9.

PROVISIONS

Provisions are created where the Group has existing legal and actual obligations resulting from previous events and it is likely that meeting the obligation will require an outflow of resources and a reliable assessment of the amount of the obligation can be made. Provisions are examined and redetermined at least quarterly.

Pension provisions

The majority of employees of Hamburg Commercial Bank AG as well as employees of several domestic subsidiaries are entitled to benefits from different staff pension plans, which include both defined contribution and defined benefit plans.

In the case of defined contribution plans, contractual relationships exist with Provinzial NordWest Lebensversicherung AG for direct insurance policies partly financed by employees. As the insurance company is required to be a member of Protektor Lebensversicherungs-AG, the insured employees are protected against its insolvency, meaning that Hamburg Commercial Bank AG is not burdened even in the event of Provinzial NordWest Lebensversicherung AG's insolvency. These direct insurance policies represent insured benefits and are treated as defined contribution plans.

In the case of the defined benefit plans, the amount of benefit depends on various factors, such as age, salary and length of service. Pension plans include specifically retirement and disability pensions and survivor benefits. They are based primarily on employment contracts of Landesbank Schleswig-Holstein Girozentrale, the retirement plan of Hamburgische Landesbank Girozentrale, retirement pension guidelines of the Hamburgische Landesbank Girozentrale relief fund, the pension plan of Hamburgische Landesbank Girozentrale and Section 2 (4) of the Investment Bank Act in the version of 23 January 1998.

The pension payment depends on the final salary paid immediately prior to retirement, the salary trend up to retirement is irrelevant (no performance components). The pension plans provide for on-going pension payments and not capital payments. Minimum guarantees are not provided for. Pension provisions for defined benefit plans are equivalent to the net present value of the pension entitlements earned as of the reporting date, factoring in anticipated wage and salary increases and the trend in annuities. Calculations are based solely on actuarial reports based on IAS 19, which are prepared by independent actuaries using the projected unit credit method.

These defined benefit plans were closed in 2002.

Hamburg Commercial Bank AG also participates in a multi-employer plan which is run by BVV Versorgungskasse des Bankgewerbes e.V. Contributions are regularly paid with participation from the employees. The BVV tariffs provide for fixed pension payments with profit participation. For BVV, employers have a subsidiary liability for the liabilities of their employees. Hamburg Commercial Bank AG classifies the BVV plan as a defined-benefit joint pension scheme provided by a number of employers. As the BVV relief fund does not fully allocate its assets neither to the beneficiaries nor the member

companies and as the information available for its accounting treatment as a defined benefit plan is insufficient to be able to allocate the assets and pension commitments to the current and former employees of the individual member companies, the plan is treated as a defined contribution plan for accounting purposes. It appears unlikely that there will be any call based on the statutory subsidiary liability.

The remeasurement of net defined benefit liabilities is disclosed under other net income and under equity in retained earnings in the year in which they arise. Pension provisions are discounted as long-term liabilities. The interest expense included in expense for retirement pensions is recognised as part of Net interest income.

The following assumptions are made in calculating direct benefit pension liabilities:

Actuarial assumptions

	2022	2021
Discount rate		
Domestic	4.20%	1.10%
Foreign (weighted)	4.20%	1.10%
Salary growth (weighted)	2.0%	2.0%
Adjustment rate for pensions		
Domestic		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules (weighted)	2.0%	2.0%
Employment contract 4 (weighted)	2.0%	2.0%
Mortality, invalidity etc.	Based on the 2018 G tables of K. Heubeck	Based on the 2018 G tables of K. Heubeck

Actuarial assumptions are subject to a sensitivity analysis as described in Note 41.

Defined benefit pension plans are partly financed from assets and qualified insurance policies used exclusively for pensions (plan assets). Most of the plan assets result from a trust structure set up by Hamburg Commercial Bank in 2020. This involved the establishment of an association, HCOB Trust e.V. ("Trust"), Hamburg, which has concluded a bilateral contractual trust agreement (CTA) with the Bank. With the CTA, the Bank has established an insolvency-protected asset fund, which provides additional security for pension liabilities in the event of the Bank's insolvency. This structure enables the Bank to actively manage its pension liabilities in order to make targeted investments in a wide range of assets from a risk-return perspective and thus generate the necessary funds to cover its pension liabilities. On the balance sheet, the assets tied up in the trust qualify as plan assets under IAS 19.8. Plan assets are measured at fair value and recognised in the statement of financial position as reducing provisions. Where the fair value of the plan assets exceeds the amount of the obligations, the excess amount is disclosed under other assets as capitalised plan assets. Reimbursement claims for pension benefits paid from the plan assets that have not yet paid out to HCOB are recognised as receivables in Other assets.

Other provisions

Other provisions include provisions in the lending business, for restructuring, litigation risks and costs, for personnel expenses (without pensions) and other provisions.

Provisions in the lending business are created, among other reasons, for any sudden calls to pay under warranty bonds, guarantees and letters of credit. The parameters used for the calculation are presented in the section Loan loss provisions and impairment of financial instruments (Note 8.I.D).

Provisions for restructuring are created to the extent Hamburg Commercial Bank has developed and communicated a sufficiently detailed plan for such measures and had started to implement such plan. As soon as the obligation is sufficiently certain or can be quantified – e.g. through the signing of agreements – it is transferred to other liabilities or provisions for pensions and similar obligations as a matter of principle.

Provisions for litigation costs comprise expected payments for court costs as well as for non-court costs in connection with litigation such as, e.g. attorneys' fees and other costs. For litigation in progress, only costs for the current jurisdictional level may be included within the provision.

Provisions for litigation risks are to be created when Hamburg Commercial Bank AG or any of its consolidated subsidiaries is the defendant in an action and the probability that HCOB will lose the action is presumed to be greater than 50%. Provisions include only payments for probably liability for damages and fines as well as costs of litigation at the current level of appeal. The general measurement rules on provisions apply. The mandatory disclosures defined in IAS 37.86 are made for litigation risks that are not considered likely to arise, but which cannot be entirely excluded, unless in individual cases prerequisites according to IAS 37.92 occur and the disclosure can be omitted.

Under Provisions for personnel expenses, in general all outstanding benefits within the personnel expenses are presented with the exception of pension obligations. At Hamburg Commercial Bank, these include, in particular, provisions for variable performance-related pay, partial retirement and long-term credits for hours. Provisions for anniversary payments and partial retirement are accounted for based on actuarial expert reports.

In accordance with IAS 37, provisions are mainly determined based on the best estimate of management. The most likely amount necessary to meet the obligations identifiable on the reporting date is recognised. Long-term provisions are reported at present value to the extent discounting effects are significant.For discounting purposes, interest rates that are valid on the reporting date and are term-appropriate are used based on risk-free interest curves. Addition of accrued interest to be performed during the reporting year is reported under Net interest income.

INCOME TAX EXPENSE

Current tax assets and liabilities are stated at the amount of the anticipated refund from, or payment to, the tax authorities, applying the tax provisions of the countries in question. If there is any uncertainty with regard to the tax treatment of individual items, the most probable value will generally be recognised.

Deferred tax assets are recognised for all deductible timing differences between the value of an asset and liability as measured by IFRS standards and its assigned value in tax terms and for tax loss carryforwards, to the extent that it is probable that future taxable profit will be available against which these deductible timing differences and tax loss carryforwards can be utilised. Deferred tax liabilities are created for all taxable temporary differences. Deferred tax liabilities are calculated using the tax rates and rules anticipated to be valid at the time when the deferred tax assets are to be realised. The effects of tax rate changes on deferred taxes are taken into account on adoption of the legislative amendments. Deferred tax assets are recognised and measured as deferred income tax claims and deferred tax liabilities as Deferred income tax liabilities.

Expenses and income from deferred taxes are in principle recognised on an accrual basis in the statement of income under Income taxes, separate from actual tax expenses and income. In doing so, the accounting treatment of the underlying situation is taken into account.

Deferred taxes are recognised in the statement of income if the item in the statement of financial position itself is recognised in profit or loss. Deferred taxes are charged or credited directly to equity in OCI, if the underlying item itself is charged or credited directly to equity (IAS 12.61A).

Hamburg Commercial Bank prepares tax results planning for the purpose of assessing the recoverability of deferred tax assets. This tax results planning is derived from the corporate planning relevant at the time.

At each reporting date Hamburg Commercial Bank makes an assessment as to whether the realisation of future tax benefits is sufficiently probable to recognise deferred tax assets. Amongst other things, this requires a management assessment of the tax benefits that arise from the existing tax strategies and future taxable income as well as the consideration of other positive and negative factors.

The deferred tax assets recognised could decrease if the estimates of the planned taxable income and the tax benefits achievable under the existing tax strategies are revised downwards, or if changes to current tax legislation restrict the timing or extent of the realisability of future tax benefits.

OTHER ASSETS AND OTHER LIABILITIES

All remaining assets and liabilities not allocable to any other item are stated under other assets/liabilities. These include, for example, accrued expenses and income.

The general recognition and measurement criteria for assets are observed. Initial recognition is at cost. For financial instruments included in this item, the provisions of IFRS 9 apply.

IV. Leasing transactions

According to IFRS 16, an agreement contains a lease if it entitles the lessor to control the use of an identified asset for a specified period of time against payment. Hamburg Commercial Bank assesses whether a lease exists at the beginning of a contract.

The business volume of Hamburg Commercial Bank in the form of leases – those in which Hamburg Commercial Bank acts as both the lessee and the lessor – is of very minor importance overall.

LESSEE

Leasing transactions in which Hamburg Commercial Bank acts as the lessee serve to lease real estate (primarily Group business premises), technical equipment and fixtures, office furniture and equipment, and motor vehicles.

Taking into account materiality aspects and making use of the relief provisions for low-value and short-term leases (IFRS 16.5) and the option for leases of intangible assets (IFRS 16.4), the scope of application of IFRS 16 at Hamburg Commercial Bank as a lessee is limited to property held under operating leases. In order to confirm the immateriality of the remaining leases, Hamburg Commercial Bank regularly carries out a materiality test, in which the effects of applying the standard to these leases are simulated and the effect on the financial position and financial performance as well as qualitative aspects are analysed. Payments for leases that Hamburg Commercial Bank exempts from the scope of IFRS 16 are recognised in the income statement under Other operating result in the reporting period in which they are incurred.

In accordance with IFRS 16, leases are capitalised as rights of use in property, plant and equipment or investment property at the time when the leased asset is available for use by the Group, and a corresponding liability from the lease payments is recognised under other liabilities. Each lease payment is divided into repayment and financing expenses. The latter are recognised as an interest expense for other liabilities over the term of the lease.

For reasons of materiality, the cash outflows relating to the redemption portion are shown in the cash flow statement under Cash flow from investing activities for property, plant and equipment (without separate disclosure of the lease portion), in contrast to the standard specification, while the interest portion is shown under cash flow from operating activities (without separate disclosure).

Calculating the amount of a lease liability and the right of use associated with a lease implies estimates regarding the lease term, particularly against the backdrop of possible termination or renewal options. With regard to the real estate leases relevant for IFRS 16 at Hamburg Commercial Bank, an extension of the term by exercising a contractual extension option (or a shortening of the term by exercising a termination option) without a specific resolution of the Management Board cannot be regarded as sufficiently certain, which is why (until a specific resolution is available) only the contractually agreed term is used for calculation.

Hamburg Commercial Bank also applies the provisions on sale and leaseback transactions within the meaning of IFRS 16.98 et seqq. In this context, HCOB leases back an asset of the lessor after having previously sold the asset to this entity.

If the transfer of this asset by the lessee meets the requirements for a sale set out in IFRS 15, HCOB, as seller and lessee, recognises a right-of-use asset measured at the pro rata residual carrying amount of the asset at the date of the transfer in proportion to the use granted by the lessor. In accordance with IFRS 16.100 (a), the lessee recognises the difference between the value of the right of use and the residual carrying amount in profit or loss in the period in which the right of use is recognised. For a transitional period, the main building of Hamburg Commercial Bank was recognised under property, plant and equipment in financial year 2020, before it was sold in a sale and leaseback transaction.

Rights of use and lease liabilities are recognised at their present value on addition. In the absence of sufficient information on the interest rate inherent in each lease, Hamburg Commercial Bank uses a uniform marginal borrowing rate appropriate to the term of the lease to determine the present value of the lease liability, based on the Bank's liquidity costs.

LESSOR

A distinction is made between finance and operating leases. The allocation depends on whether substantially all risks and rewards are transferred to the lessee or not.

A finance lease is considered to be present where the economic risks and rewards as defined by IAS 17 lie with the lessee; consequently, the leased asset is reported in the latter's statement of financial position. All other leasing arrangements are classified as operating leases. The classification is made at the beginning of each lease.

Finance lease

In finance lease transactions in which Hamburg Commercial Bank acts as lessor, a receivable corresponding to the net investment value is recognised. Depending on the lessee, they are reported either under Loans and advances to banks or under Loans and advances to customers

Leasing rates due are divided into a repayment part which is not recognised in profit or loss and an interest part which is. The part taken to profit or loss is recognised in Net interest income.

Impairments of finance lease receivables attributable to changes in credit risk are recognised in Loan loss provisions. Impairments not attributable to changes in credit risk, such as the impairment of the non-guaranteed residual value of a leasing receivable, are recognised in other operating expense.

Operating lease

As lessor, Hamburg Commercial Bank states leasing objects as assets measured at amortised cost under Property, plant and equipment or as Investment property.

Leasing instalments received are stated under Other operating income, and the corresponding depreciation is stated in Administration expenses.

V. Currency translation

The Group financial statements of Hamburg Commercial Bank are drawn up in euros (EUR). The euro is the functional currency of the overwhelming majority of the individual financial statements included in the Group financial statements. However, some Group companies have another functional currency.

The following principles are applied when translating foreign currency items within single entity financial statements and for translating the financial statements of Group companies that do not draw up their accounts in euros.

PRESENTATION OF FOREIGN CURRENCY TRANSACTIONS IN THE GROUP FINANCIAL STATEMENTS

Initial measurement of assets and liabilities from all foreign currency transactions takes place at the spot rate for the transaction.

In subsequent measurement, monetary items are translated based on the spot mid-rate as of the reporting date. Non-monetary items that are stated in the statement of financial position at fair value are translated using the spot mid-rate applicable at the time of measurement and any other non-monetary items at the historical rate.

Expenses and income in foreign currency arising from the measurement of items in the statement of financial position are translated using the rates applied for translating the items in question. The transaction rates are used for all other expenses and income.

For monetary and non-monetary items measured at fair value, currency translation differences are always recognised in the statement of income of the period when the result arose.

TRANSLATION OF FINANCIAL STATEMENTS PREPARED IN FOREIGN CURRENCY FOR INCLUSION IN THE CONSOLIDATED FINANCIAL STATEMENTS

Assets and liabilities from financial statements denominated in foreign currencies are translated at the period-end rate. Average rates for the reporting period are used to translate expenses and income. In the reporting period, HCOB used average exchange rates for the translation of expenses and income. With the exception of the revaluation reserve reported to be included in the financial statements, which is translated at the closing rate, equity is translated at historic rates (date of the transaction).

Any differences arising from this method of translation are reported under OCI and under Equity in the Currency reserve.

HEDGING OF FOREIGN CURRENCY RISKS FROM THE TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

Hamburg Commercial Bank hedges foreign currency risks resulting from the translation of financial statements of foreign operations from their own functional currency into the reporting currency of the parent company. By hedging net investments in foreign operations, corresponding currency translation differences are compensated directly in equity without affecting profit or loss. The Group exclusively uses non-derivative financial instruments to hedge foreign currency risks. The effective portion of the measurement of these financial instruments is recognised directly in equity in the Currency conversion reserve.

Notes on the Group statement of income

9. Net interest income

Net interest income

(€ m)	2022	2021
Interest income from		
lending and money market transactions categorised as AC and FVOCI	701	534
fixed-interest securities categorised as AC and FVOCI	52	43
impaired financial assets	6	8
discounting of provisions	2	1
Interest income from financial assets categorised as AC and FVOCI	**761**	**586**
thereof attributable to financial assets measured at AC	686	537
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	75	49
Interest income from		
other lending and money market transactions	7	10
other fixed-interest securities	19	18
other miscellaneous non-fixed-interest securities	7	2
trading transactions	2	5
derivative financial instruments	289	267
Current income from		
Long-term equity investments	–	1
Interest income from other financial instruments	**324**	**303**
Negative interest on investments categorised as AC and FVOCI	**-13**	**-16**
thereof attributable to financial assets measured at AC	-13	-16
Negative interest on other cash investments and derivatives	**-32**	**-79**
Interest expenses for		
Liabilities to banks	26	43
Liabilities to customers	151	154
Securitised liabilities	42	41
Subordinated capital	12	7
Derivative financial instruments	225	120
Interest expenses	**456**	**365**
Positive interest on		
Liabilities to banks	-3	-15
Liabilities to customers	-10	-14
Derivative financial instruments	-30	-68
Positive interest on borrowings and derivatives	**-43**	**-97**
thereof attributable to financial liabilities not measured at fair value through profit or loss	-13	-29
Total	**627**	**526**

Interest income and expenses relating to trading and hedging derivatives are disclosed under interest income and expense from/for trading and hedging derivatives.

Net interest income includes income and expenses arising from the amortisation of the adjustment items for portfolio fair value hedge relationships and corresponding proceeds from the closing of the underlying transactions which contributed to the adjustment item.

For receivables subject to specific loan loss provisions, both the interest income and the loan loss provisions have to be adjusted by multiplying them by the original effective interest rate in Net interest income.

The negative interest from investments categorised as AC and FVOCI results from lending and money market transactions. Negative interest on cash investments and derivatives as well as the positive interest result from credit and money market transactions as well as from derivative financial instruments.

10. Net commission income

Net commission income

(€ m)	2022	2021
Commission income from		
lending business	16	21
securities business	2	2
guarantee business	5	6
Payments and account transactions as well as documentary business	18	17
Other commission income	1	3
Commission income	**42**	**49**
Commission expense from		
lending business	3	4
securities business	–	–
Payments and account transactions as well as documentary business	2	3
Other commission expenses	4	4
Commission expenses	**9**	**11**
Total	**33**	**38**

Financial instruments that are not measured at fair value through profit or loss account for € 32 million of Net commission income. In the previous year, € 36 million of Net commission income was attributable to these financial instruments.

11. Result from hedging

The change in value attributable to the hedged risk for designated underlying and hedging transactions in effective hedging relationships is reported under the item Result from hedging. The item contains the profit contributions from micro and portfolio fair value hedges. Hedge accounting is used solely for interest rate risks.

Result from hedging

(€ m)	2022	2021
Fair value changes from hedging transactions	15	89
Micro fair value hedge	164	56
Portfolio fair value hedge	-149	33
Fair value changes from heeding transactions	-13	-88
Micro fair value hedge	-161	-56
Portfolio fair value hedge	148	-32
Total	**2**	**1**

12. Result from financial instruments categorised as FVPL

The result from financial instruments categorised as FVPL includes the realised result and the valuation result of financial instruments in the FVPL Trading, FVPL Designated and FVPL Other categories. The interest income and expense and results from current dividends in these holding categories are reported under the Net interest income item.

Gains and losses arising on currency translation are generally disclosed under this line item of the income statement. In derogation of the above, the results from the translation of loan loss provisions denominated in foreign currency are disclosed under the Loan loss provisions item.

Other products comprises income from foreign exchange transactions and credit derivatives.

Result from financial instruments categorised as FVPL

(€ m)	2022	2021
Loans, bonds and interest rate derivatives		
FVPL Held For Trading	58	-3
FVPL Designated	25	32
FVPL Other	-80	-9
Total	**3**	**20**
Equities and equity derivatives		
FVPL Held For Trading	-3	-
FVPL Other	7	13
Total	**4**	**13**
Other products		
FVPL Held For Trading	5	3
FVPL Other	-3	1
Total	**2**	**4**
Total	**9**	**37**

The Result from financial instruments categorised as FVPL includes net income from foreign currency of € -3 million (previous year: € 1 million).

During the reporting period, € -1 million (previous year: € 1 million) of the changes in fair value of the financial assets categorised as FVPL Designated relate to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € 2 million (previous year: € 2 million) is attributable to changes in the credit spread.

13. Net income from financial investments

This item shows the realised results of the FVOCI-categorised financial investments including the reversal amounts from portfolio fair value hedges.

Net income from financial investments

(€ m)	2022	2021
Realised results from financial assets categorised as FVOCI	-1	3
Total	**-1**	**3**

14. Result from the disposal of financial assets classified as AC

This item includes realised results from the sale and premature repayment of, as well as substantial modifications to, financial assets categorised at amortised cost.

In the reporting period, the "Result from the disposal of financial assets classified as AC" results mainly from disposals of receivables in connection with early repayments/redemptions.

After the transformation process of Hamburg Commercial Bank (including the transition to the Deposit Protection Fund of the BdB) was completed, early repayments/redemptions and the disposals of receivables, together with the corresponding effects on earnings, declined in 2022.

In accordance with IFRS 9.B4.1.3 A and B, the disposals of receivables were carried out in line with the exceptions applicable to the "Hold" business model.

Result from the disposal of financial assets classified as AC

(€ m)	2022	2021
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	4	33
Non-current assets held for sale and disposal groups	–	7
Total gains	**4**	**40**
Losses from the disposal of financial assets classified as AC		
Loans and advances to customers	1	1
Non-current assets held for sale and disposal groups	–	2
Total losses	**1**	**3**
Total	**3**	**37**

15. Loan loss provisions

This item shows the change in loan loss provisions for all loans and advances to banks, loans and advances to customers and financial investments, as well as leasing receivables, categorised as AC or FVOCI.

