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Press release

Preliminary results 2023: Hamburg Commercial Bank continues strong track record with pre-tax profit of EUR 427 million

- Net income before taxes up 18% to EUR 427 (363) million
- Group net result after taxes above plan at EUR 271 (425) million
- Earnings base further strengthened: net interest income up 21%
- CIR of 39% demonstrates stringent cost management
- Robust capital ratios: CET1 ratio at 19.5% (20.5%)
- Challenging real estate market: loan loss provisions at EUR -79 (+11) million – high risk coverage

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HAMBURG/Germany – Hamburg Commercial Bank AG (HCOB) presented its preliminary figures for the 2023 financial year on Thursday. With **net income before taxes** of EUR 427 (363) million, up 18% on the previous year, the bank continues its strong track record. The robust pre-tax result was mainly due to a further noticeable increase in operating income, solid new business and stringent cost management. Thanks to high recurring earnings and prudent risk provisioning policy, HCOB clearly surpassed the previous year's pre-tax result and earnings forecast (around EUR 350 million), and this despite a difficult macroeconomic environment featuring geopolitical uncertainties and challenging developments on the real estate markets in the wake of higher interest rates. HCOB's capital and liquidity positions remained at a high level.

Ian Banwell, Chief Executive Officer of Hamburg Commercial Bank, said: "2023 was another year of extraordinary success for our company. Record pre-tax earnings, a cost to income ratio of 39 percent, and a CET1 ratio of 19.5 percent are all hallmarks of a very efficient and conservative banking company. We are well positioned to continue to serve our clients going forward."

Profitability further improved – stable costs despite inflation – CIR below 40%

Preliminary **net income before taxes** of EUR 427 (363) million was up by almost a fifth (18%) compared to the previous year, confirming HCOB's sustained earning power, despite noticeably higher risk provisioning expenses. This was mainly due to a significant increase in total income, lower-than-expected costs and one-off effects. **Income tax expenses** had a significant negative impact of EUR 156 million on the group net result, mainly due to lower deferred tax assets, after these had benefited from one-off effects in the previous year and made a clearly positive contribution of EUR +62 million to the group net result. At EUR 271 (425) million, the **group net result** exceeded the forecast (above EUR 250 million). This resulted in a **return on equity** (RoE) after taxes[1] of 12.5% (31/12/2022: 20.8%).

Hamburg Commercial Bank's sustained earning power was clearly reflected in the 13% increase in **total income** to EUR 762 (673) million. The strong **net interest income** of EUR 663 (550) million, which saw another marked increase of 21% thanks to additional diversification of the business model and a favorable interest rate environment, played a key role in this. Particularly pleasing in this context is the development of the net interest margin, which improved in all credit segments and increased from 168 to 204 basis points at group level.

At EUR 23 (33) million, **net commission income** was down on the previous year due to higher other commission expenses and lower commission income in the lending and guarantee business. The fair value result (**result from financial instruments categorised as FVPL**) contributed EUR 72 (86) million to total income, whereby the valuation effects on customer derivatives were lower than in the previous year. The other items in total income amounted to EUR 4 (4) million.

Loan loss provisions of EUR -79 (+11) million were affected by the challenging conditions on the real estate markets in view of the marked rise in interest rates. The net additions for non-performing loans at Stage 3 are largely attributable to the Real Estate segment. Net additions were also recorded for the Real Estate segment at Stages 1 and 2, but these were more than offset by net reversals (in particular reduced model overlays) in the other credit segments.

Despite inflation, **administrative expenses** remained stable at EUR 332 (332) million, demonstrating the bank's cost efficiency. Personnel expenses declined to EUR 147 (154) million, although the number of employees increased (31/12/2023: 907; 31/12/2022: 868 full-time employees). In the previous year, the energy bonus paid out in full to all employees (EUR 3,000 per employee) had a negative impact on personnel expenses. Operating expenses rose moderately to EUR 185 (178) million as HCOB made further investments in IT/digitalization.

At EUR 97 (75) million, the **other operating result** had a clearly positive impact on the group net result and benefited from one-off effects from the reversal of provisions for litigation risks and income from earn-out agreements. At EUR 21 (30) million, **expenses for regulatory affairs, deposit guarantee fund and banking associations** were below the previous year's figure, as the bank levy fell. The **result from restructuring and transformation** was EUR 0 (-34) million as planned.

