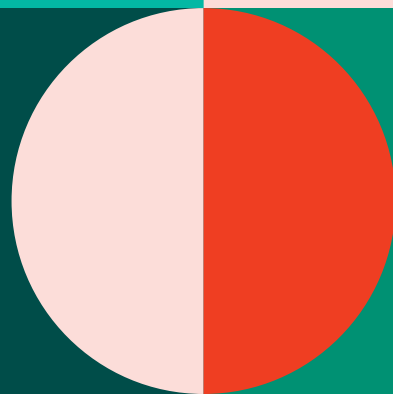




The first year.





Annual Report 2019

2019 was our first year with new owners. A year of transformation in which we became speedier and more efficient. In which we got closer to our objective of becoming Germany's best bank. And in which we further sharpened our focus on the client. Because that is the key: being there for the client. That is why 2019 was a good year for us.

“It is clear to us that we as a company must take on the challenges presented by climate change and changed conditions for society. We want to do that not only by assuming responsibility, but also by taking advantage of the opportunities provided by conscious sustainable management. Our goal is to embed the issue of sustainability in the bank’s DNA.”

Stefan Ermisch, Chief Executive Officer

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Group overview

We achieved a great deal in 2019 and held our own on the market. Our transformation successes are reflected - in the first year after privatization - in strong key financial figures, a positive result and sharp focus on business transactions with reasonable returns. Significantly lower funding costs and progress in cutting other costs also pave our way to a successful future.

Income statement (€ million)

**Net income before restructuring
and transformation 12/31/2019**
(12/31/2018: 621)

143

Net income before taxes 12/31/2019
(12/31/2018: 97)

77

Group net result 12/31/2019
(12/31/2018: 77)

12

Balance sheet (€ billion)

Reported equity 12/31/2019
(12/31/2018: 4.4)

4.4

Total assets 12/31/2019
(12/31/2018: 55.1)

47.7

Business volume 12/31/2019
(12/31/2018: 64.5)

55.6

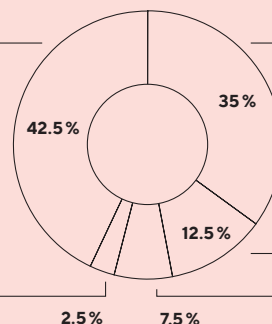
Ownership structure

Several funds initiated by **Cerberus Capital Management, L.P.**

Promontoria
Holding
221 B.V.
↓
9.89%

Promontoria
Holding
231 B.V.
↓
13.88%

Promontoria
Holding
233 B.V.
↓
18.73%



A fund advised by **J.C. Flowers & Co. LLC**
→ JCF IV Neptun Holdings S.à.r.l.

A fund initiated by **GoldenTree Asset Management LLP**
→ GoldenTree Asset Management Lux S.à.r.l.

BAWAG P.S.K. Bank für Arbeit und
Wirtschaft und Österreichische
Postsparkasse Aktiengesellschaft

Centaurs Capital LP
→ Chi Centauri LLC

Capital ratios & RWA¹

CET1 ratio (%) 12/31/2019

(12/31/2018: 18.4)

18.5

Overall capital ratio (%) 12/31/2019

(12/31/2018: 23.3)

23.5

Risk weighted assets (RWA)

(€ billion) (12/31/2018: 22.1)

21.0

Employees (Full time equivalent)

Total 12/31/2019

(12/31/2018: 1,716)

1,482

Germany 12/31/2019

(12/31/2018: 1,648)

1,421

Abroad 12/31/2019

(12/31/2018: 68)

61

¹ Not in-period: regulatory disclosure pursuant to the CRR

New business in 2019²

With a view to the gloomy economic outlook, we managed new business selectively and achieved a noticeably higher profitability with a gross business volume of € 7.2 (2018: 8.4) billion. The significantly lower refinancing costs in the wake of privatization also made a key contribution in this respect.