Loan loss provisions

(€ m)	2022	2021
Loans and advances to banks		
Loans and advances to customers		
Insignificant increase in loan default risk (Stage 1/12-month ECL)	45	69
thereof AC	45	69
Significant increase in loan default risk (Stage 2/lifetime ECL)	10	1
thereof AC	10	1
Impaired credit rating (Stage 3/lifetime ECL)	-48	-45
thereof AC	-48	-45
Loans that are purchased or originated credit-impaired (POCI)	-1	-5
thereof AC	-1	-5
Result from the change in loan loss provisions on loans and advances to customers	**6**	**20**
Off-balance-sheet business		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	1	1
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-1	-
Impaired credit rating (Stage 3/lifetime ECL)	10	-6
Provisions in lending business in accordance with IAS 37	1	2
Result from changes in provisions in the lending business	**11**	**-3**
- Direct write-downs	9	4
+ Recoveries on loans and advances previously written off	5	26
+ Result of non-substantial modifications	-1	-2
Result from other changes to loan loss provisions	**-5**	**20**
Result from changes in loan loss provisions before currency translation gains or losses	**12**	**37**
Currency translation gains or losses on loan loss provisions denominated in foreign currency	**-1**	**-5**
Total loan loss provisions	**11**	**32**

16. Administrative expenses

Administrative expenses

(€ m)	2022	2021
Personnel expenses	154	141
Operating expenses	174	181
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	4	6
Total	**332**	**328**

Personnel expenses

(€ m)	2022	2021
Wages and salaries	131	120
Social security contributions	17	18
thereof employer contributions to government-sponsored pension plans	8	8
Expenses for pensions and support	6	3
Total	**154**	**141**

Operating expenses

(€ m)	2022	2021
IT costs	98	107
Costs for information services	8	7
Costs for external services and project work	19	24
Legal service costs	15	14
Expenses for land and buildings	5	4
Mandatory contributions and expenses under company law	1	-
Costs of advertising, PR and promotional work	2	2
Other operating expenses	26	23
Total	**174**	**181**

Depreciation and amortisation on property, plant and equipment and amortisation on intangible assets are broken down as follows:

Depreciation and amortisation

(€ m)	2022	2021
Scheduled depreciation/amortisation on		
Plant and equipment	1	2
acquired software	2	1
Right-of-use-assets from leasing	1	1
Unscheduled depreciation/ amortisation on		
Plant and equipment	-	1
acquired software	-	1
Total	**4**	**6**

17. Other operating result

Other operating result

(€ m)	2022	2021
Income		
from reversal of other provisions and release of liabilities	46	66
from legal disputes	–	3
from cost allocations and reimbursement of expenses	11	11
from interest on receivables from the tax office	31	17
Other income	20	13
Total income	**108**	**110**
Expenses		
from additions to other provisions	6	29
from expenses paid in advance for transaction fees, legal fees, servicing	10	9
for interest expenses pursuant to Section 233 AO	2	9
Other expenses	15	33
Total expenses	**33**	**80**
Income/loss arising from the deconsolidation of companies	–	– 16
Total	**75**	**14**

The other operating result amounted to € 75 million (previous year: € 14 million). Total income was driven in particular by income from the release of provisions in the reporting year (€ 46 million, of which € 15 million for litigation risks), which exceeded again, as had also been the case in the previous year, the expenses from additions to provisions. Total income also includes interest income from taxes (€ 31 million) and income from earn-out agreements in connection with subsidiaries sold in previous financial years (€ 16 million).

Unlike in the previous year, there were no significant negative special effects. In the previous year, total income had been negatively affected by losses arising from a deconsolidation (€ -16 million) and value adjustments made to the residual value of a legacy lease receivable (€ -13 million).

18. Expenses for regulatory affairs, Deposit Protection Fund and banking associations

Expenses for regulatory affairs, deposit guarantee fund and banking associations

(€ m)	2022	2021
Expenses for European bank levy	19	25
Expenses for deposit guarantee fund	7	3
Expenses for banking supervisory authority	3	2
Expenses for banking associations	1	2
Total	**30**	**32**

Since 31 December 2018, the Bank has reported regulatory expenses (european bank levy and contributions paid to the supervisory authorities), the deposit guarantee fund and membership fees paid to banking associations under this item.

19. Result from restructuring and transformation

Result from restructuring and transformation

(€ m)	2022	2021
Operating expenses due to restructuring	–	9
Income from restructuring	24	9
Result from restructuring	**24**	**-**
Expenses from transformation	58	29
Result from restructuring and transformation	**-34**	**-29**

In connection with the successful privatisation on 28 November 2018, Hamburg Commercial Bank initiated a comprehensive restructuring programme, which includes the planned reduction in the number of employees and major projects to upport the transformation of the Bank. Restructuring provisions of € 24 million were released in the financial year.

Transformation expenses of € -58 million (previous year: € -29 million) result in particular from follow-up project measures implemented to reach the Bank's strategic go

20. Income tax expense

Income tax expense

(€ m)	2022	2021
Corporate tax and solidarity surcharge		
Domestic	46	12
Trade income tax		
Domestic	48	12
Current income taxes	**94**	**24**
Income tax from previous years	-66	9
Subtotal current income tax	**28**	**33**
Income from deferred tax		
from temporary differences	-127	79
from losses carried forward	37	-175
from consolidation	–	11
Subtotal deferred income tax	**-90**	**-85**
Income tax expense (+)/income (-)	**-62**	**-52**

The current tax assets for previous years relate to the expected results of tax audits.

Deferred taxes on tax loss carryforwards are measured on the basis of a recoverability analysis, which is based on the corporate planning. As a result of this corporate planning, income from the recognition of deferred taxes from losses carried forward for the Luxembourg branch amounted to € 48 million for the reporting year. In contrast, the use of losses carried forward in the head office led to an expense from deferred taxes on losses carried forward of € 85 million.

Income relating to deferred taxes from temporary differences in the year under review are mainly attributable to the increase in temporary differences at the head office.

Reconciliation of income taxes

(€ m)	2022	2021
Group net result	425	351
Income tax expense	-62	-52
Income before taxes incl. income from transfer of losses	363	299
Domestic income tax rate to be applied in %	32.14	32.11
Imputed income tax expenses in the financial year	**116**	**96**
Tax effects due to		
Changes in the write-down of deferred taxes on losses carried forward	-109	-227
differing effective tax rates in Germany and abroad	-4	-15
non-deductible expenses	7	102
changes in tax rate	-1	-1
Taxes for previous years	-66	-3
Tax-free income	-6	-3
Write-down of deferred taxes on temporary differences and miscellaneous	1	-1
Total tax expense (+)/income (–)	**-62**	**-52**

In calculating taxes for 2022, a tax rate of 32.14% (previous year: 32.11%) was used for domestic taxes. For the Group entities in Luxembourg, the tax rate applied was 24.94% (previous year: 24.94%). Variations between the locally applied tax rates and the Group tax rate result in a theoretical reduction of tax expense of € 4 million.

The main effects in the reconciliation of the theoretical to the actual tax expense are the change in the recoverability of deferred taxes on losses carried forward as well as non-tax-deductible expenses. The income from the change in the valuation allowances on deferred taxes on losses carried forward relates to the head office and the Luxembourg branch, as the assessment of the usability of the loss carryforwards was re-evaluated based on the current corporate planning. The Non-deductible expenses item also includes the changes in permanent valuation differences between IFRS and tax value as well as effects concerning the deconsolidation of Group companies. Another significant reconciliation effect is related to current tax assets for previous years.

The reconciliation item “Depreciation of deferred taxes on temporary differences and miscellaneous” includes in particular the effect from the non-recognition of a deferred tax asset on consolidation entries.

21. Net gains and losses from financial instruments

Net gains and losses from financial instruments include both realised gains and measurement gains within the Result from financial instruments categorised as FVPL, Net income from financial investments, Net income from the disposal of financial assets categorised at AC as well as loan loss provisions in the lending business shown on the statement of financial position. Neither Net interest nor Net commission income are included in this item.

Net gains and losses from financial instruments

(€ m)	2022	2021
FVPL Held For Trading, Other, Designated	9	37
AC assets and liabilities	14	69
FVOCI Mandatory	-1	3
Total	**22**	**109**

22. Earnings per share

To calculate earnings per share, the Group net result attributable to Hamburg Commercial Bank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review.

As in the previous year, Hamburg Commercial Bank AG has not issued any diluted forms of capital as at 31 December 2022, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

Earnings per share

	2022	2021
Attributable Group net result (€ m) – undiluted/diluted	425	351
Number of shares (millions)		
Average number of ordinary shares outstanding undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	1.41	1.16
Diluted	1.41	1.16

Notes on the Group statement of financial position

23. Cash reserve

Cash reserve

(€ m)	2022	2021
Cash on hand	-	-
Balances with central banks	4,974	3,261
thereof at the Deutsche Bundesbank	4,974	3,261
Total	**4,974**	**3,261**

24. Loans and advances to banks

Loans and advances to banks

(€ m)	2022			2021		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	211	241	452	268	318	586
Other loans and advances	275	50	325	600	50	650
Total before loan loss provisions	**486**	**291**	**777**	**868**	**368**	**1,236**
Loan loss provisions	-	-	-	-	-	-
Total after loan loss provisions	**486**	**291**	**777**	**868**	**368**	**1,236**

Of loans and advances to banks, holdings in the amount of € 8 million (previous year: € 11 million) have a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 650 million (previous year: € 829 million).

The development of the carrying amounts of loans and advances to banks is shown in Note 49.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

25. Loans and advances to customers

Loans and advances to customers

(€ m)	2022			2021		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Retail customers	148	4	152	181	4	185
Corporate clients	6,984	11,749	18,733	8,147	10,883	19,030
Public authorities	592	115	707	865	118	983
Total before loan loss provisions	**7,724**	**11,868**	**19,592**	**9,193**	**11,005**	**20,198**
Loan loss provisions	253	161	414	266	180	446
Total after loan loss provisions	**7,471**	**11,707**	**19,178**	**8,927**	**10,825**	**19,752**

Of loans and advances to customers, holdings in the amount of € 15,372 million (previous year: € 16,197 million) have a residual maturity of more than one year.

Loans and advances to customers include money market transactions in the amount of € 4 million (previous year: € 47 million).

Loans and advances to customers include receivables under finance lease transactions in the amount of € 33 million (previous year: € 36 million).

The development of the carrying amounts of loans and advances to customers is shown in Note 49.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

26. Loan loss provisions

Loan loss provisions

(€ m)	2022	2021
Loan loss provisions for loans and advances to customers classified as AC, incl. leasing	414	446
Loan loss provisions in the lending business	**414**	**446**
Loan loss provisions for items in the statement of financial position	**414**	**446**
Provisions in the lending business	35	44
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	**449**	**490**

In accordance with IFRS 9, the Loan loss provisions item is only set up for transactions categorised as AC and FVOCI. In the reporting year, there are no more loan loss provisions for transactions categorised as AC. Out of the total loan loss provisions of € 449 million as at 31 December 2022 (previous year: € 490 million), € 144 million (previous year: € 186 million) pertain to the adjustment of loan loss provisions because of model overlays. Details on the composition of these adjustments, particularly in the context of the impact of COVID-19 and the war in Ukraine
are included in Note 3.

As at the reporting date, € 238 million of the loan loss provisions for items in the statement of financial position were allocated to the individually impaired volume of receivables from Stage 3 customers including POCI (previous year: € 209 million) and € 176 million to Stage 1 and 2 credit exposures in the IFRS 9 loan loss provisioning model (previous year: € 237 million).

For off-balance sheet items, loan loss provisions for Stage 3 credit exposures of € 31 million (previous year: € 41 million) were created and loan loss provisions for Stages 1 and 2 of € 4 million (previous year: € 3 million). For information on the development of the IFRS 9 portfolio of loan loss provisions in connection with the change in the gross carrying amounts for loans and advances to customers, please refer to Note 49.

In addition, the Bank forms loan loss provisions in accordance with IAS 37 for the off-balance sheet lending business, which totalled € 7 million as at the reporting date (previous year: € 8 million) and is reported in Note 40 Provisions.

27. Hedge accounting

Hamburg Commercial Bank continues to apply the portfolio fair value hedge approach in accordance with IAS 39, making use of the option under IFRS 9.6.1.3. Furthermore, Hamburg Commercial Bank now uses the micro fair value hedge approach in accordance with IFRS 9 for financial instruments measured at fair value directly in equity under IFRS 9.

In addition, Hamburg Commercial Bank manages its foreign exchange risk by hedging net investments in foreign operations in accordance with IFRS 9.6.5.13.

The following section provides a description of the hedging and underlying transactions used for hedging purposes, including the risk management strategy, the impact on cash flows and the effects on the net assets, statement of comprehensive income and statement of changes in equity.

I. Risk management strategy

In order to avoid distortions in the statement of income resulting from interest-bearing financial instruments, micro and portfolio fair value hedge accounting is used to hedge the market price risk interest.

For micro fair value hedges, structured euro swaps are designated as hedging instruments for structured underlying transactions in euros. These designated hedges correspond to economic back-to-back hedges which neutralise the market price risks associated with the underlying transactions. The effectiveness of these hedges is ensured by a critical term match and ineffectiveness is expected from model adjustments, measurement mismatches and the inclusion of tenor basis spreads. In portfolio fair value hedges on interest rate risks, the underlying transactions as a whole are hedged by means of interest rate swaps. Effectiveness is measured in accordance with the rules set out in IAS 39 and the hedge ratio is calculated using the dollar offset method. Ineffectiveness can result from maturities of assets and liabilities that do not match, and from the reference interest rate of the hedging transactions.

Hedge accounting is exclusively used for interest rate and for foreign exchange risks in connection with net investments in foreign operations (please refer to explanations on currency translation in Note 8 Accounting and measurement principles).

II. Effects on cash flows

In order to assess the cash flows to be expected, the nominal and average prices of the hedging instruments in micro fair value hedges are presented in the following table.

Micro fair value hedges

(€ m)	Maturity date	
	2037	2038
Nominal value of hedging instruments	250	200
Average swap rate	3.752	3.633

III. Effects on net assets and statement of comprehensive income

The effects on the net assets and statement of comprehensive income are presented separately for hedging transactions and underlying transactions.

HEDGING INSTRUMENTS

This section presents the nominal values, hedge adjustment and the positive and negative fair values of derivatives used in hedge accounting. At present, only interest rate swaps are taken into account as hedging instruments for interest rate risks. If a derivative is only designated pro rata in hedge accounting, the Positive/negative fair value of hedging derivatives item contains the corresponding share of the derivative's fair value, nominal value and hedge adjustment. The residual is reported in trading assets/liabilities or in the result from financial instruments categorised as FVPL.

At present, bearer bonds and time deposits are taken into account as hedging instruments for the hedging of net investments in foreign operations in accordance with IFRS 9.6.5.13.

Hedging instruments

(€ m)		2022			2021		
Hedge type/type of risk	Balance sheet item	Nominal value	Carrying amount	Hedge adjustment (ytd)	Nominal value	Carrying amount	Hedge adjustment (ytd)
Fair value hedge/interest rate risk							
Interest rate derivatives (assets side)	Positive fair value of hedging derivatives	588	–	34	2,554	26	6
Interest rate derivatives (liabilities side)	Negative fair value of hedging derivatives	5,771	65	96	2,016	149	-108
Hedging of net investments in foreign operations/foreign exchange risk							
Time deposits (liabilities side)	Liabilities due to customers	278	278	-7	–	–	–
Debentures	Subordinated capital	196	197	11	181	181	3

[1] The portfolios are newly designated/redesignated on a monthly basis at the time of the integration of the new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

Asset-side transactions to hedge interest rate risks are reported in the balance sheet item Positive fair values of hedging derivatives, and derivatives on the liabilities side to hedge interest rate risks are shown in the balance sheet item Negative fair values of hedging derivatives. The overall changes in these items are mainly due to changes in the portfolio compositions and movements in interest rates in the EUR and USD capital markets.

At present, foreign exchange risks from net investments in foreign operations are exclusively hedged with liability-side transactions in the balance sheet items Subordinated capital and Liabilities to customers.

UNDERLYING TRANSACTIONS

This section presents financial instruments on the assets and liabilities side used in hedge accounting. The following table shows the carrying amounts, accumulated changes in value (ltd) and since the beginning of the financial year (ytd). The underlying transactions currently include assets (receivables and securities) and liabilities. Hedge accounting is exclusively used to hedge interest and foreign exchange risks in connection with net investments in foreign operations at present.

Underlying transactions[1]

(€ m)		2022			2021		
Hedge type/type of risk	Balance sheet item	Carrying amount	Cum. hedge adjustment (ltd)	Hedge adjustment (ytd)	Carrying amount	Cum. hedge adjustment (ltd)	Hedge adjustment (ytd)
Fair value hedge/interest rate risk							
Portfolio fair value hedge: Fixed-interest rate loans, debentures, securities	Positive adjustment item from portfolio fair value hedges	5,163	-152	-182	6,787	30	-38
Micro fair value hedge	Loans and advances to customers	508	90	31	661	59	43
Portfolio fair value hedge: Fixed-interest issues	Negative adjustment item from portfolio fair value hedges	7,101	-192	-373	6,803	181	-105
Portfolio fair value hedge (inactive)	Positive adjustment item from portfolio fair value hedges	53	–	-3	–	3	-1
Portfolio fair value hedge (inactive)	Negative adjustment item from portfolio fair value hedges	–	–	–	–	–	-20
Micro fair value hedge (inactive)	Loans and advances to customers	68	3	-1	69	4	-49
Micro fair value hedge (inactive)	Subordinated capital	25	6	-1	26	7	-1
Hedging of net investments in foreign operations/foreign exchange risk							
USD hedging	Equity (currency conversion reserve)	475	-7	-4	181	-3	-3

[1] The portfolios are newly designated/redesignated on a monthly basis at the time of the integration of the new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

28. Trading assets

Only financial assets in the FVPL Trading category are reported under the Trading assets item. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value which are either not designated as a hedge derivative or are used as hedging instruments but do not meet the requirements of IFRS 9 for hedge accounting.

Of the trading assets, holdings of € 302 million (previous year: € 643 million) have a residual maturity of more than one year.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59 .

Trading assets

(€ m)	2022	2021
Positive fair value of financial derivatives		
Interest-related transactions	213	524
Currency-related transactions	101	6
Other transactions	8	46
Syndication	-	1
Positive fair value of financial derivatives	**322**	**577**
Other, including promissory notes held for trading	87	107
Receivables from syndication transactions	32	5
Total	**441**	**689**

29. Financial investments

In particular, financial instruments not held for trading purposed are reported as financial investments. This item includes bonds and other fixed-interest securities, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, holdings in joint ventures and associates not carried at equity in the Group financial statements.

Financial investments

(€ m)	2022	2021
Debentures and other fixed-interest securities	5,479	4,510
negotiable and listed	3,735	3,886
negotiable and not listed	1,744	624
Shares and other non-fixed-interest securities	1	5
negotiable and listed	-	5
negotiable and not listed	1	-
Long-term equity investments	10	9
negotiable and not listed	2	1
Total	**5,490**	**4,524**

Of the financial investments, holdings of € 4,706 million (previous year: € 3,689 million) have a residual maturity of more than one year.

The development of the carrying amounts of financial investments for the current year is shown in Note 49.

30. Intangible assets

Intangible assets

(€ m)	2022	2021
Software	13	4
developed in-house	2	2
acquired	11	2
Software in development	42	30
developed in-house	2	-
acquired	40	30
Total	**55**	**34**

The Software in development item includes in particular the expenses in connection with the modernisation of the Bank-wide IT landscape during a multi-year transformation phase.

The addition recognised in the reporting year results primarily from the development costs incurred for the configuration of the SAP S/4 HANA Banking and Finance modules and for the development of the integrative SAP data platform.

Changes in the carrying amounts of intangible assets are as follows:

Development of intangible assets

(€ m)		Software		Software in development		
2022	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	Total
Acquisition costs as at 1 January 2022	**171**	**7**	**158**	**-**	**31**	**367**
Adjustment to carry forward	-	-	-1	-	-	-1
As at 1 January 2022 adjusted	171	7	157	-	31	366
Additions	-	-	4	2	16	22
Disposals	-	5	151	-	1	157
Reclassifications	-	-	6	-	-6	-
As at 31 December 2022	**171**	**2**	**16**	**2**	**40**	**231**
Amortisation as at 1 January 2022	**171**	**5**	**156**	**-**	**1**	**333**
Adjustment to carry forward	-	-	-1	-	-	-1
As at 1 January 2022 adjusted	171	5	155	-	1	332
Additions	-	-	2	-	-	2
Disposals	-	5	152	-	1	158
As at 31 December 2022	**171**	**-**	**5**	**-**	**-**	**176**
Carrying amount as at 31 December 2022	**-**	**2**	**11**	**2**	**40**	**55**
Carrying amount as at 01 January 2022	**-**	**2**	**2**	**-**	**30**	**34**

Reclassifications in the amount of € 6 million from Software under development to Software were recognised in the reporting year.

The disposals of acquisition costs and amortisation of acquired software recognised in the reporting year mainly result from disposals of assets already written off as part of the IT migration to SAP S/4 HANA.

Development of intangible assets

(€ m)		Software		Software in development		
2021	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	Total
Acquisition costs as at 1 January 2021	**171**	**81**	**159**	**-**	**12**	**423**
Additions	-	2	-	-	19	21
Disposals	-	76	1	-	-	77
As at 31 December 2021	**171**	**7**	**158**	**-**	**31**	**367**
Amortisation as at 1 January 2021	**171**	**81**	**156**	**-**	**-**	**408**
Additions	-	-	1	-	1	2
Disposals	-	76	1	-	-	77
As at 31 December 2021	**171**	**5**	**156**	**-**	**1**	**333**
Carrying amount as at 31 December 2021	**-**	**2**	**2**	**-**	**30**	**34**
Carrying amount as at 01 January 2021	**-**	**-**	**3**	**-**	**12**	**15**

In the reporting year, € 1 million was incurred for research costs in connection with the implementation of software developed in-house (previous year: € 0 million).