The **cost-income ratio** (CIR) improved to 39% (31/12/2022: 44%) and is therefore well below the forecast figure of around 45%. This pleasing key figure demonstrates the bank's high level of cost discipline in an environment characterized by inflation.

Solid risk coverage – challenging real estate market – resilient capital ratios

The **NPE volume** increased to EUR 800 (405) million, owing in particular to higher interest rates and the resulting weakness in the real estate market. More than a quarter of the increase is attributable to two extensively secured new defaults. First, the bank's only exposure to the Signa Group, which is secured by a mortgage of HCOB's current headquarters in Hamburg, among other things. Second, a significant loan in the Project Finance segment, which is predominantly covered by an export credit guarantee (ECA). The **NPE ratio** thus increased for the first time in four years and stood at 2.3% (31/12/2022: 1.2%), of which around 0.4 percentage points are attributable to the aforementioned real estate exposure alone.

At EUR 366 (414) million, the stock of **loan loss provisions** remained at a solid level but decreased due to reversals at Stage 1 and 2 (model overlays). Provisions for non-performing loans at Stage 3 remained almost constant, as net additions were offset by a comparable amount of utilizations. Total NPE coverage through risk provisioning at Stage 3 and collateral was over

100%, while risk provisioning of EUR 139 million at Stage 1 and 2 (including EUR 85 million in model overlays) provides adequate additional risk coverage.

The **CET1 ratio** was a robust 19.5% (31/12/2022: 20.5%) and was based on the planned increase in aggregated **RWA** to EUR 16.5 (15.4) billion, the latter partly driven by recalibrations in the rating models and developments in the real estate sector. A planned dividend for the 2023 financial year is already deducted from CET1 capital as at December 31, 2023.

The **leverage ratio** of 9.1% (31/12/2022: 9.5%) was well above the regulatory requirements (3%) and underlined the bank's very robust capital position.

At EUR 31.5 (31.8) billion, the group's **total assets** remained almost constant compared to the end of the previous year.

Lending units: Encouraging earnings performance – total income up 21%

Total income rose in all four lending units and increased significantly by 21% overall to EUR 677 (559) million as a result of noticeably higher net interest margins with average segment assets remaining almost constant. At EUR 6.2 (5.6) billion, gross new business was 11% higher than in the previous year. The pleasing earnings performance in all segments was offset by an increase in loan loss provisions, higher cost allocation and taxes. As a result, the RoE after taxes[1] of the market segments combined was 10.5% (14.2%).

Given the challenging development on the real estate markets, the **Real Estate segment** was managed in a risk-conscious manner and with a focus on the existing portfolios. Accordingly, the volume of new business remained at a modest level of EUR 1.6 (1.6) billion, as in the previous year. Although total income from operating activities rose to EUR 209 (175) million, higher additions to loan loss provisions owing to the adverse market development could not be fully offset. Accordingly, earnings after taxes amounted to EUR -53 (84) million. Segment assets fell to EUR 7.8 (8.1) billion as a result of the selective approach to new business.

In the **Shipping segment**, total income improved slightly to EUR 180 (177) million, despite a decline in lending volume. Administrative expenses and positive loan loss provisions below previous year had an offsetting effect, resulting in earnings after taxes of EUR 81 (88) million. Gross new business with national and international shipping companies with good credit ratings amounted to EUR 1.3 (1.6) billion. Early loan repayments due to the shipping companies' good liquidity position and the weakening of the US dollar exchange rate led to a decline in segment assets to EUR 2.4 (3.5) billion.

In the **Project Finance segment**, earnings after taxes increased significantly to EUR 69 (22) million, driven by total income of EUR 102 (70) million and a positive development in loan loss provisions. Segment assets remained at the previous year's level of EUR 3.4 (3.4) billion; new business was expanded to EUR 1.0 (0.7) billion with a focus on financing for digital infrastructure.

The **Corporates segment** benefited from a positive margin trend, particularly in the expanded international business. Total income rose noticeably to EUR 186 (137) million and, together with net reversals in loan loss provisions, made a significant contribution to earnings after taxes of EUR 102 (54) million. With gross new business of EUR 2.3 (1.7) billion, the previous year's volume was exceeded. The segment assets contributing to the diversification of the loan book amounted to EUR 6.0 (4.6) billion.