31. Property, plant and equipment and Investment property

Property, plant and equipment

(€ m)	2022	2021
Land and buildings	8	8
Plant and equipment	2	3
Right-of-use assets from leasing	6	8
Total	**16**	**19**

Under the item Investment property, all property (land or buildings) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of HCOB. Properties leased, in the capacity of lessor, under operating leases are also included in this item.

Investment property

(€ m)	2022	2021
Investment property	1	1
Total	**1**	**1**

The fair value of investment property amounts to € 1 million (previous year: € 1 million). The fair values of investment property are allocated without exception to Level 3 of the fair value hierarchy. Market-based and income-based valuation techniques are used to determine fair value.

The development of Property, plant and equipment and Investment property in the financial year was as follows:

Development of Property, plant and equipment and Investment property

(€ m)	Property, plant and equipment				Investment property	
2022	Land and buildings	Plant and equipment	Assets under construction	Rights-of-use from leasing	Investment property	Rights-of-use from leasing
Acquisition costs as at 1 January 2022	**23**	**41**	**–**	**12**	**1**	**–**
Adjustment to carry forward	–11	–9	–	–1	–	–
As at 1 January 2022 adjusted	12	32	–	11	1	–
Additions	–	–	–	1	–	–
Disposals	–	11	–	–	–	–
As at 31 December 2022	**12**	**21**	**–**	**12**	**1**	**–**
Amortisation as at 1 January 2022	**15**	**38**	**–**	**4**	**–**	**–**
Adjustment to carry forward	–11	–9	–	–1	–	–
As at 1 January 2022 adjusted	4	29	–	3	–	–
Additions	–	1	–	3	–	–
Disposals	–	11	–	–	–	–
As at 31 December 2022	**4**	**19**	**–**	**6**	**–**	**–**
Carrying amount as at 31 December 2022	**8**	**2**	**–**	**6**	**1**	**–**
Carrying amount as at 01 January 2022	**8**	**3**	**–**	**8**	**1**	**–**

Further details on depreciation are presented in Note 16.

A portion of the depreciation for the rights of use from leasing is not reported under Administrative expenses but under Other operating result. This refers to the depreciation of the capitalised right of use from the sale and lease-back transaction of the main building of HCOB.

Development of Property, plant and equipment and Investment property

(€ m)	Property, plant and equipment				Investment property	
2021	Land and buildings	Plant and equipment	Assets under construction	Rights-of-use from leasing	Investment property	Rights-of-use from leasing
Acquisition costs as at 1 January 2021	**23**	**59**	**–**	**13**	**1**	**–**
Additions	–	–	–	1	–	–
Disposals	–	18	–	2	–	–
As at 31 December 2021	**23**	**41**	**–**	**12**	**1**	**–**
Amortisation as at 1 January 2021	**15**	**53**	**–**	**4**	**–**	**–**
Additions	–	2	–	2	–	–
As at 31 December 2021	**15**	**38**	**–**	**4**	**–**	**–**
Carrying amount as at 31 December 2021	**8**	**3**	**–**	**8**	**1**	**–**
Carrying amount as at 01 January 2021	**8**	**6**	**–**	**9**	**1**	**–**

32. Non-current assets held for sale and disposal groups

Non-current assets held for sale and disposal groups

(€ m)	2022	2021
Loans and advances to customers	-	10
Total	**-**	**10**

The receivable of € 10 million held for sale as at 31 December 2021 was disposed of at carrying amount in the first quarter of 2022.

33. Current tax assets

Current tax assets

(€ m)	2022	2021
Domestic	78	7
Foreign	3	3
Total	**81**	**10**

The increase in current income tax assets in the reporting period is attributable in particular to the expected results of the tax assessment for HCOB in Germany.

34. Deferred tax assets

Deferred tax assets arose due to temporary differences in the tax base of the following items in the statement of financial position and tax losses carried forward.

Deferred tax assets

(€ m)	2022	2021
Assets		
Loans and advances to banks	33	33
Loans and advances to customers	57	4
Loan loss provisions	63	77
Positive adjustment item from portfolio fair value hedges	49	-
Financial investments	127	-
Other assets	70	44
Liabilities		
Liabilities to banks	14	-
Liabilities to customers	-	2
Negative fair value of hedging derivatives	21	48
Negative adjustment item from portfolio fair value hedges	-	58
Trading liabilities	-	17
Subordinated capital	2	2
Provisions	100	192
Other liabilities	1	5
Tax losses carried forward	318	355
Subtotal for deferred tax assets	**855**	**837**
Netting of deferred tax liabilities	-158	-221
Total	**697**	**616**

Out of the deferred tax assets after offsetting, € 576 million is attributable to Germany and € 121 million to abroad.

Deferred taxes on loss carryforwards were recognised in the amount of € 318 million (previous year: € 355 million). As at 31 December 2022, € 197 million of this amount is attributable to the head office (previous year: € 282 million) and € 121 million to the Luxembourg branch (previous year: € 73 million). For the head office and the Luxembourg branch, the recoverability of the deferred taxes on loss carryforwards results from planned future taxable income.

Unused tax loss carryforwards amounted to € 2,600 million as at the reporting date (previous year: € 3,427 million), for which no deferred tax assets were recognised.

The increase in deferred tax assets before offsetting in the amount of € 18 million results from the decrease in deferred taxes on loss carryforwards as well as from from the changes in measurement differences for several items in the statement of financial position. The development of deferred tax assets in the reporting year was determined mainly by the measurement of financial assets, provisions, the market values of hedge derivatives, loans and advances to customers and the positive adjustment item from the fair value hedge portfolio.

The value of deferred tax assets results from the positive future tax results expected in the tax planning as derived from corporate. In determining the recoverability of deferred tax assets, the value adjustment of deferred tax assets on temporary valuation differences from consolidation entries amounts to € 2 million at the end of the year (no value adjustment in the previous year).

€ 57 million of the reduction in deferred tax assets relates to deferred taxes for pension liabilities recognised directly in equity.

35. Other assets

Other assets

(€ m)	2022	2021
Other prepaid expenses	12	16
Receivables from other taxes	2	7
Capitalised plan assets	141	-[1]
Claim for reimbursement from plan assets	91	60[1]
Other assets	14	17
Total	**260**	**100**

[1] The previous year's amount was adjusted. For further details please refer to Note 2.

Other assets of € 236 million (previous year: € 64 million) have a residual maturity of more than one year.

€ 111 million of the assets reported here (previous year: € 86 million). As at 31 December 2022, the fair value of the plan assets exceeds the pension obligations covered by the plan assets, as the present value of the corresponding pension obligations has decreased more than the fair value of the plan assets compared to the previous year's reporting date. The excess amount of € 141 million (previous year: € 0 million) is recognised under Other assets as Capitalised plan assets

HCOB has contractual claims for reimbursement from the plan assets in the amount of the pension benefits paid. The pension benefits paid for the years 2020, 2021 and 2022 have not yet been repaid to the Bank and are therefore reported under other assets in the amount of € 91 million (previous year: € 60 million).

36. Liabilities to banks

Liabilities to banks

(€ m)	2022			2021		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	124	67	191	69	44	113
Other term liabilities	3,924	491	4,415	5,362	29	5,391
Total	**4,048**	**558**	**4,606**	**5,431**	**73**	**5,504**

Of liabilities to banks, holdings in the amount of € 3,745 million (previous year: € 4,466 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated FVPL and their nominal value, which corresponds to the contractually agreed repayment amount at the due date, amounted to less than € -1 million as at 31 December 2022 (previous year: € 0 million). Changes in value caused by credit risk accounted for less than € 1 million (previous year: less than € 1 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

Liabilities to banks as at 31 December 2022 include liabilities from TLTRO III transactions (targeted longer-term refinancing operations) with the ECB in the nominal amount of € 1,550 million (previous year: € 1,750 million), comprising two transactions (June 2020 and September 2021). They were concluded with a term of three years each; the interest rate is generally based on the average MRO rate of the ECB. For the specific interest rate period from June 2021 to June 2022, the maximum interest rate for TLTRO III operations was reduced to 50 basis points below the average rate applied in main refinancing operations (MRO). For the period from 24 June 2022, interest was charged at the average MRO rate of the ECB (without the aforementioned reduction). The average rate was calculated based on ECB specifications, i.e.

- for the time period from 24 June 2022 to 22 November 2022, the calculation of the average rate was based on the period from the beginning of the term of the respective transaction until 22 November 2022 (so-called "main interest period");
- starting from 23 November 2022, the average rate was calculated exclusively based on the period from 23 November 2022 of the respective transaction (so-called "final interest period" until the repayment of the respective transaction).
-

As at 31 December 2022, the TLTRO III liabilities result in negative net interest of € 1 million (previous year: net interest income of € 14 million).

The TLTRO III liabilities are recognised at their carrying amount of € 1,546 million as at 31 December 2022 (previous year: € 1,743 million).

In its books, Hamburg Commercial Bank has recognised the financing liability as a financial instrument within the meaning of IFRS 9. Hamburg Commercial Bank used the discrete approach to determine the effective interest rate. Banks that met certain lending performance criteria in their lending business were furthermore granted a premium in the form of an additional interest rate reduction. Hamburg Commercial Bank did not meet these criteria and has therefore not been granted a premium.

37. Liabilities to customers

Liabilities to customers by customer group

(€ m)	2022	2021
Corporate clients	10,927	9,590
Public authorities	2,267	1,520
Retail customers	49	31
Total	**13,243**	**11,141**

Liabilities to customers

(€ m)	2022			2021		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Savings deposits with agreed notice periods of						
3 months	-	-	-	1	-	1
Other liabilities						
Payable on demand	2,832	1,910	4,742	2,907	1,621	4,528
Term liabilities	6,482	2,019	8,501	5,716	896	6,612
Total	**9,314**	**3,929**	**13,243**	**8,624**	**2,517**	**11,141**

Of liabilities to customers, holdings in the amount of € 3,441 million (previous year: € 3,635 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated FVPL and their nominal value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € 61 million as at 31 December 2022 (previous year: € -14 million). Changes in value caused by credit risk account for € 0 million of this amount (previous year: € -2 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

38. Securitised liabilities

Securitised liabilities

(€ m)	2022	2021
Debentures issued	7,065	6,704
Total	**7,065**	**6,704**

Of securitised liabilities, holdings of € 4,766 million (previous year: € 4,637 million) have a residual maturity of more than one year.

Debentures issued include € 0 million of hybrid financial instruments (previous year: € 0 million).

In the Securitised liabilities item, repurchased own debentures in the amount of € 1,270 million (previous: € 2,093 million) were deducted.

The difference between the carrying amount of securitised liabilities designated at FVPL and their nominal value, which corresponds to the contractually agreed repayment amount at the due date, amounts to € 8 million as at 31 December 2022 (previous year: € -15 million). Changes in value caused by credit risk account for € -3 million of this amount (previous year: € 2 million).

39. Trading liabilities

The Trading liabilities item comprises exclusively financial obligations of the FVPL Trading category. Mainly included in this category are derivatives with a negative fair value which are either not designated as a hedge derivative or are used as hedging instrument but do not meet the requirements of IFRS 9 for hedge accounting.

Trading liabilities

(€ m)	2022	2021
Negative fair value from derivative financial instruments		
Interest-related business	222	91
Currency-related business	25	84
Other business	48	63
Other	40	51
Total	**335**	**289**

Of the trading liabilities, holdings of € 301 million (previous year: € 201 million) have a residual maturity of more than one year.

Information on collateral transferred is presented in Note 59.

40. Provisions

Provisions

(€ m)	2022	2021
Provisions for pension obligations and similar obligations	87	149[1]
Other provisions		
Provisions for personnel expenses	57	42
Provisions in the lending business	42	53
Provisions for restructuring	20	69
Provisions for litigation risks and costs	110	124
Other provisions	45	56
Total	**361**	**493**

[1] The previous year's amount was adjusted. For further details please refer to Note 2.

The provisions in the lending business shown in the table above include € 7 million (previous year: € 8 million) in provisions attributable to guarantees and credits by way of bank guarantees. These are measured in accordance with IAS 37, meaning that they are not treated as financial instruments in accordance with IFRS 9.

Of the provisions, holdings of € 167 million (previous year: € 224 million) have a residual maturity of more than one year.

For further information regarding provisions in the lending business please refer to Note 26.

€ 16 million of the provisions for restructuring (previous year: € 51 million) relate to personnel expenses and € 4 million (previous year: € 18 million) to operating expenses. The provisions were mainly set up in connection with the current restructuring programme resulting from the completed privatisation of Hamburg Commercial Bank. The amount of the provisions was estimated based on the expected utilisation of the restructuring programmes. Depending on the actual utilisation of the restructuring programmes, the amount set up as provisions may differ from the amount utilised.

Other provisions mainly comprise provisions for regulatory expenses, transformation expenses, onerous contracts and archiving costs.

Changes in pension provisions are presented in Note 41.

Hamburg Commercial Bank had set up provisions for litigation risks and costs as at the reporting date. To determine for which claim the possibility of a loss is likely, and in order to estimate the amount of the potential payment obligations, Hamburg Commercial Bank takes a variety of factors into account. These include, among other things, the type of claim and the underlying facts of the case, the status of the individual proceedings, (provisional) decisions made by courts and arbitration bodies, the experience of the Hamburg Commercial Bank and third parties in comparable cases (insofar as they are known to the Bank), prior settlement negotiations, as well as the expert opinions and assessments of the Bank's internal and external legal advisors and other professionals.

The provisions for litigation risks mainly result from legal disputes in the Bank's lending business.

Further information on the Bank's legal risks is described in the Risk Report, section "Non-Financial Risk – Non-Financial Risk in the Reporting Year".

Other provisions have changed as follows:

Changes in other provisions

(€ m) 2022	For personnel expenses	In the lending business (non-financial instruments)	For restructuring	For litigation risks and costs	Other	Total
s at 1 January 2022	**42**	**8**	**69**	**124**	**56**	**299**
Additions	43	3	-	11	18	75
Reversals	1	4	24	15	18	62
Reclassifications	-4	-	-11	-	-	-15
Utilisation in the financial year	23	-	14	10	11	58
As at 31 December 2022	**57**	**7**	**20**	**110**	**45**	**239**

For information on the development of loan loss provisions for financial instruments reported under contingent liabilities in the current year, please refer to Note 49 (Schedule of loan loss provisions).

Changes in other provisions

(€ m) 2021	For personnel expenses	In the lending business (non-financial instruments)	For restructuring	For litigation risks and costs	Other	Total
As at 1 January 2021	**41**	**10**	**131**	**122**	**93**	**397**
Additions	34	2	2	18	54	110
Reversals	10	4	9	7	47	77
Reclassifications	-1	-	-27	-	2	-26
Utilisation in the financial year	22	-	28	9	46	105
As at 31 December 2021	**42**	**8**	**69**	**124**	**56**	**299**

41. Pension obligations and similar obligations

In recognising and measuring direct benefit pension plans, the net present value of the obligations is reduced by the fair value of the plan assets.

Provisions for pension obligations and similar obligations

(€ m)	2022	2021
Net present value of obligations, wholly or partly financed through funds	648	989
Net present value of obligations not financed through funds	87	108
Net present value of pension obligations and similar obligations	**735**	**1,097**
Fair value of plan assets	789	948[1]
Reclassification to Capitalised plan assets	-141	-[1]
Pension plan net liability (provisions for pension obligations and similar obligations)	87	149

[1] The previous year's amount was adjusted. For further details please refer to Note 2.

The net present value of defined benefit pension obligations has changed as follows.

Changes in net present value

(€ m)	2022	2021
Net present value as at 1 January	**1,097**	**1,189**
Actuarial losses/gains (-)		
due to changed financial assumptions	-325	-49
due to experience-based adjustments	-2	-14
Interest expenses	12	9
One-off expense/gain	-8	-10
Plan curtailment	-	-4
Current service cost	4	5
Benefits paid	-52	-44
Reclassifications	9	15
Net present value as at 31 December	**735**	**1,097**

The change in actuarial gains and losses is mainly attributable to an increase in the discount rate.

Early retirement arrangements were negotiated as part of the restructuring and associated reduction in staff, and the corresponding provisions of € 9 million were transferred from restructuring provisions to early retirement liabilities.

The fair value of plan assets has changed as follows.

Changes in fair value of plan assets

(€ m)	2022	2021
Fair value of plan assets as at 1 January	**948**	**991**
Adjustment to carry forward	-	-30[1]
1 January after adjustment	948	961
Expected return on plan assets	14	10
Actuarial losses(-)/gains	-141	7
Pension benefits paid	-1	-
Claim for reimbursement from plan assets	-31	-30[1]
Fair value of plan assets as at 31 December	**789**	**948**

[1] The previous year's amount was adjusted. For further details please refer to Note 3.

The Bank has a contractual claim for reimbursement in the amount of the pension benefits already paid out. These claims, which have not yet been reimbursed, are reported under other assets as they do not meet the requirements for classification as plan assets within the meaning of IAS 19. For financial year 2022, the reimbursement claim amounts to € 91 million (previous year: € 60 million).

The net interest of € 2 million is composed of the interest expense of the pension and similar liabilities of € 12 million and the interest income of the plan assets of € 14 million. The changes in the measurement of pension obligations and similar obligations amounting to € 325 million are netted in OCI with the changes in the measurement of plan assets amounting to € 141 million, which mainly result from changes in financial adjustments.

The total actuarial gains for the financial year before deferred taxes amounts to € 186 million (previous year: € 69 million). Allowing for deferred taxes, this results in a gain of € 127 million (previous year: € 47 million), which is recognised in Other comprehensive income and disclosed in retained earnings on an accumulated basis. As at 31 December 2022, the balance of actuarial losses in retained earnings before tax amounted to € -5 million (previous year: € -191 million) and to € -3 million after tax (previous year: € -130 million).

Breakdown of plan assets

(€ m)	2022	2021
Cash and cash equivalents	158	345
Investment funds	709	633
thereof exchanged trade funds equity	106	113
thereof exchanged trade funds bonds	147	177
thereof hedge funds	258	210
thereof private debt funds	141	98
thereof real estate & infrastructure funds	57	35
Debentures and other fixed-interest securities	11	21
Derivatives	-11	-4
Qualified insurance policies	10	8
Other assets	3	5
Total	**880**	**1,008**
Claims for reimbursement from plan assets	91	60[1]
Fair value of plan assets	789	948

[1] The previous year's amount was adjusted. For further details please refer to Note 2.

The debentures and other fixed-interest securities included in the plan assets as well as the plan assets invested in exchange traded funds are traded on an active market.

Expenses of € 8 million were incurred for defined benefit pension plans in the 2022 reporting year (previous year: € 0 million).

Pension obligations represent future amounts to be paid and are uncertain both as to the amount and the date they fall due. Future fluctuations in the present value of the pension obligations can result particularly from a change in the actuarial assumptions such as the discount rate and life expectancy.

An increase or decrease in the actuarial assumptions (cf. Note 8) would have had the following impact on the present value of pension liabilities as at 31 December 2022:

Sensitivity of pension liabilities

(€ m)	Increase	Decrease
2022		
Discount rate (+/-0.25%)	-21	22
Discount rate (+/-1%)	-72	89
Inflation trend[1] (+/-0.25%)	20	-19
Inflation trend[1] (+/-0.5%)	37	-35
Life expectancy (+1 year)	25	

Sensitivity of pension liabilities

(€ m)	Increase	Decrease
2021		
Discount rate (+/-0.25%)	-41	43
Discount rate (+/-1%)	141	183
Inflation trend[1] (+/-0.25%)	36	-37
Inflation trend[1] (+/-0.5%)	35	-34
Life expectancy (+1 year)	49	

[1] A variation in the inflation trend affects the salary trend. An assumption regarding future salary levels has a direct influence on future pension levels because of the fully dynamic pension commitments. The salary and pension trends were therefore not separately varied.

The average duration of the pension obligations determined as at 31 December 2022 was used as the basis for the sensitivity calculations. The impact of the major assumptions on the present value of the pension obligations is presented. As the sensitivity analyses are based on the average duration of the expected pension obligations, and expected payment dates are therefore not taken into account, the figures represent only approximate values. Furthermore, where a change in an actuarial assumption is analysed, the other assumptions are kept constant.

Hamburg Commercial Bank expects to make payments of € 55 million to beneficiaries under defined benefit pension plan commitments for the 2022 financial year (previous year: € 56 million).

The weighted average duration of the defined benefit obligation is 13.3 years as at 31 December 2022 (previous year: 17.0 years).

Expenses for defined contribution plans were € 9 million in the reporting period 2022 (previous year: € 10 million). Payments to statutory pension schemes in the amount of € 8 million (previous year: € 8 million).

42. Current tax liabilities

Current tax liabilities

(€ m)	2022	2021
Provisions for income taxes	90	38
Total	**90**	**38**

Provisions for income taxes include tax liabilities for which no legally binding tax assessment notice has been received as at the reporting date. This mainly refers to expected tax payments for financial year 2022 at the head office.

43. Deferred tax liabilities

For temporary differences in the tax bases of the following items in the statement of financial position, deferred tax liabilities were created.

Deferred tax liabilities

(€ m)	2022	2021
Assets		
Loans and advances to customers	-	2
Financial investments	-	20
Trading assets	21	137
Positive fair values of hedging derivatives	-	9
Positive adjustment item from portfolio fair value hedges	-	10
Property, plant and equipment	2	2
Intangible assets	1	-
Liabilities		
Liabilities to banks	-	21
Securitised liabilities	49	16
Trading liabilities	5	-
Negative adjustment item from portfolio fair value hedges	62	-
Other liabilities	18	4
Total	**158**	**221**
Netting of deferred tax assets	-158	-221
Total	**-**	**-**

The decrease in deferred tax liabilities before netting of € 63 million mainly results from the change in existing temporary differences on trading assets, financial investments, securitised liabilities, adjustment items from the portfolio fair value hedge and other liabilities.

€ 49 million of the total change is attributable to reductions in deferred tax liabilities relating to the measurement of receivables, liabilities and financial investments.

Deferred tax liabilities of € 6 million (previous year: € 0 million) associated with investments in subsidiaries (so-called outside basis differences) were not recognised in accordance with IAS 12.39, as realisation is not probable.

44. Other liabilities

Other liabilities

(€ m)	2022	2021
Collateral provided for liabilities assumed	47	48
Liabilities for outstanding invoices	50	56
Liabilities for restructuring	7	19
Personnel liabilities	12	8
Deferred income	2	2
Other tax liabilities	5	5
Liabilities for leases	14	19
Other	13	15
Total	**150**	**172**

Other liabilities in the amount of € 60 million (previous year: € 66 million) have a residual maturity of more than one year.

The collateral provided for liabilities assumed serves to hedge leasing transactions of our customers with third parties.

€ 118 million of the liabilities reported here relate to financial instruments (previous year: € 123 million).

45. Subordinated capital

Subordinated capital

(€ m)	2022	2021
Subordinated debt	930	921
Maturing in less than two years	5	2
Total	**930**	**921**

Subordinated capital of € 926 million (previous year: € 918 million) have a residual maturity of more than one year. In the year under review, there were no silent participations or profit participation rights in place.

46. Equity

Equity

(€ m)	2022	2021
Share capital	302	302
Capital reserve	1,529	1,524
Retained earnings	2,915	2,437
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-5	-191
thereof: deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	2	61
Revaluation reserve	-6	103
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	2	-2
thereof: valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	-8	105
Group net result	425	351
Total	**5,165**	**4,717**

Equity
The increase in equity of € 448 million compared to the previous year is related to the positive Group net result.

Share capital
Following the restructuring of balance sheet equity carried out in financial year 2021, the share capital of Hamburg Commercial Bank AG is divided into 301,822,453 (registered) no-par value shares, each with a notional share in the share capital of € 1. All outstanding shares are fully paid.

As at 31 December 2022, several funds launched by Cerberus Capital Management L.P., New York, indirectly held a total of 42.41% of the voting rights via three acquisition companies (Promontoria Holding 221 B.V. 9.87%, Promontoria Holding 231 B.V. 13.86% and Promontoria Holding 233 B.V. 18.69%). Funds advised by J.C. Flowers & Co LLC, New York, indirectly hold a 34.93% stake through JCF IV Neptun Holdings S.à r.l. as an acquisition company. In addition, a fund launched by Golden Tree Asset Management LP, New York, indirectly holds a share of 12.47% in Hamburg Commercial Bank AG via GoldenTree Asset Management Lux S.à r.l. as an acquisition company, while Centaurus Capital LP, Houston, indirectly holds a share of 7.48% via Chi Centauri LLC as an acquisition company. BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft, Vienna, holds a share of 2.49% and the members of the Managing Board or former members of the Managing Board of HCOB hold a share of 0.20% (previous year: 0.11%).

Pursuant to Section 20 (1) of the German Stock Corporation Act (AktG), JCF IV Neptun Holdings S.à r.l., Luxembourg has directly owned more than one quarter of the shares in Hamburg Commercial Bank AG since 2018. In addition, the following companies and natural persons have indirectly owned more than one quarter of the shares of Hamburg Commercial Bank AG pursuant to Section 20 (1) sentence 1, sentence 2 in conjunction with Section 16 (4) German Stock Corporation Act (AktG) since 2018:

- JCF IV Europe S.à r.l.
- J.C. Flowers IV L.P.
- JCF Associates IV L.P.
- JCF Associates IV Ltd.
- Mr. James Christopher Flowers
- Mr. Stephen A. Feinberg

Neither Hamburg Commercial Bank AG nor any company dependent on it or majority-owned companies hold treasury stock. There are no cross-shareholdings as defined by Section 19 German Stock Corporation Act (AktG).

Changes in ordinary shares

(Number of shares)	2022	2021
Number at the beginning of the year	301,822,453	301,822,453
Number at the end of the year	**301,822,453**	**301,822,453**

Retained earnings
Retained earnings include € 1,278 million that were released from the reduction of the share capital in the previous year. In addition, retained earnings generally include the retained profits from previous years as well as the reporting year. There are no statutory reserves or legal reserves within the meaning of Section 150 (2) of the German Stock Corporation Act (AktG).

Capital reserve
The capital reserve includes € 1,438 million from the allocation of amounts released from the reduction of the share capital in the previous year.

As at the reporting date, the capital reserve contains share-based remuneration in accordance with IFRS 2 of € 16 million (previous year: € 11 million).

Revaluation reserve
The revaluation reserve includes the effects of credit risk-induced changes in the value of liabilities designated at fair value and the effects of the measurement of assets classified at fair value through other comprehensive income as a mandatory requirement.

The changes in value associated with deferred taxes shown in the revaluation reserve are also presented in the revaluation reserve pursuant to IAS 12.61A.

Currency conversion reserve
Assets and liabilities in financial statements of subsidiaries in foreign currencies are translated at the reporting date exchange rate in preparing the Group financial statements, while average rates for the reporting period are used to translate expenses and income. Equity is translated at historical rates, with the exception of revaluation reserves in Group financial statements reported in foreign currencies, which are translated at the reporting date exchange rate.

Any differences arising from this method of translation compared to complete translation at the reporting date exchange rate are reported in this Equity item.

In addition, the hedge adjustment resulting from the hedging of net investments in foreign operations is also recognised in this item. The amount reported in the currency conversion reserve includes a hedge adjustment of € 7 million as at 31 December 2022 (previous year: € 3 million).

Dividends
In both financial year 2022 and the previous year, no dividend payments were made for previous years. Hamburg Commercial Bank intends to propose to the Annual General Meeting in April 2023 a dividend distribution for financial year 2022 in the total amount of € 1,500 million (in total € 4.97 per no-par value share), subject to the corresponding approval by the shareholders.

Capital management
The capital management of Hamburg Commercial Bank aims to comply with regulatory capital ratios. In addition to these requirements, capital management is used as the basis for complying with the planned capital ratios planned and is designed to ensure that the Bank's capital base also meets the requirements imposed by the Bank's stakeholders.

The common equity Tier 1 capital ratio is the main parameter for capital management. The regulatory capital commitment is monitored closely at the overall Bank level as well as at the business unit level.

The regulatory capitalisation is in accordance with the provisions of the European Capital Requirements Regulation (CRR) in conjunction with the Supervisory Review and Evaluation Process (SREP). Hamburg Commercial Bank determines the capital requirements for counterparty risk in accordance with the approach permitted by the Federal Financial Supervisory Authority based on internal ratings (Advanced IRBA) and based on the CSA (standard approach). The reporting of capital adequacy to the supervisory authorities is done for each quarter. The capital ratios required under supervisory law were complied with on each reporting date in the course of the year under review. For further details, please refer to the Risk Report section "Requirements under the supervisory review and evaluation process".

Regulatory figures

(%)	2022	2021
Overall capital ratio	26.8	35.7
Tier 1 capital ratio	20.5	28.9
CET1 capital ratio	20.5	28.9

Notes to the Group cash flow statement

47. Additional disclosures on the Group cash flow statement

No cash flows and effects on assets and liabilities resulted from the obtaining or loss of control over subsidiaries during the financial year or in the previous year.

The following table shows a reconciliation of balance sheet values to cash flow from financing activities.

Reconciliation Cash flow from financing activities

(€ m)	Other subordinated capital	Silent participations	Profit participation capital
Balance sheet value as at 01 January 2022	**921**	**-**	**-**
Cash changes			
Payments made	-3	-	-
Non-cash changes			
Changes in fair value	10	-	-
Other changes	2	-	-
Balance sheet value as at 31 December 2022	**930**	**-**	**-**

Reconciliation Cash flow from financing activities

(€ m)	Other subordinated capital	Silent participations	Profit participation capital
Balance sheet value as at 01 January 2021	**939**	**2**	**-**
Cash changes			
Payments made	-31	-2	-
Non-cash changes			
Changes in fair value	13	-	-
Balance sheet value as at 31 December 2021	**921**	**-**	**-**

Segment reporting

48. Segment report

(€ m/%)	Real Estate		Shipping		Project Finance		Corporates		Lending Units	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Net interest income	171	188	150	102	63	61	133	92	517	443
Net commission income	5	7	12	11	7	8	10	13	34	39
Other income[1]	-1	8	15	29	-	5	-18	1	-4	43
Total income	**175**	**203**	**177**	**142**	**70**	**74**	**125**	**106**	**547**	**525**
Loan loss provisions (expected loss)	-10	-13	-6	-12	-6	-5	-19	-23	-41	-53
Administrative expenses and regulatory costs	-80	-93	-83	-59	-35	-38	-58	-57	-256	-247
Other operating result	-	-	-	-	-	-	-	-	-	-
Result from restructuring and transformation	-	-	-	-	-	-	-	-	-	-
Net income before taxes	**85**	**97**	**88**	**71**	**29**	**31**	**48**	**26**	**250**	**225**
Income tax	-11	-12	-11	-9	-4	-4	-6	-3	-32	-28
Earnings after taxes	**74**	**85**	**77**	**62**	**25**	**27**	**42**	**23**	**218**	**197**
NIM - Net interest margin (%)	2.14	2.07	4.00	3.03	1.74	1.36	3.06	2.46	2.61	2.13
Cost/income ratio (CIR - %)	40	40	44	38	45	45	42	49	42	42
RoE after taxes (%)	**11.4**	**15.4**	**19.4**	**18.3**	**8.3**	**8.5**	**8.4**	**4.9**	**11.8**	**11.9**
Loan loss provisions (expected loss - %)	-0.13	-0.14	-0.15	-0.35	-0.16	-0.12	-0.46	-0.62	-0.21	-0.25
Average segment assets (€ bn)	8.0	9.1	3.8	3.4	3.6	4.5	4.1	3.8	19.5	20.8
Average risk weighted assets (€ bn)	5.0	4.2	3.1	2.6	2.3	2.4	3.8	3.5	14.2	12.7
Loan loss provisions (income statement)	11	-43	16	72	-6	-7	-12	5	9	27

(€ bn)	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Segment assets	**8.1**	**8.0**	**3.5**	**3.7**	**3.4**	**3.9**	**4.6**	**3.9**	**19.6**	**19.5**
Risk Weighted Assets (RWA)	4.8	3.9	2.9	2.3	2.1	2.4	4.0	3.7	13.8	12.3
Loan loss provisions (balance sheet)	0.2	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.4	0.4
NPE ratio (%)	2.1	2.2	1.0	2.2	1.2	0.8	2.3	3.3	1.8	2.1

[1] Other income comprises the other income items in total income (IFRS).

(€ m/%)	Lending Units		Treasury & Group Functions		Reconciliation		Group	
	2022	2021	2022	2021	2022	2021	2022	2021
Net interest income	517	443	29	21	81	62	627	526
Net commission income	34	39	1	-	-2	-1	33	38
Other income[1]	-4	43	50	115	-33	-80	13	78
Total income	**547**	**525**	**80**	**136**	**46**	**-19**	**673**	**642**
Loan loss provisions (expected loss)	-41	-53	-	-2	52	87	11[2]	32[2]
Administrative expenses & regulatory costs	-256	-247	-106	-113	-	-	-362	-360
Other operating result	-	-	75	14	-	-	75	14
Result from restructuring and transformation	-	-	-34	-29	-	-	-34	-29
Net income before taxes	**250**	**225**	**15**	**6**	**98**	**68**	**363**	**299**
Income tax	-32	-28	64	-1	30	81	62	52
Earnings after taxes	**218**	**197**	**79**	**5**	**128**	**149**	**425**	**351**
NIM - Net interest margin (%)	2.61	2.13	0.12	0.12			1.68	1.45
Cost/income ratio (CIR - %)	42	42	65	71			44	50
RoE after taxes (%)	**11.8**	**11.9**	**41.7**	**2.3**			**20.8**	**18.4**
Loan loss provisions (expected loss - %)	-0.21	-0.25	-	-0.02			0.04[2]	0.10[2]
Average segment assets (€ bn)	19.5	20.8	11.6	10.8	-	-	31.1	31.6
Average risk weighted assets (€ bn)	14.2	12.7	1.5	1.8	-	0.1	15.7	14.6
Loan loss provisions (income statement)	9	27	1	3	1	2	11	32

(€ bn)	31.12. 2022	31.12. 2021	31.12. 2022	31.12. 2021	31.12. 2022	31.12. 2021	31.12. 2022	31.12. 2021
Segment assets	**19.6**	**19.5**	**12.2**	**10.7**	**-**	**0.1**	**31.8**	**30.3**
Risk Weighted Assets (RWA)	13.8	12.3	1.6	1.6	-	0.1	15.4	14.0
Loan loss provisions (balance sheet)	0.4	0.4	-	-	-	-	0.4	0.4
NPE ratio (%)	1.8	2.1	-	-			1.2	1.4

[1] Other income comprises the other income items in total income (IFRS).
[2] Loan loss provisions in accordance with IFRS at Group level.

General information

Segment reporting is prepared in accordance with the provisions of IFRS 8. The segments reflect HCOB's internal organisational structure, which is based on product and customer groups and which corresponds to the delimitation for internal Group management purposes. The formation of the segments is intended to achieve the greatest possible homogeneity of customer groups with regard to a focused loan financing product range as well as other products and services.

Total income reported for the segments was exclusively generated with customer transactions.

Geographical information and information on income generated with external clients for each product and service is not collected for management reporting purposes due to a lack of management relevance and disproportionately high costs, which means that a disclosure in accordance with IFRS 8.32 and 8.33 is not required.

Segment structure

In line with the responsibilities of the Chief Investment Officer (CIO) on the Management Board, the segment structure bundles all market-related units in the four segments "Real Estate", "Shipping", "Project Finance" and "Corporates". These four market-related segments are additional presented together as "lending units". Main focus of the market-related segments' business activities is on offering financing solutions in the lending business.

The remaining segment "Treasury & Group Functions" comprises the capital market activities that focus on the management of strategic investments and the Treasury function (CFO) as well as the remaining staff and service functions. The capital market activities comprise the management of the portfolios in the bank book (liquidity buffer, cover pools, strategic investment portfolio and management of pension liabilities) as well as the bank-wide asset liability management (ALM) and the management of the cash position. The financing business with institutional clients as well as the bank-wide syndication activities are also reported in the "Treasury & Group Functions" segment.

The contributions to operating earnings from the positions of the ALM book in the Treasury & Group Functions segment are allocated to the market-related segments. The investment and financing income, the other effects from equity and the transformation contribution are allocated to the segments according to the liquidity costs that have been offset.

Segment reporting methodology

In order to increase the level of transparency, the segment results in the areas of total income, loan loss provisions, administrative expenses and capital utilisation (average equity utilisation) are reported in line with the internal performance measurement structure. The corresponding reconciliation effects on the individual items of the Group statement of income (IFRS) are shown separately in the "Reconciliation" column and explained in greater detail below.

Reconciliation effects in accordance with IFRS 8.28

The reconciliation effects in total income mainly consist of interest income and other income. Other income comprises the other income items in total income (IFRS).

Net interest income for the purpose of internal reporting to management is calculated in accordance with Fund Transfer Pricing (FTP). Reconciliation effects relating to Net interest income of the Group also include effects from different calculation and amortisation methods used for internal reporting purposes. The net interest income of the segments also includes OCI results, which under IFRS are reported in other comprehensive income not recognised through profit or loss. In addition, in the internal management system, the measurement results of the hedging derivatives in hedge accounting are only recognised upon the disposal of AC or FVOCI positions, whereas under the IFRS hedge accounting regulations, the hedge adjustments are continuously amortised within the Net interest income item. For the assessment of the interest income, HCOB also reports the Net Interest Margin (NIM). The NIM puts the operating net interest income in relation to the average segment assets. The operating net interest income is calculated by adjusting net interest income for certain one-off, non-sustainable effects.

The reconciliation effects of the Result from financial instruments categorised as FVPL item include differences resulting from the presentation of capital market transactions between the internal management system and IFRS accounting, as well as from the hedging of certain financial instruments that can be included in the portfolio fair value hedge in full in the internal recognition of the interest rate hedge transaction, whereas under the IFRS, they cannot, or can only partly, be included in the portfolio fair value hedge.

The risk costs (expected loss) at segment level posted in the segment report in accordance with the internal performance measurement structure are based on the expected loss of the transactions (through-the-cycle view). The reconciliation to loan loss provisions in accordance with the consolidated income statement under IFRS is provided in the reconciliation column.

In the market-related segments, administrative expenses and regulatory costs are reported based on the regulatory costs allocated in the internal performance measurement (expenses for regulation, deposit guarantee fund and banking associations) and the standard processing costs applied (for administrative expenses). Some of the administrative expenses (change-the-bank costs) remain as overhead in the Treasury & Group Functions segment.

The result from restructuring and transformation is reported in full in the Treasury & Group Functions segment.

The income taxes of the segments are calculated using a minimum tax rate of 12.8% on the respective net income before taxes due to the high existing loss carryforwards. The difference to actual income taxes at Group level is shown in the Reconciliation item.

The return on equity (RoE after taxes) is based on a normalised equity utilisation (average risk weighted assets (RWA) and normalised CET1 ratio of 13 percent).

The allocation of RWA to the individual segments also took into account, for the first time, the RWA for operational risks, the RWA for deferred taxes and the RWA for the asset liability management (ALM) holdings. The previous year's figures have been adjusted accordingly.

Definitions

For the definition of the KPIs CIR and NPE ratio, please refer to the explanations provided in the Group management report

(Chapter "Basis of the Group", Section "Management system").

The loan loss provisions (income statement) shown (as additional information) in the tables above represent the loan loss provisions of the segments according to the consolidated income statement under IFRS. The risk costs (expected loss – %) are calculated based on the quotient of risk costs (expected loss) and the average segment assets.

Disclosures on financial instruments

49. Information on the development of loan loss provisions and the carrying amounts of financial instruments not measured at fair value through profit or loss

The following table shows the development of the gross carrying amounts of financial instruments not measured at fair value through profit or loss in the items in the statement of financial position Loans and advances to banks, Loans and advances to customers, Financial investments, Non-current assets held for sale and disposal groups, and for the off-balance sheet business.

The development of loan loss provisions for financial instruments not measured at fair value through profit or loss is also shown separately by balance sheet item.

Development in gross carrying amounts for loans and advances to banks

(€ m)	2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2022	**1,236**	**–**	**–**	**–**	**1,236**
thereof AC	1,218	–	–	–	1,218
thereof FVOCI	18	–	–	–	18
Other changes	–459	–	–	–	–459
thereof AC	–450	–	–	–	–450
thereof FVOCI	– 9	–	–	–	– 9
Carrying amount as at 31 December 2022	**777**	**–**	**–**	**–**	**777**
thereof AC	768	–	–	–	768
thereof FVOCI	9	–	–	–	9

Development in gross carrying amounts for loans and advances to banks

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2021	**-1,557**	**-**	**-**	**-**	**-1,557**
thereof AC	-1,535	-	-	-	-1,535
thereof FVOCI	-22	-	-	-	-22
Other changes	321	-	-	-	321
thereof AC	317	-	-	-	317
thereof FVOCI	4	-	-	-	4
Carrying amount as at 31 December 2021	**-1,236**	**-**	**-**	**-**	**-1,236**
thereof AC	-1,218	-	-	-	-1,218
thereof FVOCI	-18	-	-	-	-18

Development in loan loss provisions for loans and advances to banks

Like in the previous year, there were no significant loan loss provisions for loans and advances to banks in the year under review.

Development of gross carrying amounts for loans and advances to customers

(€ m)	2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2022	**17,300**	**2,169**	**425**	**15**	**19,909**
thereof AC	16,354	2,164	425	15	18,958
thereof FVOCI	910	5	-	-	915
thereof receivables under finance leases	36	-	-	-	36
Transfer to LECL Stage 2	-495	500	-4		1
thereof AC	-495	500	-4		1
Transfer to LECL Stage 3	-19	-15	34		-
thereof AC	-19	-15	34		-
Transfer to 12M ECL	774	-774	-		-
thereof AC	774	-774	-		-
Other changes	-124	-303	-77	-6	-510
thereof AC	88	-302	-77	-6	-297
thereof FVOCI	-209	-1	-	-	-210
thereof receivables under finance leases	-3	-	-	-	-3
Carrying amount as at 31 December 2022	**17,436**	**1,577**	**378**	**9**	**19,400**
thereof AC	16,702	1,573	378	9	18,662
thereof FVOCI	701	4	-	-	705
thereof receivables under finance leases	33	-	-	-	33

Development of gross carrying amounts for loans and advances to customers

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant in-crease in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or originated credit-im-paired (POCI)	Total
Carrying amount as at 01 January 2021	**–18,819**	**–2,723**	**–544**	**–16**	**–22,102**
thereof AC	–17,721	–2,717	–544	–16	–20,998
thereof FVOCI	–1,049	–6	–	–	–1,055
thereof receivables under finance leases	–49	–	–	–	–49
Transfer to LECL Stage 2	994	–994	–		–
thereof AC	994	–994	–		–
Transfer to LECL Stage 3	142	37	–179		–
thereof AC	142	37	–179		–
Transfer to 12M ECL	–554	554	–		–
thereof AC	–554	554	–		–
Other changes	937	957	298	1	2,193
thereof AC	785	956	298	1	2,040
thereof FVOCI	–	–	–	–	–
thereof receivables under finance leases	13	–	–	–	13
Carrying amount as at 31 December 2021	**–17,300**	**–2,169**	**–425**	**–15**	**–19,909**
thereof AC	–16,354	–2,164	–425	–15	–18,958
thereof FVOCI	– 910	– 5	–	–	– 915
thereof receivables under finance leases	–36	–	–	–	–36

Development of loan loss provisions for loans and advances to customers

(€ m)	2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant in-crease in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or originated credit-im-paired (POCI)	Total
Loan loss provisions as at 1 January 2022	**68**	**169**	**204**	**5**	**446**
Transfer to LECL Stage 2	-3	3	-	–	-
Transfer to LECL Stage 3	-	-6	6	–	-
Transfer to 12M ECL	54	-54	-	–	-
Reversals due to disposals, repayments and other reductions	119	73	25	1	218
Additions due to new additions and other increases	74	63	73	2	212
Utilisation	-	-	30	–	30
Change in line with effective interest rate	-	-	3	–	3
Exchange rate changes	1	-1	1	–	1
Loan loss provisions as at 31 December 2022	**75**	**101**	**232**	**6**	**414**

Development of loan loss provisions for loans and advances to customers

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant in-crease in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or originated credit-im-paired (POCI)	Total
Loan loss provisions as at 1 January 2021	**91**	**216**	**261**	**1**	**569**
Transfer to LECL Stage 2	-5	5	-	–	-
Transfer to LECL Stage 3	-1	-6	7	–	-
Transfer to 12M ECL	49	-49	-	–	-
Reversals due to disposals, repayments and other reductions	118	127	59	–	304
Additions due to new additions and other increases	49	126	103	5	283
Utilisation	-	-	118	–	118
Change in line with effective interest rate	-	-	7	- 1	6
Exchange rate changes	3	4	3	–	10
Loan loss provisions as at 31 December 2021	**68**	**169**	**204**	**5**	**446**

As in the prior-year period, changes in loans and advances to customers in the reporting period relate only to transactions classified as AC.