Rating upgrade – London branch – Launch Aviation Finance – ECB stress test

In February 2023, the **rating** agency Moody's raised Hamburg Commercial Bank's key ratings by one notch, thereby strengthening the bank's refinancing. A broader investor base was already evident in four capital market issues with a total volume of EUR 2.3 billion over the course of the year. In addition, the bank successfully continued its diversification strategy on the liabilities side of the balance sheet with the expansion of customer deposits.

HCOB has been represented by a branch in **London** since May 2023. By expanding its existing representative office, HCOB is strengthening its international positioning in one of the world's most important financial markets.

In July, HCOB took part in the EU-wide **stress test** conducted by the European Central Bank (ECB) and showed itself to be one of Europe's most resilient and well-capitalized banks. HCOB's capital depletion in the adverse scenario was moderate and below the average of the other participating banks.

In September, Hamburg Commercial Bank continued its successful diversification strategy with the launch of the **Global Aviation Finance** unit. The bank is thus expanding its wide-ranging business model to include financing for the broader aviation sector worldwide. The unit already concluded its first transaction in January 2024.

Outlook

Due to the robust development of operating profitability in recent years, efficient cost management and continued solid risk coverage, Hamburg Commercial Bank expects to achieve IFRS net income before taxes in excess of EUR 300 million in the 2024 financial year. The bank will meet the challenges associated with the weaker economic environment on the real estate markets with a consistent NPE reduction plan.
All forecasts are subject to any unforeseeable or significantly more adverse than expected effects, for example from economic or geopolitical developments.

Preliminary Group statement of income (IFRS) 2023

(€ million)	2023	2022	Change in %
Interest income from financial assets categorised as AC and FVOCI	1,447	761	90
Interest income from other financial instruments	65	81[1]	-20
Negative interest on investments categorised as AC and FVOCI	-	-13	-100
Negative interest on other cash investments and derivatives	-	-32	-100
Interest expenses	-852	-290[1]	>100
Positive interest on borrowings and derivatives	3	43	-93
Net interest income	**663**	**550**	**21**
Net commission income	23	33	-30
Result from hedging	13	2	>100
Result from financial instruments categorised as FVPL	72	86[1]	-16
Net income from financial investments	-3	-1	>-100
Result from the disposal of financial assets classified as AC	-6	3	>-100
Total income	**762**	**673**	**13**
Loan loss provisions	-79	11	>100
Total income after loan loss provisions	**683**	**684**	**-0**
Administrative expenses	-332	-332	-
Other operating result	97	75	29
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-21	-30	-30
Net income before restructuring and transformation	**427**	**397**	**8**
Result from restructuring and transformation	-	-34	100
Net income before taxes	**427**	**363**	**18**
Income tax expense	-156	62	>100
Group net result	**271**	**425**	**-36**
Group net result attributable to Hamburg Commercial Bank shareholders	271	425	-36

1) Previous year figures have been adjusted.

Further preliminary key figures of the Group	31/12/2023	31/12/2022
Total assets (€ bn)	31.5	31.8
RWA (€ bn)	16.5	15.4
CET1 capital ratio (%)	19.5[3]	20.5[2]
Overall capital ratio (%)	25.0[3]	26.8[2]
Return on equity (RoE) before / after taxes[1] (in %)	19.7 / 12.5	17.8 / 20.8
Leverage ratio (%)	9.1[3]	9.5[2,4]
Liquidity coverage ratio (%)	184	197
Net stable funding ratio (%)	116	113
Employees (FTE)	907	868

1) RoE before/after taxes based on standardized regulatory capital backing (average RWA and CET1 ratio of 13%) | 2) The dividend payment of EUR 1.5 billion made in the 2023 financial year was taken into account in advance as a reduction in common equity tier 1 capital. 3) A plan dividend is already deducted from Common Equity Tier 1 capital; the dividend payment is subject to approval by the Annual General Meeting. 4) Adjusted comparative figure as at 31/12/2022.

For further information on our financial figures please visit Investor Relations on our website.