Development of gross carrying amounts for financial investments

(€ m)	2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2022	**4,049**	**16**	**-**	**-**	**4,065**
thereof AC	91	-	-	-	91
thereof FVOCI	3,958	16	-	-	3,974
thereof FVOCI	3,958	16	-	-	3,974
Transfer to 12-month ECL	-36	36	-	-	-
thereof FVOCI	-36	36	-	-	-
Transfer to LECL Stage 2	-31	31	-	-	-
thereof FVOCI	-31	31	-	-	-
Other changes	932	-11	-	-	921
thereof AC	-11	-	-	-	-11
thereof FVOCI	943	-11	-	-	932
Carrying amount as at 31 December 2022	**4,914**	**72**	**-**	**-**	**4,986**
thereof AC	80	-	-	-	80
thereof FVOCI	4,834	72	-	-	4,906

Development of gross carrying amounts for financial investments

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2021	**4,890**	**-**	**-**	**-**	**4,890**
thereof AC	86	-	-	-	86
thereof FVOCI	4,804	-	-	-	4,804
Transfer to LECL Stage 2	-16	16	-	-	-
thereof FVOCI	-16	16	-	-	-
Other changes	- 825	-	-	-	-825
thereof AC	5	-	-	-	5
thereof FVOCI	-830	-	-	-	-830
Carrying amount as at 31 December 2021	**4,049**	**16**	**-**	**-**	**4,065**
thereof AC	91	-	-	-	91
thereof FVOCI	3,958	16	-	-	3,974

Development in loan loss provisions for financial investments

(€ m)	2022				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2022	**1**	**-**	**-**	**-**	**1**
Reversals due to disposals and other reductions	1	-	-	-	1
Additions due to new additions and other increases	1	-	-	-	1
Loan loss provisions as at 31 December 2022	**1**	**-**	**-**	**-**	**1**

Development in loan loss provisions for financial investments

(€ m)	2021				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2021	**-**	**-**	**-**	**-**	**-**
Additions due to new additions	1	-	-	-	1
Loan loss provisions as at 31 December 2021	**1**	**-**	**-**	**-**	**1**

As in the prior-year period, changes in financial investments in the reporting period relate only to transactions classified as FVOCI.

Development of gross carrying amounts of non-current assets held for sale and disposal groups

(€ m)	2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2022	**10**	**-**	**-**	**-**	**10**
Other changes	-10	-	-	-	-10
Carrying amount as at 31 December 2022	**-**	**-**	**-**	**-**	**-**

Development of gross carrying amounts of non-current assets held for sale and disposal groups

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2021	**609**	**17**	**–**	**–**	**626**
Other changes	–599	–17	–	–	–616
Carrying amount as at 31 December 2021	**10**	**–**	**–**	**–**	**10**

Carrying amounts off-balance-sheet business

(€ m)	2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2022	**3,860**	**222**	**64**	**-**	**4,146**
Other changes	-321	-132	-38	-	-491
Carrying amount as at 31 December 2022	**3,540**	**89**	**26**	**-**	**3,655**

Carrying amounts off-balance-sheet business

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2021	**4,257**	**259**	**76**	**-**	**4,592**
Other changes	-397	-37	-12	-	-446
Carrying amount as at 31 December 2021	**3,860**	**222**	**64**	**-**	**4,146**

Development in loan loss provisions for off-balance sheet business

(€ m)	2022				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2022	**2**	**1**	**41**	**–**	**44**
Transfer to 12M ECL	1	-1	–	–	–
Reversals due to disposals and other reductions	-3	-4	-11	–	-18
Additions due to new additions and other increases	2	5	1	–	8
Loan loss provisions as at 31 December 2022	**2**	**1**	**31**	**–**	**34**
thereof provisions for contingent liabilities	–	–	8	–	8
thereof provisions for irrevocable loan commitments	2	1	23	–	26

Development in loan loss provisions for off-balance sheet business

(€ m)	2021				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2021	**3**	**1**	**35**	**–**	**39**
Reversals due to disposals and other reductions	-4	-1	-6	–	-11
Additions due to new additions and other increases	3	1	12	–	16
Loan loss provisions as at 31 December 2021	**2**	**1**	**41**	**–**	**44**
thereof provisions for contingent liabilities	–	–	10	–	10
thereof provisions for irrevocable loan commitments	2	1	31	–	34

50. Residual maturity breakdown of financial instruments

When determining the residual maturity of financial liabilities for purposes of presenting liquidity risk, the contractually agreed maturity dates of non-discounted cash flows are used as the basis.

Residual maturity breakdown

(€ m) 2022	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Liabilities						
Liabilities to banks	309	123	959	2,914	495	4,800
Liabilities to customers	4,743	3,403	2,732	1,854	856	13,588
Securitised liabilities	-	28	2,338	4,225	768	7,359
Negative fair value of hedging derivatives	-	10	16	76	45	147
Trading liabilities	1	22	77	168	28	296
thereof: Derivatives	1	21	75	158	-	255
Other liabilities	1	66	16	60	-	143
Subordinated capital	-	5	31	146	1,131	1,313
Contingent liabilities	831	-	-	-	-	831
Irrevocable loan commitments	3,294	-	-	-	-	3,294
Total	**9,179**	**3,657**	**6,169**	**9,443**	**3,323**	**31,771**

Residual maturity breakdown

(€ m) 2021	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Liabilities						
Liabilities to banks	118	863	548	3,356	686	5,571
Liabilities to customers	4,518	1,982	1,840	1,922	1,282	11,544
Securitised liabilities	-	79	2,006	3,887	824	6,796
Negative fair value of hedging derivatives	-	17	18	76	30	141
Trading liabilities	1	37	33	42	224	337
thereof: Derivatives	1	37	32	30	187	287
Other liabilities	1	75	21	66	-	163
Subordinated capital	-	-	7	51	1,028	1,086
Contingent liabilities	752	-	-	-	-	752
Irrevocable loan commitments	3,800	-	-	-	-	3,800
Total	**9,190**	**3,053**	**4,473**	**9,400**	**4,074**	**30,190**

Interest rate swaps, cross currency interest rate swaps and equity swaps are presented on the basis of their future net payment obligations. Other derivatives are assigned to maturity bands by overall maturity at their carrying amount. Liquidity management is described in detail in the Risk Report included in the combined management report of the Bank

51. Disclosure of fair value in accordance with IFRS 7 and IFRS 13

I. Fair values of financial instruments

The following section shows the fair values of the financial assets and liabilities presented by category of financial instrument, compared with the carrying amounts and divided into the three levels of the measurement hierarchy in accordance with IFRS 13.

Fair values of financial instruments

Assets

(€ m) 2022	Carrying amount	Fair Value	Level 1	Level 2	Level 3
VOCI Mandatory	**5,621**	**5,621**	**2,848**	**2,213**	**560**
Loans and advances to banks	10	10	-	10	-
Loans and advances to customers	705	705	-	705	-
Financial investments	4,906	4,906	2,848	1,498	560
FVPL Designated	**83**	**83**	**32**	**51**	**-**
Financial investments	83	83	32	51	-
FVPL Held For Trading	**441**	**441**	**-**	**315**	**126**
Trading assets	441	441	-	315	126
FVPL Other	**613**	**613**	**248**	**163**	**202**
Loans and advances to customers	192	192	-	-	192
Financial investments	421	421	248	163	10
AC assets	**24,179**	**24,094**	**-**	**10,985**	**13,109**
Cash reserve	4,974	4,974	-	4,974	-
Loans and advances to banks	767	765	-	765	-
Loans and advances to customers	18,247	18,168	-	5,059	13,109
Financial investments	80	76	-	76	-
Other assets	111	111	-	111	-
No IFRS 9 category	**-118**	**-119**	**-**	**-**	**-**
Positive fair values of hedging derivatives	-	-	-	-	-
Receivables under finance leases	34	34	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	-152	-153[1]	n.r.	n.r.	n.r.
Total assets	**30,819**	**30,733**	**3,128**	**13,727**	**13,997**

[1] The part of the value adjustments from the portfolio fair value hedge that is attributable to financial investments, loans and advances to banks and loans and advances to customers in the FVOCI holding category is recognised at fair value. The remaining € 1 million pertains to loans and advances in the AC holding category.

The carrying amounts of loans and advances to banks and loans and advances to customers classified as AC HTC are shown less the loan loss provisions disclosed on the balance sheet, since fair value also reflects possible impairments.

Fair values of financial instruments

Assets

(€ m) 2021	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVOCI Mandatory	**4,905**	**4,905**	**1,943**	**2,720**	**242**
Loans and advances to banks	18	18	–	18	–
Loans and advances to customers	914	914	–	914	–
Financial investments	3,973	3,973	1,943	1,788	242
FVPL Designated	**41**	**41**	**–**	**41**	**–**
Financial investments	41	41	–	41	–
FVPL Held For Trading	**689**	**689**	**–**	**569**	**120**
Trading assets	689	689	–	569	120
FVPL Other	**710**	**710**	**–**	**360**	**350**
Loans and advances to customers	291	291	–	–	291
Financial investments	419	419	–	360	59
AC assets	**23,177**	**23,904**	**–**	**6,862**	**17,042**
Cash reserve	3,261	3,261	–	3,261	–
Loans and advances to banks	1,218	1,222	–	1,222	–
Loans and advances to customers	18,511	19,233	–	2,191	17,042
Financial investments	91	92	–	92	–
Non-current assets held for sale and disposal groups	10	10	–	10	–
Other assets	86[2]	86[2]	–	86[2]	–
No IFRS 9 category	**94**	**90**	**–**	**26**	**–**
Positive fair values of hedging derivatives	26	26	–	26	–
Receivables under finance leases	36	36	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	32	28[1]	n.r.	n.r.	n.r.
Total assets	**29,616**	**30,339**	**1,943**	**10,578**	**17,754**

[1] The part of the value adjustments from the portfolio fair value hedge that is attributable to financial investments, loans and advances to banks and loans and advances to customers in the FVOCI holding category is recognised at fair value. The remaining € 4 million pertain to loans and advances in the AC holding category.
[2] The previous year's amount was adjusted. For further details please refer to Note 2.

The carrying amounts of loans and advances to banks and loans and advances to customers classified as AC HTC are shown less the loan loss provisions disclosed on the balance sheet, since fair value also reflects possible impairments.

Fair values of financial instruments

Liabilities

(€ m) 2022	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	**268**	**268**	**–**	**167**	**101**
Liabilities to banks	3	3	–	–	3
Liabilities to customers	123	123	–	35	88
Securitised liabilities	142	142	–	132	10
FVPL Held For Trading	**335**	**335**	**–**	**280**	**55**
Trading liabilities	335	335	–	280	55
AC liabilities	**25,695**	**25,042**	**–**	**24,255**	**787**
Liabilities to banks	4,603	4,290	–	4,290	–
Liabilities to customers	13,120	13,093	–	13,067	26
Securitised liabilities	6,923	6,556	–	5,795	761
Other liabilities	118	118	–	118	–
Subordinated capital	931	985	–	985	–
No IFRS 9 category	**-127**	**65**	**–**	**65**	**–**
Negative fair value of hedging derivatives	65	65	–	65	–
Value adjustments from the portfolio fair value hedge	-192	–	n.r.	n.r.	n.r.
Total liabilities	**26,171**	**25,710**	**–**	**24,767**	**943**

Fair values of financial instruments

Liabilities

(€ m) 2021	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	**440**	**440**	**–**	**287**	**153**
Liabilities to banks	16	16	–	1	15
Liabilities to customers	223	223	–	97	126
Securitised liabilities	201	201	–	189	12
FVPL Held For Trading	**289**	**289**	**–**	**233**	**56**
Trading liabilities	289	289	–	233	56
AC liabilities	**23,953**	**24,375**	**–**	**23,513**	**862**
Liabilities to banks	5,488	5,472	–	5,467	5
Liabilities to customers	10,918	11,212	–	11,179	33
Securitised liabilities	6,503	6,538	–	5,714	824
Other liabilities	123	122	–	122	–
Subordinated capital	921	1,031	–	1,031	–
No IFRS 9 category	**330**	**149**	**–**	**149**	**–**
Negative fair value of hedging derivatives	149	149	–	149	–
Value adjustments from the portfolio fair value hedge	181	–	n.r.	n.r.	n.r.
Total liabilities	**25,012**	**25,253**	**–**	**24,182**	**1,071**

At the end of the period under review, financial instruments measured at fair value were transferred from one hierarchy level to another. These transfers are shown in the following table together with the carrying amounts at the time of transfer for each class of financial instrument.

Transfer, assets

(€ m) 2022	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Trading assets (FVPL Trading)	–	–	1	-2	2	-1
Financial investments						
thereof FVOCI Mandatory	2,268	-1,209	1,209	-2,268	–	–
thereof FVPL Designated	2	-3	3	-2	–	–
thereof FVPL Other	172	-2	50	-172	–	-48
Total	**2,442**	**-1,214**	**1,263**	**-2,444**	**2**	**-49**

Transfer, assets

(€ m) 2021	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Financial investments						
thereof FVOCI Mandatory	1,287	-829	829	-1,287	–	–
thereof FVPL Other	–	-25	25	–	–	–
Total	**1,287**	**-854**	**854**	**-1,287**	**–**	**–**

Transfer, liabilities

(€ m) 2022	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Trading assets (FVPL Trading)	–	–	–	-3	3	–
Total	**–**	**–**	**–**	**-3**	**3**	**–**

IFRS 13 and IDW RS HFA 47 specify the principles to be applied in determining the fair value. They also include the guidelines for assigning input factors to the fair value hierarchy levels. Hamburg Commercial Bank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities that are commonly traded on the OTC market. Average prices determined on the basis of binding offers or transaction-based prices are Level 2 input factors within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities were accordingly transferred from Level 1 to Level 2 or vice versa in the reporting period – depending on the prices used for measurement.

The following shows the reconciliation for all assets and liabilities recognised at fair value and assigned to Level 3 in the fair value hierarchy. The data is presented from the start to the end of the period. The table takes into account all movements of assets and liabilities that were or are allocated to Level 3 during the reporting period.

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Quantitative changes		Quantitative changes		Transfers					
2022	1 January 2022	Realised net income (income statement)	OCI reserve	Purchases	Sales	Issues	Settlements	From Stage 3	To Stage 3	Transfer/ recategorisation	Exchange rate changes	31.December 2022	Net income from assets held as at 31 December 2022
Balance sheet item/category/ instrument type													
Loans and advances to customers													
thereof FVPL Other	291	-14	-	-	-52	-	-42	-	-	-	9	192	-19
Trading assets (FVPL Trading)	119	-16	-	37	-	-	-14	-1	2	-1	-	126	-15
Financial investments													
thereof FVOCI Mandatory	242	2	-11	343	-	-	-23	-	-	-	7	560	-
thereof FVPL Other	59	-2	-	1	-	-	-	-48	-	-	-	10	-
Total	**711**	**-30**	**-11**	**381**	**-52**	**-**	**-79**	**-49**	**2**	**-1**	**16**	**888**	**-34**

[1] Of the net income in the income statement recognised in profit or loss, € -32 million relate to the result from financial instruments categorised as FVPL and € 2 million to the net interest result.

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Quantitative changes		Quantitative changes		Transfers					
2021	1 January 2021	Realised net income (income statement)	OCI reserve	Purchases	Sales	Issues	Settlements	From Stage 3	To Stage 3	Transfer/ recategorisation	Exchange rate changes	31.December 2021	Net income from assets held as at 31 December 2021
Balance sheet item/category/ instrument type													
Loans and advances to customers													
thereof FVPL Other	314	17	–	–	-32	–	-19	–	–	–	11	291	-3
Trading assets (FVPL Trading)	230	-50	–	–	–	–	-62	–	–	–	2	120	–
Financial investments													
thereof FVOCI Mandatory	136	-1	-1	210	-19	–	-85	–	–	–	2	242	–
thereof FVPL Other	9	2	–	49	-1	–	–	–	–	–	–	59	1
Non-current assets held for sale and disposal groups													
thereof FVPL Other	8	–	–	–	-8	–	–	–	–	–	–	–	–
Total	**697**	**-32[1]**	**-1**	**259**	**-60**	**–**	**-166**	**–**	**–**	**–**	**15**	**712**	**-2**

[1] Of the net income in the income statement recognised in profit or loss, € -21 million relate to the result from financial instruments categorised as FVPL, € -10 million to the net interest result and € -1 million to net income from financial investments.

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Quantitative changes		Quantitative changes		Transfers					
2022	1 January 2022	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales	New business	Settlements	From Stage 3	To Stage 3	Transfer/ recategorisation	Exchange rate changes	31. December 2022	Net income from assets held as at 31 December 2022
Balance sheet item/category/ instrument type													
Liabilities to banks													
FVPL Designated	15	-2	–	–	-10	–	–	–	–	–	–	3	1
Liabilities to customers													
FVPL Designated	126	-11	-1	–	-26	–	–	–	–	–	–	88	11
Securitised liabilities													
FVPL Designated	12	-2	–	–	–	–	–	–	–	–	–	10	3
Trading assets (FVPL Trading)	56	-9	–	8	–	–	-2	–	3	-1	–	55	4
Total	**209**	**-24**[1]	**-1**	**8**	**-36**	**–**	**-2**	**–**	**3**	**-1**	**–**	**156**	**19**

[1] Of the net income in the income statement, € -22 million relate to the result from financial instruments categorised as FVPL and € -2 million to the net interest result.

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Quantitative changes		Quantitative changes		Transfers					
2021	1 January 2021	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales	New business	Settlements	From Stage 3	To Stage 3	Transfer/ recategorisation	Exchange rate changes	31.December 2021	Net income from assets held as at 31 December 2021
Balance sheet item/category/ instrument type													
Liabilities to banks													
FVPL Designated	101	-5	1	–	-82	–	–	–	–	–	–	15	–
Liabilities to customers													
FVPL Designated	266	-14	1	–	-115	–	-11	–	–	–	-1	126	4
Securitised liabilities													
FVPL Designated	117	-26	1	–	–	–	-77	–	–	–	-3	12	–
Trading assets (FVPL Trading)	61	-5	–	–	–	–	–	–	–	–	–	56	5
Total	**545**	**-50**[1]	**3**	**–**	**-197**	**–**	**-88**	**–**	**–**	**–**	**-4**	**209**	**9**

[1] Of the net income in the income statement, € -42 million relate to the result from financial instruments categorised as FVPL and € -8 million to the net interest result.

II. Information on significant unobservable inputs

QUANTITATIVE INFORMATION ON SIGNIFICANT UNOBSERVABLE INPUTS

The following overview contains quantitative information on significant unobservable inputs

Fair Value

(€ m) 2022		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	192		DCF method	Spread (bps)	1 to 13
Trading assets/trading liabilities	FVPL Held For Trading	126	55	DCF method	Spread	1 to 13
				Option pricing model	Swaption volatility	11% - 26%
					Interest rate FX correlation	-39% - 26%
				Option pricing model	FX correlation	10% - 67%
Financial investments	FVPL Other	10		Price	Price	14,610 to 34,053
				DCF method	Capital costs	9% - 10%
	FVOCI Mandatory	560		DCF method	Spread (bps)	167 to 251
				Price	Price	95 to 100
Liabilities to banks	FVPL Designated		3	Option pricing model	Interest rate FX correlation	-39% - 26%
Liabilities to customers	FVPL Designated		88	Option pricing model	Interest rate FX correlation	-39% - 26%
				Price	Price	1
Securitised liabilities	FVPL Designated		10	Option pricing model	Interest rate FX correlation	-39% - 26%
Total		**888**	**156**			

Fair Value

2021		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	291		DCF method	Spread (bps)	24 - 1748
Trading assets/ trading liabilities	FVPL Held For Trading	120	56	DCF method	Spread	24 - 1748
					Longevity	10% - 33%
				Option pricing model	Interest rate volatility	11% - 42%
					Spread (bps)	9 - 256
Financial investments	FVPL Other	59		DCF method	Spread	101 - 295
				DCF method	Capital costs	7% - 8%
	FVOCI Mandatory	242		DCF method	Spread (bps)	101 - 295
Liabilities to banks	FVPL Designated		15	Option pricing model	Interest rate FX correlation	-29% - 12%
Liabilities to customers	FVPL Designated		126	Option pricing model	Interest rate volatility	11% - 42%
				Price	Price	1
Securitised liabilities	FVPL Designated		12	Option pricing model	Interest rate FX correlation	-29% - 12%
Total		**712**	**209**			

The correlation and volatility ranges shown for derivatives cover derivatives with different types of underlying, tenors and exercise prices.

The overview also includes financial instruments whose change in value resulting from inputs unobservable in the market does not give rise to any P&L effect due to economic hedging relationships (at the micro level). Changes in value attributable to the respective relevant inputs are offset for these financial instruments by the changes in value of the hedging derivatives.

SENSITIVITIES OF FAIR VALUE IN RELATION TO UNOBSERVABLE INPUT
The following describes how the fair value of financial instruments can change as a result of fluctuations in significant unobservable outputs.

CORRELATION
Correlation can represent an important unobservable input for the measurement of derivatives. It is a measure of the degree to which two reference values move in relation to each other. Correlation is an important input for the model-based determination of the fair value of derivatives with more than one underlying. Financial instruments of this type include, for example, derivatives with several currencies ("FX basket" derivatives) or several shares as the underlyings ("equity basket" derivatives). Currency correlations describe the relationship between changes in value of several currencies. Share correlations express the relationship between yields on different shares. A high degree of correlation means that there is a close relationship between the changes in value of the respective underlyings.

Depending on the type of derivative, changes in correlation can have a positive or negative effect on the fair value. For example, in the case of a "best of two" derivative, an increase in the correlation between two underlyings results in a decrease of the fair value of the derivative from the perspective of the purchaser.

VOLATILITY
Volatility can also represent an important unobservable input for the measurement of options. It expresses how strongly the value of the underlying fluctuates over time. The amount of volatility depends on the type of the underlying, its tenor and the exercise price agreed for the option.

The fair value of options typically increases if volatility increases. The sensitivity of the fair value of options to changes in volatility can vary considerably. For example, the sensitivity of the fair value to changes in volatility is comparatively high, if the price of the underlying is close to the agreed exercise price ("at-the-money"). By contrast, sensitivity to changes in volatility is lower, if the price of the underlying is far from the exercise price ("(far-out-of-the-money" or "far-in-the-money").

PRICE
Prices can represent an important unobservable input for the measurement of financial instruments. These prices represent pricing information of third parties within the meaning of IFRS 13.93(d) sentence 4, whereby the Bank does not produce any quantitative, unobservable input factors for measuring the fair value of the respective financial instrument. More detailed quantitative information on these input factors is therefore not required. The fair value increases, if the price increases, and it falls, if the price declines.

Reciprocal effects between unobservable inputs
Reciprocal effects between unobservable inputs can exit in principle. If several unobservable inputs are used in determining fair value, the range of the possible characteristics for another unobservable input can be restricted or increased by the characteristic used for one of the relevant unobservable inputs.

Effects of unobservable inputs
If the measurement of a financial instrument is based partly on unobservable inputs, the fair value determined is the best estimated value in accordance with a discretionary decision made by the Bank. However, it remains subjective in that there may be alternative input selection options that cannot be refuted by observable market data. For many of the financial instruments included (such as derivatives), the unobservable inputs only represent a subset of the total inputs required for the measurement. The remaining inputs are observable inputs.

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had certain effects on the fair values of the financial instruments in question. Advantageous and disadvantageous changes to fair value have been determined by recalculating the fair values based on possible alternative values to the relevant unobservable inputs. The interest volatilities were changed by +/- 5%, all correlations by +/- 20% (capped at +/- 100%), price parameters by +/- 2% and spreads by +/- 50 bp. Overall, this would then have had a positive/negative effect on the fair values of the financial instruments in question in the amount of € 28 million (previous year: € 18 million). Of this amount, € 17 million was recognised in the income statement as income/expense and € 11 million in the revaluation reserve (previous year: € 5 million income statement).

III. Day one profit and loss

The day one profit and loss reserve developed as follows:

(€ m)	2022	2021
Holdings as at 1 January	**4**	**6**
Additions not recognised in profit or loss	-	-
Reversals recognised in profit or loss	-	2
Holdings as at 31 December	**4**	**4**

The day one profit and loss reserve is solely attributable to financial instruments classified as FVPL Trading.

52. Offsetting of financial instruments

Financial assets and financial liabilities are netted and disclosed as a net amount on the statement of financial position, if there is a legal entitlement to do so at the current point in time and there is the intention to settle the claims on a net basis or to settle the associated liability at the time the asset concerned is realised.

In the following, those financial instruments on the statement of financial position are presented that were netted as at the reporting date as well as financial instruments, which are subject to a legally enforceable global netting agreement, irrespective of whether the financial instruments concerned are actually netted on the face of the statement of financial position. Master agreements commonly used at Hamburg Commercial Bank are master agreements for repo transactions and, for OTC transactions, ISDA master agreements and the German master agreement for financial derivatives (DRV). These provide for offsetting of mutual claims and obligations only in the event of termination of all individual transactions under a master agreement based on certain events and therefore do not entitle the parties to offset the recognised assets and liabilities. Hamburg Commercial Bank has entered into clearing agreements with brokers for certain OTC derivatives enabling HCOB to access central counterparties (clearing houses). The contractual provisions for these transactions include a legal right to offset financial assets and financial liabilities that can be enforced at any time and thus, in accordance with IAS 32.42, result in the offsetting of the positive and negative fair values of the derivative financial instruments and collateral provided and received included in loans and advances to banks and customers or liabilities to banks and customers for accounting purposes.

In addition, loans and advances to banks and customers actually netted and liabilities to banks and customers arising from genuine repo transactions are shown on the basis of netting agreements.

Financial assets

(€ m) 2022	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
Loans and advances to banks	350	103	247	-	128	119
Loans and advances to customers	4	-	4	-	4	-
Derivatives	850	580	270	28	118	124

Of the net amount of derivatives disclosed on the statement of financial position, positive market values of hedging derivatives account for € 2 million and trading assets for € 1,163 million.

Financial liabilities

(€ m) 2022	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	504	100	404	–	115	289
Liabilities to customers	4	–	4	–	4	–
Derivatives	873	583	290	28	131	131

Of the net amount of derivatives disclosed on the balance sheet negative market values of hedging derivatives account for € 65 million and trading liabilities for € 225 million.

Financial assets

(€ m) 2021	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
Loans and advances to banks	591	166	425	–	248	177
Loans and advances to customers	47	–	47	–	45	2
Derivatives	738	275	463	30	76	357

Of the net amount of derivatives disclosed on the balance sheet positive market values of hedging derivatives account for € 26 million and trading assets for € 437 million.

Financial liabilities

(€ m) 2021	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	53	3	50	–	47	3
Liabilities to customers	30	–	30	–	30	–
Derivatives	823	439	384	30	294	60

Of the net amount of derivatives disclosed on the balance sheet negative market values of hedging derivatives account for € 148 million and trading liabilities for € 236 million.

53. Credit risk analysis of impaired financial assets

I. Credit quality

The following table contains information on the credit quality of all financial instruments held by HCOB. It shows the credit risk exposures by classifying the gross carrying amounts of financial assets and the nominal amounts of off-balance sheet transactions by credit risk level and assigning them to rating categories. This is based on the DSGV master scale, which is used in all rating procedures.

Credit quality

(€ m) 2022		1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve				
	thereof AC assets	4,974	–	–	–
	Loans and advances to banks				
	thereof AC assets	470	284	5	9
	thereof FVOCI Mandatory	–	10	–	–
	Loans and advances to customers				
	thereof AC assets	374	4,959	6,934	4,334
	thereof FVOCI Mandatory	509	111	82	–
	Financial investments				
	thereof AC assets	–	–	80	–
	thereof FVOCI Mandatory	2,063	2,266	565	14
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	–	–
	Other assets				
	thereof AC assets	–	111	–	–
	No holding category				
	Receivables under finance lease transactions	–	33	–	–
	Contingent liabilities	9	130	169	13
	Irrevocable loan commitments	42	1,070	1,246	852
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers				
	thereof AC assets	–	–	372	899
	thereof FVOCI Mandatory	–	–	3	–
	Financial investments				
	thereof FVOCI Mandatory	–	–	–	–
	No holding category				
	Contingent liabilities	–	–	3	11
	Irrevocable loan commitments	–	–	10	43
Credit-impaired (LECL Stage 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
	No holding category				
	Contingent liabilities	–	–	–	–
	Irrevocable loan commitments	–	–	–	–
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
Total		**8,441**	**8,974**	**9,469**	**6,175**

Credit quality

(€ m) 2022		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve			
	thereof AC assets	–	–	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to customers			
	thereof AC assets	85	18	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	Other assets	–	–	–
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	–	–
	Irrevocable loan commitments	–	6	–
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers			
	thereof AC assets	283	18	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof FVOCI Mandatory	–	–	–
	No holding category			
	Contingent liabilities	6	–	–
	Irrevocable loan commitments	13	5	–
Credit-impaired (LECL Stage 3)	Loans and advances to customers			
	thereof AC assets	–	–	377
	No holding category			
	Contingent liabilities	–	–	19
	Irrevocable loan commitments	–	–	8
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	8
Total		**387**	**47**	**412**

The Bank does not apply the simplified approach under IFRS 9.5.5.15, meaning that the disclosure under IFRS 7.35 M(b)(iii) is not relevant.

Credit quality

(€ m) 2021		1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve				
	thereof AC assets	3,261	–	–	–
	Loans and advances to banks				
	thereof AC assets	755	448	7	7
	thereof FVOCI Mandatory	–	18	–	–
	Loans and advances to customers				
	thereof AC assets	441	3,890	7,011	4,960
	thereof FVOCI Mandatory	714	114	82	–
	Financial investments				
	thereof AC assets	–	–	43	48
	thereof FVOCI Mandatory	1,629	1,944	381	4
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	10	–
	Other assets				
	thereof AC assets	–	86[1]	–	–
	No holding category				
	Receivables under finance lease transactions	–	36	–	–
	Contingent liabilities	10	146	128	19
	Irrevocable loan commitments	52	790	1,668	982
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers				
	thereof AC assets	–	54	536	957
	thereof FVOCI Mandatory	4	–	–	–
	Loans and advances to banks				
	thereof AC assets	–	–	–	–
	Financial investments				
	thereof FVOCI Mandatory	–	–	–	16
	No holding category				
	Contingent liabilities	–	–	7	3
	Irrevocable loan commitments	–	–	105	65
Credit-impaired (LECL Stage 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
	No holding category				
	Contingent liabilities	–	–	–	–
	Irrevocable loan commitments	–	–	–	–
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers				
	thereof AC assets	–	–	8	–
Total		**6,866**	**7,526**	**9,986**	**7,061**

[1] The previous year's amount was adjusted. For further details please refer to Note 3.

Credit quality

(€ m) 2021		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve			
	thereof AC assets	–	–	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to customers			
	thereof AC assets	28	23	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	Other assets	–	–	–
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	–	–
	Irrevocable loan commitments	54	2	9
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers			
	thereof AC assets	384	232	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	Financial investments			
	thereof FVOCI Mandatory	–	–	–
	No holding category			
	Contingent liabilities	3	6	–
	Irrevocable loan commitments	18	15	–
Credit-impaired (LECL Stage 3)	Loans and advances to customers			
	thereof AC assets	–	–	426
	No holding category			
	Contingent liabilities	–	–	24
	Irrevocable loan commitments	–	–	40
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	7
Total		**487**	**278**	**506**

II. Credit risk exposure

With the exception of loans and advances to banks and customers, the credit risk exposure as at the reporting date corresponds to the carrying amount of financial assets, as presented in Note 49, as well as the nominal value of off-balance sheet liabilities as presented in Note 57.

In the case of loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount after loan loss provisions as presented in Note 26. The maximum default risk of the loans and advances recognised at fair value through profit or loss (FVPL) is not reduced by associated credit derivatives.

Collateral and other risk-reducing agreements are not reflected in these amounts.

III. Collateral received

A) COLLATERAL VALUES OF FINANCIAL ASSETS THAT MINIMISE THE DEFAULT RISK AND ARE NOT SUBJECT TO THE IMPAIRMENT PROCEDURE

The following information quantifies the extent to which the collateral retained and other loan collateralisation reduce the maximum default risk for financial instruments that are not subject to the impairment procedure pursuant to IFRS 9. The amount of risk reduction from the value of each form of collateral is indicated for each class of financial instruments.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio.

The following table shows the respective carrying amount for each class of financial instrument as well as the collateral value that reduces default risk.

Financial assets and associated collateral

(€ m)		Value of collateral received		
2022	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	–	–	–	–
Financial investments	83	–	–	–
FVPL Other				
Loans and advances to customers	192	36	–	–
Financial investments	421	–	–	–
Non-current assets held for sale and disposal groups	–	–	–	–
FVPL Held For Trading				
Trading assets	441	93	2	145
No holding category				
Positive fair values of hedging derivatives	–	–	–	–
Value adjustments from the portfolio fair value hedge	-152	–	–	–
Total assets	**985**	**129**	**2**	**145**

Financial assets and associated collateral

(€ m)		Value of collateral received		
2021	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	–	–	–	–
Financial investments	41	–	–	–
FVPL Other				
Loans and advances to customers	291	42	–	–
Financial investments	419	–	–	–
Non-current assets held for sale and disposal groups	–	–	–	–
FVPL Held For Trading				
Trading assets	689	79	18	64
No holding category				
Positive fair values of hedging derivatives	26	–	–	–
Value adjustments from the portfolio fair value hedge	32	–	–	–
Total assets	**1,498**	**121**	**18**	**64**

B) IMPAIRED FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

The following overview shows the volume and concentration of collateral held by Hamburg Commercial Bank to reduce the default risk and other loan collateralisation for impaired financial assets.

(€ m)		Value of collateral received		
2022	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	385	112	4	73
No holding category				
Contingent liabilities	19	–	2	10
Irrevocable loan commitments	8	–	–	–
Total assets	**412**	**112**	**6**	**83**

(€ m)		Value of collateral received		
2021	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	440	145	4	52
No holding category				
Contingent liabilities	24	3	2	8
Irrevocable loan commitments	40	–	–	–
Total assets	**504**	**148**	**6**	**60**

For loans and advances to customers amounting to € 19 million (31 December 2021: € 23 million), no loan loss provisions were recognised despite default due to the collateral available.

Collateral is a key instrument for managing default risks. They are included in the main procedures for managing and monitoring default risks to reduce risks. The methods and processes for the valuation and management of collateral are set out in Hamburg Commercial Bank's Collateral Guideline.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio. Only collateral listed in the collateral catalogue is included as valuable collateral. Upon initial recognition, the value of movable property and real estate recognised as collateral is determined by an appraiser who is independent of the market. Depending on the type of collateral, the recoverability and realisation options are reviewed regularly at set intervals, and more frequently in the event of considerable market fluctuations.

Collateral values are predominantly provided by domestic collateral providers. The creditworthiness of the collateral providers is mainly in the 1(AAA) to 1(A-) rating categories.

Information on the risk concentrations for the collateral provided can be found in the Default risk section of the Risk Report.

C) THEREOF COLLATERAL RECEIVED FOR WHICH THERE ARE NO RESTRICTIONS ON DISPOSAL OR REALISATION EVEN IF THERE IS NO DEFAULT IN PAYMENT

Hamburg Commercial Bank received collateral from counterparties with a total fair value of € 145 million (31 December 2021: € 160 million). The collateral received is broken down as follows: € 145 million (31 December 2021: € 50 million) relates to OTC derivatives and structured transactions. Collateral received includes cash collateral in the amount of € 145 million (31 December 2020: € 50 million). Collateral received was not resold or pledged. There are no restrictions on disposal or realisation. Hamburg Commercial Bank is obliged to return all collateral resold or pledged to the guarantor without exception.

Hamburg Commercial Bank carries out securities repurchase and lending transactions as well as tri-party repo transactions under standard master agreements with selected counterparties. The same conditions and collateralisation methods apply as for collateral transferred and received.

D) OTHER COLLATERAL RECEIVED
As in the previous year, no assets from the realisation of collateral were capitalised in the reporting period.

IV. Assets that have been written off and are still subject to an enforcement measure

In the current reporting period, financial assets that are still subject to an enforcement measure were written off in the amount outstanding under contract law of € 10 million (31 December 2021: € 0 million).

54. Restructured or modified loans

The following table shows the carrying amounts of loans and loan commitments that have been restructured or whose contractual terms and conditions have been modified in order to place the debtor in a position to continue to service or resume servicing its capital debt despite financial difficulties.

Forbearance exposure

(€ m) 2022	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	418	354	772
Irrevocable and revocable loan commitments	12	8	20
Total	**430**	**362**	**792**

Forbearance exposure

(€ m) 2021	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	640	404	1,044
Irrevocable and revocable loan commitments	31	40	71
Total	**671**	**444**	**1,115**

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 261 million have already been set up for the portfolios measured at amortised cost (previous year: € 262 million).

55. Information on unconsolidated structured entities

I. Interests in unconsolidated structured entities

Hamburg Commercial Bank maintains business relationships with unconsolidated structured entities, within the meaning of an interest pursuant to IFRS 12, if Hamburg Commercial Bank is exposed to variable returns based on equity, debt instruments, derivatives, guarantees, etc.

These unconsolidated structured entities relate to ABS investments, securitisation and refinancing vehicles, investment funds and other structured entities.

With a total of 91 unconsolidated structure entities (previous year: 43), Hamburg Commercial Bank maintains a business relationship (i.e. holds an interest). The following table shows the accumulated total assets of the unconsolidated structured entities with which Hamburg Commercial Bank maintains a business relationship within the meaning of an interest:

Information on the size of unconsolidated structured entities

(€ m)	Number		Total assets	
	2022	2021	2022	2021
ABS investments	38	14	9,364	5,473
Investment funds	12	11	7,190	5,091
Securitisation and refinancing vehicles	20	16	587	312
Other	21	2	9,549	641
Total	**91**	**43**	**26,690**	**11,517**

The function of refinancing and securitisation vehicles is to issue securities. These companies are involved in the (revolving) purchase and, in certain cases, securitisation of loan, trading and lease receivables, including refinancing with investors. They are mainly financed through issuing debentures (and promissory notes) as well as via loans and subordinated loans. In addition, 38 entities focus on ABS investments. ABS structures are financed by the issuance of debentures. In addition, investments in ABS structures are backed up by collateral. These companies are involved in the (revolving) purchase and securitisation of loan receivables, including refinancing via investors.

The main corporate purposes of investment funds are to finance assets, participate in non-listed companies and hold shares in real estate funds. The main activities of such investment funds are to carry out research for analysing markets, making decisions on investment and disinvestment in order to adjust portfolios and to attract investors. Investment funds raise their funds by the issuing of equity and debt instruments. The investment funds are funds launched by third parties, to which Hamburg Commercial Bank has mainly granted loans.

The business purpose of the other structured entities is to finance company acquisitions in various sectors of the economy or direct investments in loan portfolios with defined investment guidelines. Refinancing of these vehicles is usually based on long-term senior secured loans in which HCOB participates as syndicate.

II. Risks from interests in unconsolidated structured entities

The following information concerning risk refers not just to the current reporting period but also to risks which result from business relationships with unconsolidated structured entities in earlier reporting periods.

The risks from unconsolidated structured entities are presented in the form of the maximum potential loss which may arise from these business relationships based on an interest within the meaning of IFRS 12. Hamburg Commercial Bank discloses the carrying amounts of these transactions as a maximum potential loss. In the case of irrevocable loan commitments and contingent liabilities, the carrying amount matches the par value.

There are no credit derivatives relating to unconsolidated structured entities as at the reporting date.

The following table shows the IFRS carrying amounts of exposures involving unconsolidated structured entities as at 31 December 2022, broken down into items of financial position.

Type of business relationship

(€ m) 2022	Investment funds	ABS	Securitisation and refinancing vehicles	Other structured entities	Total
Loans and advances to customers	269	-	334	469	1,072
Positive fair value of hedging derivatives	-	-	-	-	-
Trading assets	-	-	-	-	-
Financial investments	-	560	-	-	560
Total assets	**269**	**560**	**334**	**469**	**1,632**
Liabilities to customers	4	-	10	2	16
Total liabilities	**4**	**-**	**10**	**2**	**16**

Type of business relationship

(€ m) 2021	Investment funds	ABS	Securitisation and refinancing vehicles	Other structured entities	Total
Loans and advances to customers	97	-	113	66	276
Positive fair value of hedging derivatives	-	-	-	-	-
Trading assets	-	-	-	-	-
Financial investments	-	202	20	-	222
Total assets	**97**	**202**	**133**	**66**	**498**
Liabilities to customers	2	-	9	2	13
Total liabilities	**2**	**-**	**9**	**2**	**13**

The above table contains loans, debentures, deposits and derivatives in respect of unconsolidated structured entities.

In addition, there are maximum potential losses from irrevocable loan commitments amounting to € 561 million (previous year: € 34 million), thereof € 32 million results from investment funds (previous year: € 0 million) and € 471 million from securitisation and refinancing vehicles (previous year: € 34 million).

There are no business relationship risks based on an interest in unconsolidated structured entities as defined in IFRS 12.B26 that exceed the maximum potential loss, such as contractual terms under which Hamburg Commercial Bank would have to grant financial support, liquidity arrangements, guarantees extended or support provided by Hamburg Commercial Bank in the event of difficulties in refinancing unconsolidated structured entities.

Furthermore, Hamburg Commercial Bank has not entered into any loss-transfer agreements with unconsolidated structured entities. Mainly net interest income for granting loans and commission income were generated from business relationships with unconsolidated structured entities based on an interest within the meaning of IFRS 12.

III. Sponsoring

Hamburg Commercial Bank has sponsor relationships within the meaning of IFRS 12 if Hamburg Commercial Bank is exposed to variable return flows, although there is no business relationship in the form of an interest within the meaning of IFRS 12. Hamburg Commercial Bank is a sponsor if it was involved in establishing an unconsolidated structured entity, if it stands to gain the main profit from the entity or is the main collateral taker, if Hamburg Commercial Bank provides implicit guarantees or if the name of Hamburg Commercial Bank is part of the name of the structured entity or of the products issued by such entity.

HCOB currently has no sponsor relationships in the aforementioned sense.

IV. Provision of support

During the current reporting period, Hamburg Commercial Bank has not supported any unconsolidated structured entity financially or in any other way without a contractual commitment to do so. Hamburg Commercial Bank also has no intention of granting financial support to any unconsolidated structured entity or helping to procure financial support from third parties.

56. Non-substantially modified financial instruments

As far as modifications are concerned, a distinction is made between substantial and non-substantial modifications.

The following overview shows the amortised cost, taking into account the loan loss provisions before adjustments, and the net results of all financial instruments at Stages 2 and 3 that were not substantially modified during the reporting period. The gains or losses resulting from the modification are based on the change in the gross carrying amount of the financial instrument as a result of the modification.

Assets

(€ m)	Amortised cost for Stage 2, Stage 3 financial instruments modified in the reporting period before modification		Gains or losses from the modification at Stage 2, 3 in the reporting period	
	2022	2021	2022	2021
AC				
Loans and advances to customers	85	52	-	1
Total	**85**	**52**	**-**	**1**

57. Contingent liabilities and irrevocable loan commitments

Contingent liabilities

(€ m)	2022	2021
Contingent liabilities from guarantees and warranty agreements		
Loan guarantees	5	77
Letters of credit	110	135
Other guarantees	716	540
Total	**831**	**752**

Loan commitments

(€ m)	2022	2021
Loan commitments for		
Open account loans to banks	-	-
Open account loans to customers	3,233	3,768
Guarantees	3	18
Other	58	14
Total	**3,294**	**3,800**

Information on collateral transferred is presented in Note 59.

In addition to the values shown in the table, there are other contingent liabilities arising from litigation. The addition results from some new legal disputes in the Bank's lending business in the amount of € 64 million (previous year: € 61 million).

To determine for which claim the possibility of a loss is likely, and in order to estimate the amount of the potential payment obligations, Hamburg Commercial Bank takes a variety of factors into account. These include, among other things, the type of claim and the underlying facts of the case, the status of the individual proceedings, (provisional) decisions made by courts and arbitration bodies, the experience of Hamburg Commercial and third parties in comparable cases (insofar as they are known to the Bank), prior settlement negotiations, as well as the expert opinions and assessments of the Bank's internal and external legal advisors and other professionals.

Please also refer to the note on Provisions and the explanations set out in the Risk Report, which forms part of the combined management report, with respect to existing uncertainties regarding risks arising from legal disputes.

Other disclosures

58. Report on business in derivatives

Derivative financial instruments are used to a considerable degree in order to hedge risk efficiently, to take advantage of market opportunities and to cover special customer financing needs. The derivatives business of Hamburg Commercial Bank is predominantly transacted with banks based in OECD countries.

Positive and negative fair values are presented on the basis of gross values before offsetting in accordance with IAS 32.42.

I. Volume

Derivative transactions with interest rate risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2022	2021	2022	2021	2022	2021
Interest rate swaps	16,505	11,039	645	722	388	324
Swaptions						
Purchases	25	60	–	–	–	–
Sales	7	37	–	1	–	–
Caps, floors	4,091	2,983	56	14	41	4
Exchange-traded contracts	2	130	–	–	–	–
Other forward interest rate transactions	114	182	11	6	14	7
Total	**20,744**	**14,431**	**712**	**743**	**443**	**335**

Derivatives transactions with interest rate and foreign exchange risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2022	2021	2022	2021	2022	2021
Cross-currency interest rate swaps	622	743	3	3	26	29
Total	**622**	**743**	**3**	**3**	**26**	**29**

Derivatives transactions with foreign exchange risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2022	2021	2022	2021	2022	2021
Forward exchange transactions	4,669	3,284	101	6	25	84
Total	**4,669**	**3,284**	**101**	**6**	**25**	**84**

Derivatives transactions with equity and other price risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2022	2021	2022	2021	2022	2021
Exchange-traded contracts	–	1	–	–	–	–
Equity/index-based swaps	–	2	–	1	–	–
Total	**–**	**3**	**–**	**1**	**–**	**–**

Credit derivatives

(€ m)	Nominal values		Positive market values		Negative market values	
	2022	2021	2022	2021	2022	2021
Guarantor position	195	9	3	–	–	–
Total	**195**	**9**	**3**	**–**	**–**	**–**

Derivatives transactions with structured products

(€ m)	Nominal values		Positive market values		Negative market values	
	2022	2021	2022	2021	2022	2021
Structured products	713	883	8	46	47	65
Total	**713**	**883**	**8**	**46**	**47**	**65**

Derivatives transactions in fair value hedge accounting

(€ m)	Nominal values		Positive market values		Negative market values	
	2022	2021	2022	2021	2022	2021
Fair value hedges						
Interest rate swaps	6,359	4,570	76	80	402	313
Total	**6,359**	**4,570**	**76**	**80**	**402**	**313**

II. Counterparty classification

Counterparty classification

(€ m)	Nominal values		Positive market values		Negative market values	
	2022	2021	2022	2021	2022	2021
OECD banks	26,254	16,308	720	352	732	748
Non-OECD banks	–	34	–	1	–	–
Non-banks[1]	6,984	7,509	180	519	209	66
Public authorities	64	72	2	6	3	11
Total	**33,302**	**23,923**	**902**	**878**	**944**	**825**

[1] Including exchange-traded contracts.

III. Maturities

Maturities

(€ m)	Positive market value of derivatives		Positive market value of derivatives from fair value hedging		Negative market value of derivatives		Negative market value of derivatives from fair value hedging	
	2022	2021	2022	2021	2022	2021	2022	2021
Residual maturity								
Up to 3 months	100	6	–	–	23	55	–	–
3 months to 1 year	15	36	–	6	15	34	2	1
1 year to 5 years	327	69	20	12	373	85	197	29
Over 5 years	384	687	56	62	131	338	203	283
Total	**826**	**798**	**76**	**80**	**542**	**512**	**402**	**313**

59. Disclosures on collateral transferred and financial assets transferred with retention of rights and/or obligations

I. Collateral transferred

As at 31 December 2022, Hamburg Commercial Bank had transferred assets as collateral that do not meet the requirements for derecognition under IFRS 9. The assets transferred as collateral continue to be recognised in the Group statement of financial position as the interest rate risk, credit risk and other material risks as well as the prospects of appreciation and interest income largely reside with Hamburg Commercial Bank.

The following table mainly shows the collateral used to collateralise OTC derivative transactions and funds raised at central banks and other credit institutions. Information on repurchase agreements is disclosed in separate thereafter.

Carrying amounts of transferred collateral

(€ m)	2022	2021
Receivables	3,531	4,563
Loans and advances to banks	650	829
Loans and advances to customers	2,881	3,734
Trading assets/Financial investments	746	544
Total	**4,277**	**5,107**

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. It is not possible to resell or pledge in the interim.

In addition, Hamburg Commercial Bank concludes repurchase agreements under repo master agreements both on a national and international scale. The associated liabilities are recognised under Liabilities to banks or Liabilities to customers. Repo and securities lending transactions are monitored by measuring transactions on a daily basis. If there is a shortfall in collateral, the counterparty may require Hamburg Commercial Bank to provide additional securities to increase collateral. Where Hamburg Commercial Bank has provided collateral and the market situation changes such that the cover provided is excessive, it is entitled to require the counterparty to release collateral. The collateral provided is subject to a full transfer of rights, i.e. the party receiving collateral may act like an owner and in particular may transfer or pledge such collateral. In the case of securities collateral, securities of the same type and quality ("the same sort") must be delivered or returned unencumbered. Where collateral has been provided in the form of securities, it may not be returned in cash.

The above conditions and collateral modalities apply to triparty repo transactions between Hamburg Commercial Bank and its counterparties accordingly. The transactions are executed via a tri-party agent.

II. Financial assets transferred with retention of rights and/or obligations

Hamburg Commercial Bank has transferred assets to third parties outside the Group that meet the conditions for full derecognition. The rights and obligations retained under these transfers were of an overall immaterial nature. The risks become transparent by recognition of provisions and/or recording of contingent liabilities. There is a hypothetical repurchase option related to the sale of an equity holding, which HCOB, however, can only exercise based on the occurrence of certain biometric events. The option has a fair value of € 0; it entails no risk.

60. Trust transactions

The following table shows the volume of trust transactions not recognised in the statement of financial position.

Trust transactions

(€ m)	2022	2021
Loans and advances to customers	23	9
Trust assets	**23**	**9**
Liabilities to banks	9	8
Liabilities to customers	14	1
Trust liabilities	**23**	**9**

61. Related parties

Hamburg Commercial Bank does business with related parties and companies.

These include the funds and accounts managed by Cerberus Capital Management, L.P. and J.C. Flowers IV L.P., which exert a significant influence over HCOB.

Furthermore, business relationships exist with subsidiaries which are controlled but not included in the Group financial statements, for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of Hamburg Commercial Bank AG.

In the course of the normal business operations, transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, call and fixed-term deposits, derivatives and securities transactions.

I. Companies with a significant influence over HCOB

The following table shows transactions with companies with a significant influence over HCOB:

Companies with a significant influence – Liabilities

(€ m)	2022	2021
Liabilities to customers	1	-
Total	**1**	**-**

Companies with a significant influence – Statement of income

(€ m)	2022	2021
Net interest income	-	-1
Total	**-**	**-1**

II. Subsidiaries

The following table shows the transactions with unconsolidated subsidiaries:

Subsidiaries – Liabilities

(€ m)	2022	2021
Liabilities to customers	2	7
Total	**2**	**7**

III. Associates

The following table shows the transactions with unconsolidated associates:

Associates – Liabilities

(€ m)	2022	2021
Liabilities to customers	6	3
Total	**6**	**3**

IV. Joint ventures

The following table shows the transactions with unconsolidated joint ventures:

Joint ventures – Assets

(€ m)	2022	2021
Loans and advances to customers	4	11
Total	**4**	**11**

Joint ventures – Liabilities

(€ m)	2022	2021
Liabilities to customers	2	2
Total	**2**	**2**

V. Other related parties and companies

No significant transactions have been entered into with individuals in key positions at Hamburg Commercial Bank AG and their close relatives or companies controlled by these individuals as at the reporting date.

VI. Remuneration of persons in key management positions

The remuneration of persons in key positions at Hamburg Commercial Bank is based on the German Remuneration Regulation for Institutions (Institutsvergütungsverordnung). In addition to the fixed annual salary, the fixed remuneration of the Management Board includes a pension contribution corresponding to up to 20% of the fixed annual salary, other fringe benefits and appropriate remuneration in kind.

LONG-TERM VARIABLE REMUNERATION PROGRAMME, INCLUDING SHARE-BASED PAYMENT

In addition, each member of the Management Board receives performance-related variable remuneration. This means that the members of the Management Board receive 50% of their annual bonus for the agreed performance years in cash (cash bonus) and 50% in the form of shares in Hamburg Commercial Bank AG (share bonus).

The annual targets relevant for the share bonus (as well as for the cash bonus) and their weightings are to be determined by the Supervisory Board of HCOB on the basis of agreed targets (KPIs) within the first three months of the respective performance year at the latest and include targets relating to the overall success of the Bank or Group, the success of the Management Board where applicable, and individual performance targets. After the end of the respective performance year, the Supervisory Board determines the extent to which the annual targets were achieved as well as, taking into account the multi-year assessment basis for the variable remuneration component, the overall degree of target achievement and the resulting cash bonus and share bonus in euros for the respective performance year. HCOB's Supervisory Board uses an independent valuation for each performance year to determine the price at which the share bonus earned in euros is converted into shares in Hamburg Commercial Bank AG. In the transfer of shares (like in the payment of the cash bonus), 40% are paid in the year following the respective performance year, while 60% is subject to a deferral period of usually five years, but up to seven years for new Management Board members, during which the payment of the retained component is made annually in equal pro rata tranches. The Supervisory Board carries out a review during the retention period, with the variable remuneration components being subject to a clawback provision until two years after payment of the last tranche. Before the retained portion of the cash bonus and the shares from the share bonus are granted, the beneficiaries have no claim or entitlement to those portions of the cash bonus and the share bonus that have not yet been transferred. The shares not yet transferred do not bear any interest and the retained portion in the share bonus does not entitle the beneficiary to a dividend. All shares transferred under the share bonus are subject to a holding period of one year from the date of transfer.

For the years 2019 to 2021, Hamburg Commercial Bank AG concluded a Fulfilment and Contribution Agreement with its shareholders. Under this agreement, the shareholders have undertaken to assume the Bank's obligation to the beneficiaries to transfer the shares under the share bonus for the above-stated years, free of debt and without consideration. In financial year 2022, a total of 254,207 shares were transferred to eligible persons under the share bonus programme (previous year: 188,634 shares). Until 31 December 2022, a total of 603,960 shares have been transferred under the share bonus programme, which corresponds to a share of 0.20% in the share capital (until 31 December 2021: 349,753 shares)

The share bonus represents a share-based payment settled in equity instruments and is accounted for in accordance with IFRS 2. In accordance with IFRS 2, the performance-related variable remuneration under the share bonus represents a service received that is recognised as personnel expense in the consolidated statement of income. Pursuant to IFRS 2.7, the consideration for the service received is recognised in equity. At Hamburg Commercial Bank, the consideration is recognised in the Capital reserve item.

As at 31 December 2022, the capital reserve includes an amount of € 16 million for share-based remuneration (€ 5 million increase in 2022). This includes an amount of € 5 million attributable to shares already transferred by the shareholders.

The following table shows remuneration of persons in key management positions.

Remuneration of persons in key management positions

(€ k)	Management Board		Supervisory Board		Total	
	2022	2021	2022	2021	2022	2021
Short-term benefits	14,002	11,108	4,335	4,297	18,337	15,405
Termination benefits	6,264	1,597	-	-	6,264	1,597
Other long-term benefits	4,532	5,056	-	-	4,532	5,056
Post-employment benefits	1,247	1,175	-	-	1,247	1,175
Share-based payment	4,870	4,719	-	-	4,870	4,719
Total remuneration	**30,915**	**23,655**	**4,335**	**4,297**	**35,250**	**27,952**

VII. Additional disclosures under Section 315e HGB

Hamburg Commercial Bank is obliged to provide additional disclosures in its Group financial statements under Section 315e HGB. The following differences compared to the IFRS disclosures should be borne in mind in this regard: Termination benefits are not included in the total remuneration of active Management Board members, unless this pertains to remuneration for activities prior to the termination of the membership in the Management Board. This remuneration is disclosed instead under total remuneration payable to former members of the Management Board.

Remuneration of corporate bodies

(€ k)	2022	2021
Total remuneration of all active members of corporate bodies		
Management Board	27,650	22,058
Supervisory Board	4,335	4,297
Total	**31,985**	**26,355**
Total remuneration of former members of corporate bodies and their surviving dependants		
Management Board	5,894	4,588

As at 31 December 2022, a total of €k 36,947 (previous year: €k 51,836) was added to provisions for pension liabilities relating to former members of the Management Board and their surviving dependants.

As at the reporting date of the previous year, there were no advances, loans or other contingent liabilities to members of the Management Board or the Supervisory Board as at 31 December 2022.

VIII. Disclosure of Supervisory Board remuneration

The members of the Supervisory Board receive remuneration for their activities in a financial year without any further resolution by the Annual General Meeting being required. In accordance with the resolution of the Annual General Meeting of Hamburg Commercial Bank AG on 19 December 2019, effective 1 January 2020, the total annual remuneration will be paid in four equal instalments after the end of each quarter.

The remuneration system for the Supervisory Board is based on the requirements of the German Corporate Governance Code. The remuneration system in force since 12 March 2019 was adopted at an Extraordinary General Meeting of Hamburg Commercial Bank AG on 12 March 2019 and is structured as follows:

Remuneration system

(€)	Remuneration
Supervisory Board member	200,000
Addition (cumulative) for	
Chairperson	450,000
Chairperson of a Committee	200,000
Member of a Committee	15,000

The maximum remuneration amounts to € 850 thousand. thousand. The remuneration is paid pro rata temporis based on the membership in a committee

An amount of €k 3,251 was paid to the members of the Supervisory Board for their activities in the Supervisory Board in financial year 2022. For the portion of Supervisory Board remuneration for financial year 2022 (fourth quarter) paid out at the beginning of 2023, a provision of €k 1,084 was recognised as at 31 December 2022.

For this purpose, a provision of €k 1,084 had been formed as at 31 December 2021 for the Supervisory Board remuneration for the fourth quarter of 2021. The amount paid out to the members of the Supervisory Board for this purpose in the 2022 financial year amounted to €k 1,084.

Since 2020, no value-added tax has been payable on Supervisory Board compensation.

The remuneration for financial year 2022 paid to the members of the Supervisory Board in 2022 and at the beginning of 2023 breaks down as follows:

Members of the Supervisory Board

(€)	Fixed remuneration		Total	
Members of the Supervisory Board	2022	2021	2022	2021
Juan Rodríguez Inciarte, Chair	850,000	850,000	850,000	850,000
Olaf Behm, Vice Chair from 17 January 2022	215,000	215,000	215,000	215,000
Simone Graf, Vice Chair until 16 January 2022	215,000	215,000	215,000	215,000
Oliver Dircks	230,000	222,500	230,000	222,500
Bert Ehlers	215,000	215,000	215,000	215,000
Manuel González Cid[1]	–	–	–	–
Frederick Haddad	215,000	215,000	215,000	215,000
Klaus Heinemann	445,000	437,500	445,000	437,500
Chad Leat	430,000	422,500	430,000	422,500
Rieka Meetz-Schawaller	215,000	215,000	215,000	215,000
Mark Neporent[1]	–	–	–	–
Dr Ilinca Rosetti	215,000	207,500	215,000	207,500
Stefan Schlatermund	215,000	215,000	215,000	215,000
Mag. Friedrich Spandl (from 1 January 2021)	215,000	214,583	215,000	214,583
Mark Werner	230,000	222,500	230,000	222,500
Stephan Wilcke	215,000	215,000	215,000	215,000
Paulus de Wilt	215,000	215,000	215,000	215,000
Peter Yordán[1]	–	–	–	–
Total	**4,335,000**	**4,297,083**	**4,335,000**	**4,297,083**

[1] Supervisory Board remuneration waived.

The members of the Supervisory Board have not provided any advisory and brokerage services or any other personal services to HCOB in 2022. Accordingly, no additional remunerations were granted.

62. Other financial obligations

The transactions listed in the following include payment obligations under pending contracts or continuing obligations that cannot be recognised in the statement of financial position as well as other financial obligations that could have a material effect on the future financial position of Hamburg Commercial Bank.

With regard to equity investments, there is a payment obligation vis-à-vis a fund in the amount of around € 37 million (previous year: € 36 million). With the transposition of the Bank Recovery and Resolution Directive (BRRD) into German law, a new legal basis for determining the bank levy came into force as at 1 January 2015. By 1 January 2024, the target volume of the EU-wide Single Resolution Fund (SRF) shall be reached based on contributions from European banks. The current contribution shall be determined by the supervisor as at 31 May each year and shall be payable by 30 June. No subsequent contributions are expected.

Obligations amounting to € 28 million (previous year: € 44 million) result from service agreements for IT services.

Under a sale of an equity holding in the previous year, HCOB was obliged to purchase fund units at market price up to a nominal amount of up to € 8 million. This obligation expired in 2022.

Furthermore, Hamburg Commercial Bank AG has concluded a lease agreement for premises in the new construction project "Elbtower" in Hamburg in order to relocate its headquarters to this building once it has been built. The offices are expected to be moved to the new rented premises in the first half of 2025.

As part of its former guarantor function HCOB also has a general liability towards DekaBank Deutsche Girozentrale together with other former shareholders. This applies to liabilities entered into before 18 July 2001, irrespective of their term.

There are no material other financial obligations apart from those listed above.

63. List of shareholders

The following information is based on German commercial law.

Consolidated subsidiaries with a share of voting rights of HCOB of more than 50%

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg[2]	100.00	100.00	EUR	843,373.72	2,963,609.01
2	GmbH Altstadt Grundstücksgesellschaft, Hamburg[1][2][7]	89.90	89.90	EUR	138,695.43	–2,844,609.01
3	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,730,016.07	–45,545.92
4	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	322,772.11	–35,989.97
5	HCOB Private Equity GmbH, Hamburg[2]	100.00	100.00	EUR	550,000.00	292,877.64
6	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	4,118,010.00	312,331.00
7	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	2,317,871.83	1,987,871.83
8	Klarphos S.à.r.l., Findel, Luxembourg	100.00	100.00	EUR	541,196.06	166,196.06
9	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong[1][7]	0.01	100.00	USD	–252,837.00	1,025,539.00

Consolidated subsidiaries with a share of voting rights of HCOB of 50% or less

– of which subsidiaries due to contractual rights

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
10	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz[7]	0.00	0.00	EUR	–142,161.11	66,014.81
11	HI-Hafen Global-Fonds, Frankfurt am Main[7]	0.00	0.00	EUR	72,474,337.28	–2,525,467.53
12	Apollo Alster Lending Fund (LUX) SCSp, Luxembourg, Luxembourg[7]	0.00	0.00	USD	250,176,485.00	5,876,484.00
13	HPS Elbe Unlevered Direct Lending Fund, SCSp, Luxembourg, Luxembourg[7]	0.00	0.00	USD	206,790,218.00	1,688,804.00
14	OCEAN Funding 2013 GmbH, Frankfurt am Main[7]	0.00	0.00	EUR	31,201.72	0.00

Unconsolidated subsidiaries with a share of voting rights of HCOB of more than 50%

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
15	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong[1]	51.00	51.00	USD	115.00	0.00
16	Avia Management S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	72,622.12	–97,570.24
17	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	33,184.71	–489.73
18	HCOB Care+Clean GmbH, Hamburg	51.00	51.00	EUR	20,293.28	–4,706.72
19	HCOB Structured Situations Limited, St. Helier, Jersey[3]	100.00	100.00	USD	347,000.00	551.00
20	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	41,858.81	2,726.38

Unconsolidated subsidiaries with a share of voting rights of HCOB of 50% or less

Three such subsidiaries, which had been reported here in the previous year, were sold in financial year 2022. Therefore, no subsidiaries that match this category exist as at the reporting date.

Unconsolidated joint ventures

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
21	Infrastructure Holding S.à.r.l., Luxembourg, Luxembourg[4]	0.00	0.00	EUR	12,500.00	0.00

Unconsolidated associates

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
22	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	2,211,558.49	12,700.86
23	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg[6]	56.44	56.44	EUR	–1,422,170.13	–3,482,749.31

Long-term equity investments

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
24	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	1.33	1.33	EUR	273,601,103.15	14,936,000.00
25	GLB GmbH & Co. OHG, Frankfurt am Main[5]	15.77	15.77	EUR	2,776,785.86	–61,398.48
26	GLB-Verwaltungs-GmbH, Frankfurt am Main[5]	15.80	15.80	EUR	59,627.58	1,981.74
27	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekte Hamburg und Potsdam KG, Hamburg	5.15	5.16	EUR	4,192,487.55	633,831.37
28	HGA Objekt München GmbH & Co. KG, Hamburg[4]	5.23	5.23	EUR	3,604,658.30	–22,425.57
29	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	8,894,053.10	564,175.76
30	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg	5.10	5.09	EUR	6,350,486.14	483,523.96
31	Hines European Development Fund Limited Partnership, Houston, USA[1]	9.90	9.90	EUR	37,419,000.00	–916,000.00
32	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	1,176,541.09	–189,301.35
33	RSU GmbH & Co. KG, Munich	13.60	13.60	EUR	10,678,441.89	985,304.99
34	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T. SCRL), La Hulpe, Belgium	0.03	0.03	EUR	616,152,000.00	52,234,000.00
35	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,535,845.42	–88,366.68
36	Vofü-Fonds I Hamburgische Grundbesitz und Anlage GmbH & Co. KG, Hamburg	5.10	5.09	EUR	2,465,876.62	94,223.07

[1] Indirect holding.
[2] A profit transfer agreement with the company is in place.
[3] Only data as at 31 December 2017 is available.
[4] Only data as at 31 December 2019 is available.
[5] Only data as at 31 December 2020 is available.
[6] This is not a subsidiary due to the requirement for a qualified voting majority for important decisions.
[7] Structured entity.

Foreign exchange rates for € 1 as at 31 December 2022

USA	USD	1.0666

64. Other disclosures in accordance with German commercial law

I. Basic principles

Under the terms of Section 315e (1) German Commercial Code (HGB), Hamburg Commercial Bank AG, which has its registered office in Hamburg (Hamburg commercial register number HRB 87366) is required to observe the standards of the German Commercial Code in preparing and presenting the annual financial statements, as well as the IFRS standards. You may request the unabridged IFRS Group financial statements by following this link: www.hcob-bank. de. The complete list of equity holdings is set out in Note 63.

II. Number of employees

The average number of employees as of the reporting date is calculated on the basis of staff figures at quarter-end for all fully consolidated companies:

Number of employees

	2022			2021
	Male	Female	Total	Total
Full-time employees	543	203	746	809
Part-time employees	22	138	160	181
Total	**565**	**341**	**906**	**990**
Apprentices/trainees	6	4	10	9

III. Corporate governance code

Hamburg Commercial Bank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company.
The Management Board and Supervisory Board of Hamburg Commercial Bank AG have given a declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) that the recommendations of the German Corporate Governance Code Commission together with the restrictions have been complied with and will be complied with until the subsequent declaration is made. The Declaration of Conformity is published on the website of Hamburg Commercial Bank AG. The Declaration of Conformity does not form part of the Notes to the Group financial statements.

IV. Fees and activities of the auditor

AUDITOR'S ACTIVITIES

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements and Group financial statements of Hamburg Commercial Bank as at 31 December 2022. In addition, the review of the half-year financial report as at 30 June 2022, the audit pursuant to Section 89 of the German Securities Trading Act (WpHG), the issue of comfort letters pursuant to IDW PS 910 as well as, to a lesser extent, certain services relating to confirmations for guarantee schemes were performed. Training sessions were also conducted.

AUDITORS' FEES WITHIN THE MEANING OF IDW ACPS HFA 36 (NEW VERSION)

AUDITOR'S FEES

(€ m)	2022	2021
Audits of annual financial statements PWC GmbH	5	4
Other certification and valuation services PWC GmbH	-	-
Total	**5**	**4**

In addition, other services in an amount below € 1 million were rendered.

V. Seats on supervisory bodies

In contrast to the previous year, members of the Management Board held no seats in statutory supervisory bodies of major corporations or financial institutions as at the reporting date.

65. Names of members of corporate bodies and directorships held

I. The Supervisory Board of the Hamburg Commercial Bank Group

JUAN RODRÍGUEZ INCIARTE, MADRID
Chairman
CEO of Sareema Inversiones S.A.

OLAF BEHM, HAMBURG
Deputy Chairman (since 17 January 2022)
Employee of Hamburg Commercial Bank AG

OLIVER DIRCKS, KIEL
Employee of Hamburg Commercial Bank AG

BERT EHLERS, SEEVETAL
Employee of Hamburg Commercial Bank AG

MANUEL GONZÁLEZ CID, MADRID
Senior Advisor Cerberus Global Investment Advisors, LLC

SIMONE GRAF, BUCHHOLZ
Vice Chairperson (until 16 January 2022)
Employee of Hamburg Commercial Bank AG

FREDERICK HADDAD, RUMSON
Partner & Manager Family Office FLGC

KLAUS HEINEMANN, PALMA DE MALLORCA
Founding Partner and Managing Director HH Kapital B.V.

CHAD LEAT, NEW YORK
Financial Advisor

RIEKA MEETZ-SCHAWALLER, KIEL
Employee of Hamburg Commercial Bank AG

MARK NEPORENT, ARMONK
Chief Operating Officer, Senior Legal Officer and
Senior Managing Director Cerberus Capital Management, L.P

DR ILINCA ROSETTI, LONDON
Operating Partner J.C. Flowers & Co. UK LLP

STEFAN SCHLATERMUND, HAMBURG
Employee of Hamburg Commercial Bank AG

MAG. FRIEDRICH SPANDL, VIENNA
Managing Director – Deputy CFO
BAWAG P.S.K. Bank für Arbeit und Wirtschaft und
Österreichische Postsparkasse AG

MARK WERNER, NEW YORK
Financial Advisor

STEPHAN WILCKE, LONDON
Independent professional Supervisory Board member

PAULUS DE WILT, BREUKELEN
Chief Executive Officer NIBC Bank NV

PETER YORDÁN, LONDON
Managing Director J.C. Flowers & Co. LLC

II. Members of the Risk Committee

CHAD LEAT
Chair

BERT EHLERS

FREDERICK HADDAD

STEFAN SCHLATERMUND

MAG. FRIEDRICH SPANDL

MARK WERNER

PETER YORDÁN

III. Members of the Audit Committee

KLAUS HEINEMANN
Chair

OLAF BEHM

OLIVER DIRCKS

MANUEL GONZÁLEZ CID

PAULUS DE WILT

IV. Members of the Nomination Committee

JUAN RODRÍGUEZ INCIARTE
Chair

MANUEL GONZÁLEZ CID

SIMONE GRAF

PETER YORDÁN

V. Members of the Remuneration Control Committee

JUAN RODRÍGUEZ INCIARTE
Chair

KLAUS HEINEMANN

RIEKA MEETZ-SCHAWALLER

STEPHAN WILCKE

VI. Members of the IT Transformation Committee of the Supervisory Board

JUAN RODRÍGUEZ INCIARTE
Chair

OLIVER DIRCKS

KLAUS HEINEMANN

CHAD LEAT

DR ILINCA ROSETTI

MARK WERNER

VII. The Management Board of the Hamburg Commercial Bank Group

IAN BANWELL
Born in 1963
Chief Excecutive Officer (CEO)
(since 1 October 2022)
Chief Financial Officer (CFO)
(until 30 September 2022)

ULRIK LACKSCHEWITZ
Born in 1968
Chief Risk Officer (CRO)
Deputy CEO

CHRISTOPHER BRODY
Born in 1968
Chief Investment Officer (CIO)

MARC ZIEGNER
Born in 1975
Chief Financial Officer (CFO)
(since 1 October 2022)

STEFAN ERMISCH
Born in 1966
Chief Executive Officer (CEO)
(until 30 September 2022)

Annex to the Group financial statements

Country-by-Country Reporting 2022

Basic principles

The requirements for country-specific reporting, referred to as country-by-country reporting in Article 89 of the Directive 2013/36/EU (Capital Requirement Directive, CRD IV), have been transposed into German law in Section 26a (1) of the German Banking Act (KWG).

Disclosure at Hamburg Commercial Bank
Hamburg Commercial Bank's country-by-country reporting includes the necessary information for all the subsidiaries fully consolidated in the Group financial statements as of this reporting date. Entities that were deconsolidated during the reporting year are not included in the figures presented. The geographical allocation is made on the basis of the location of a company's registered office. Branches are disclosed as independent companies. Representative offices are not listed. All accounting-related information is based on IFRS accounting.

In this report, Hamburg Commercial Bank defines the required size of turnover as the sum of total income as presented in the income statement and Other operating income (gross amounts before consolidation). The consolidated non-bank entities in particular report their revenues in Other operating income.

The profit or loss before taxes disclosed in this report corresponds to the result before taxes of the individual entities presented. The tax position also corresponds to the definition under IFRS standards in the income statement.

The figure for the number of employees corresponds to the arrangement of Section 267 (5) of the German Commercial Code (HGB) for the entities still included in the Group financial statements as at the reporting date.

The information on the type of activities of the relevant companies is presented in line with the definitions used in Article 4 (1) CRR once the CRR came into effect.

The return on capital to be disclosed as at 31 December 2022, calculated as the quotient of net profit (Group net result after taxes) and total assets, is 1.33%.

Reporting
Country-specific details of revenue, profit or loss and taxes as well as employee numbers

(€ m/number) 2022 Country	Revenue	Profit or loss before tax	Tax on profit or loss (+) expense/ (-) income	Employees
EU				
Germany	740	327	-12	879
Luxembourg	82	59	-50	16
Greece	4	–	–	11
Third countries				
Singapore	0	–	–	0
British Channel Islands	0	–	–	–
Bermuda	1	0	–	–
Cayman Islands	0	0	–	–

Nature of activities and geographical location of the branches and fully consolidated subsidiaries

Serial. no.	Name of the company	City	Country	Nature of activities
1	Hamburg Commercial Bank AG	Hamburg, Kiel	Germany	Bank
2	Hamburg Commercial Bank AG, Luxembourg branch	Luxembourg	Luxembourg	Bank
3	Hamburg Commercial Bank AG, Athens branch	Athens	Greece	Bank
4	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Mainz	Germany	Miscellaneous activities
5	BINNENALSTER-Beteiligungsgesellschaft mbH	Hamburg	Germany	Financial institution
6	GmbH Altstadt Grundstücksgesellschaft	Mainz	Germany	Miscellaneous activities
7	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	Germany	Financial institution
8	HCOB Finance (Guernsey) Limited	St. Peter Port	Guernsey	Financial institution
9	HPS Elbe Unlevered Direct Lending Fund, SCSp	Luxembourg	Luxembourg	Miscellaneous activities
10	Klarphos S.à.r.l	Findel	Luxembourg	Financial institution
11	Apollo Alster Lending Fund (LUX)	Luxembourg	Luxembourg	Miscellaneous activities
12	HCOB Private Equity GmbH	Hamburg	Germany	Financial institution
13	HCOB Residual Value Ltd.	Hamilton	Bermuda	Insurance company
14	HCOB Securities S.A.	Luxembourg	Luxembourg	Bank
15	OCEAN Funding 2013 GmbH	Frankfurt a. M.	Germany	Miscellaneous activities
16	RESPARCS Funding Limited Partnership I	Hong Kong	Hong Kong	Financial institution
17	HI-Hafen Global-Fonds	Frankfurt a. M.	Germany	Miscellaneous activities

Date of release for publication

The Management Board of Hamburg Commercial Bank has prepared the Group financial statements on 14 March 2023 and released these for forwarding to the Supervisory Board.

The Supervisory Board is responsible for reviewing the Group financial statements and approving of these.

Hamburg, 14 March 2023

Ian Banwell Ulrik Lackschewitz

Christopher Brody Marc Ziegner

The following copy of the auditor's report includes an "Assurance Report in Accordance with Section 317 Abs. 3a German Commercial Code (HGB) on the Electronic Reproduction of the Annual Financial Statements and the Management Report Prepared for Publication Purposes" ("Separate report on ESEF conformity"). The subject matter (ESEF document to be audited) to which the separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the German Federal Gazette.

INDEPENDENT AUDITOR'S REPORT

Hamburg Commercial Bank AG, Hamburg

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

AUDIT OPINIONS

We have audited the consolidated financial statements of Hamburg Commercial Bank AG, Hamburg, and its subsidiaries (the Group), which comprise the group statement of financial position as at 31 December 2022, and the group statement of comprehensive income, group statement of income, group statement of changes in equity and group cash flow statement for the financial year from 1 January to 31 December 2022, and group explanatory notes, including a summary of significant accounting policies. In addition, we have audited the group management report of Hamburg Commercial Bank AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2022. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2022, and of its financial performance for the financial year from 1 January to 31 December 2022, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Loan loss provisions in the customer lending business
❷ Accounting for litigations
❸ Deferred taxes

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Loan loss provisions in the customer lending business

① In the Company's consolidated financial statements loan receivables amounting to EUR 19,592 million are reported under the "Loans to customers" balance sheet line item. As at 31 December 2022, the risk provision recognized amounts to EUR 414 million, which was reported in a separate item.

The bank calculates the risk provision using a 3-step model based on the expected credit loss system in accordance with IFRS 9. For financial instruments in level 1 and 2, mathematical-statistical techniques are used; for financial instruments in level 3, the expected credit losses are calculated based on estimated future cash flows at the level of the individual financial instrument.

The measurement of the expected-credit-loss is determined in particular by the structure and quality of the loan portfolios, general economic factors and the executive directors' estimates with respect to future loan defaults, among other things also against the background of the current macroeconomic environment and the related expected effects on the customer lending business. Additionally the executive directors' estimates with respect to classification of financial instruments into levels as well as certain parameters such as the loan amount on default, probability of default and loss ratio at the time of default and – as is the case for financial instruments classified in level 3 – by estimates of the future cash flows, taking into account existing collateral. In addition, further valuation-relevant risk factors are taken into account in the context of so-called model overlays.

The calculation of the risk provisions is highly significant for the assets, liabilities and financial performance of the Group and they involve considerable judgment on the part of the executive directors, among other things also against the background of the expected effects of the current macroeconomic environment on the customer loans business. Estimating the aforementioned parameters and factoring in future-oriented macroeconomic information has a material influence on the recognition and amount of risk provisions. Against this background, this matter was of particular significance during our audit.

② As part of our audit, we initially assessed the design of the Company's relevant internal control systems and – on that basis – tested the controls' effectiveness. Thereby, we considered the business organization, the IT systems and the relevant measurement models.

Moreover, we evaluated the assessment of the customer loans, including the appropriateness of estimated values, on the basis of sample testing of loan engagements. For this purpose, we assessed, among other things, the available documentation of the Company with respect to the economic circumstances as well as the recoverability of the related collaterals. For real estate as collateral, we obtained an understanding of and critically assessed the source data, measurement parameters applied, and assumptions made on which the expert valuations provided to us by the Company were based and evaluated whether they lay within an acceptable range. In addition, for the purpose of assessing the valuation allowances, we evaluated the calculation methodology applied by the Company together with the underlying assumptions and parameters.

With the assistance of our specialists in mathematical finance, we examined the suitability and appropriate use of the models applied to calculate the risk provisions. We assessed the appropriateness of the inclusion of additional valuation-relevant risk factors based on the current economic uncertainties. In this context we especially evaluated the assessment of the executive directors regarding the expected effects of the current macroeconomic environment on the economic situation of borrowers and the valuation of collateral and examined their consideration in the valuation of the customer loans. We questioned the necessity of creating model overlays and assessed their measurement.

Based on our audit procedures, we were able to satisfy ourselves that the assumptions made by the executive directors for the purpose of testing the recoverability of the loan

portfolio are appropriate overall, and that the controls implemented by the Company are appropriate and effective.

③ The Company's disclosures on loan loss provisions are contained in the notes of the financial statements in section 7 "Management estimates and discretionary decisions" and section 8 "Accounting and measurement principles" (under 8.I.D) and in sections 15 and 26 "Loan loss provisions". In addition, the group management report contains the relevant disclosures in the report on economic performance (results of operations) and the risk report.

❷ **Accounting for litigations**

① In the Company's consolidated financial statements other provisions amounting to EUR 361 million are reported. Of this amount, EUR 110 million relate to provisions for (potential) litigation risks and costs for court and out-of-court proceedings with (former) customers and investors of the bank. The assessment of the litigation risks and the estimate of whether it is necessary to recognize a provision to cover the risk and, if so, the amount of the provision, is to a large extent determined by the estimates and assumptions made by the executive directors. The assessment of the executive directors is based on estimates of the legal situation by the bank's in-house and external lawyers. Against this background and due to the significance of the amounts in dispute and the underlying assumptions and discretionary judgement of the executive directors, this matter was of particular significance during our audit.

② In the Company's consolidated financial statements other provisions amounting to EUR 361 million are reported. Of this amount, EUR 110 million relate to provisions for (potential) litigation risks and costs for court and out-of-court proceedings with (former) customers and investors of the bank. The assessment of the litigation risks and the estimate of whether it is necessary to recognize a provision to cover the risk and, if so, the amount of the provision, is to a large extent determined by the estimates and assumptions made by the executive directors. The assessment of the executive directors is based on estimates of the legal situation by the bank's in-house and external lawyers. Against this background and due to the significance of the amounts in dispute and the underlying assumptions and discretionary judgement of the executive directors, this matter was of particular significance during our audit.

③ The recognition and measurement of provisions is explained in the notes to the Company's consolidated financial statements in note 7 ´Estimates and management discretionary decisions´ and in note 8 ´Accounting and measurement principles´. In addition, provisions for litigation risks are explained in more detail in note 40 ´Provisions´ in the notes to the consolidated financial statements. Explanations of contingent liabilities arising from legal disputes are provided in note 57 ´Contingent liabilities and irrevocable loan commitments´. In addition, the risk report within the group management report contains further information on litigations.

❸ **Deferred Taxes**

① In the Company's consolidated financial statements deferred tax assets amounting to EUR 697 million after netting are reported. Deferred tax assets amounting to EUR 855 million are recognized before netting with matching deferred tax liabilities. The deferred tax assets were recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses to be utilized. For this purpose, if insufficient deferred tax liabilities are available, future taxable profits are projected on the basis of the adopted business plan. No deferred tax assets were recognized in respect of unused tax losses amounting in total to EUR 2,600 million since it is not probable that they will be utilized for tax purposes by means of offset against taxable profits. From our point of view, the accounting treatment of deferred taxes was of particular significance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

② As part of our audit, we assessed, among others, the internal processes and controls for recording tax matters as well as the methodology used for the determination, accounting treatment and measurement of deferred taxes. We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unused tax losses on the basis of the Company's internal forecasts of its future earnings situation, and the appropriateness of the underlying estimates and assumptions. Based on our audit procedures, we were able to convince ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

③ The Company's disclosures relating to deferred tax assets and liabilities are contained the notes of the Company's consolidated financial statements in note 8 ´Accounting and measurement principles´ and note 34 ´Deferred tax assets´.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on

corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards) as an unaudited part of the group management report.

The other information comprises further

- the separate non-financial report to comply with §§ 289b to 289e HGB and with §§ 315b to 315c HGB
- all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report

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

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

- is materially inconsistent with the group financial statements, with the information in the group management report that we have audited or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit 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 relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit 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 Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

OTHER LEGAL AND REGULATORY REQUIREMENTS
Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

ASSURANCE OPINION

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file HCOB_AG_KA+KLB_ESEF-2022-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2022 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

BASIS FOR THE ASSURANCE OPINION

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ESEF DOCUMENTS

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE WORK ON THE ESEF DOCUMENTS

- Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:
- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 18 May 2022. We were engaged by the supervisory board on 17 June 2022. We have been the group auditor of the Hamburg Commercial Bank AG, Hamburg, without interruption since the financial year 2018.

We declare that the audit 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).

REFERENCE TO OTHER MATTERS – USE OF THE AUDIT OPINION

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be filed in the company register – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Lothar Schreiber.

Responsibility statement by the Management Board

We hereby affirm that to the best of our knowledge the Group financial statements have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, financial position and results of operations of the Hamburg Commercial Bank Group and that the Group management report presents the course of business, including the results of the business and the Hamburg Commercial Bank Group's situation, in such a manner that it gives a true and fair view and describes the main opportunities and risks for the Hamburg Commercial Bank Group's foreseeable performance.

Hamburg, 14 March 2023

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Notice
If at times only the masculine form is used for certain terms relating to groups of people, this is not meant in a genderspecific manner, but occurs exclusively for the sake of better readability. This Annual Report was published on 30 March 2023 and is available for download from www.hcob-bank.de.

This is an English translation of the original German version of the Annual Report.

Forward-looking Statements
This Financial Annual Report includes forward-looking statements. These statements are based on our beliefs and assumptions as well as conclusions drawn from information currently available to us from sources that we consider to be reliable. Forward-looking statements contain information that does not simply reflect historical facts, including information, relating to possible or anticipated future growth and future economic developments.

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are beyond our control. Actual events may therefore differ considerably from forward-looking statements previously made. In view of this, you should never rely in an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this report. Furthermore, we are not required to update the forwardlooking statements following the publication of this information. In addition, information contained in this Annual Report does not represent any kind of offer for the acquisition or sale of any type of securities of Hamburg Commercial Bank AG.

Hamburg Commercial Bank

Annual Report Hamburg Commercial Bank **2022**