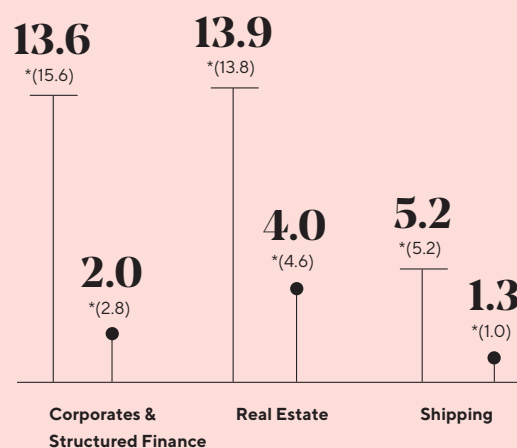
The foundations of Hamburg Commercial Bank

— Portfolios by segment 12/31/2019

(EaD; € billion)

● New business (incl. syndication)

*(12/31/2018)



Administrative expenses 12/31/2019

(€ million)

(12/31/2018: - 402)

-413

² After the segment designation changes to Real Estate (unchanged in English; now also applies to German usage) as well as Corporates & Structured Finance (previously: Corporate Clients) and Diversified Lending & Markets (previously: Treasury & Markets; not shown in chart) as well as minor shifts between the latter two segments; prior-year figures adjusted accordingly Incl. rounding effects.



“Making the bank resilient”

Stefan Ermisch

Chief Executive Officer

In 2019, HCOB experienced its first year as a privatized bank. How would you sum it up?

Stefan Ermisch → Our privatization in 2019 gave us a big boost and provided many emotional moments, which carried us far into the year 2019. At the same time, 2019 was full of challenging tasks. This is hardly surprising, because we want to turn HCOB into one of the best banks in Germany. To achieve this, we drove our profound, long-term transformation even further in 2019. And we successfully asserted ourselves in the market: With earnings before taxes of 77 million euros we are in line with our expectations. We can be satisfied with this result for the past financial year. At 18.5, we have a very strong CET1 ratio, and the quality of the balance sheet has also continued to improve. The profitability of our new business activities has

improved substantially; a contributing factor here was the perceptible improvement in funding terms following the bank's realignment. The bank's return to the capital market with new issues has been a success – HCOB has gained full acceptance on the capital market.

That all sounds very good.

SE → Yes, although we can't rest on our laurels. We have achieved quite a bit, but there is still a lot to be done. That applies all the more since we – like the entire economy – must contend with the huge consequences of the coronavirus crisis. The world will be completely different afterwards. We are dealing with the biggest societal and economic challenges since the Second World War, and we can only overcome them by joining forces. This means governments, regulatory authorities, banks and companies must all pull together. In these difficult times, our principal tasks are to make HCOB much more efficient and to substantially reduce costs. Given the severe worsening of the economic conditions, the generally unforeseeable consequences of the crisis and the familiar structural obstacles on the German banking market, these tasks are still key to being successful in the long term.

How do you plan to make HCOB even more efficient?

SE → By cutting costs, among other things. This is something we have been doing quite successfully for some time – and we will continue our efforts. We are also taking advantage of the opportunities offered by further digitalizing our operations. At present, we are thoroughly modernizing our IT landscape. In the medium term, we want to take advantage of the benefits provided by cloud-based systems. To make application management easier, we are collaborating with international IT service provider Wipro. This allows us to benefit from third-party knowledge while at the same time reducing our complexity.

HCOB is seeking to join the Association of German Banks (BdB) on January 1, 2022. How are the preparations coming along?

SE → They are progressing as planned. BdB membership is a goal we have prioritized above everything else. All considerations in respect to capital, profitability and balance-sheet structure have been geared to this. Our goal was and is to lay the foundation stone in 2020 for a successful entry on January 1, 2022 by continuing to generate convincing figures. In light of the coronavirus crisis, like all market participants, and that includes the European Banking Authority, we will have to reassess the situation in the months ahead. The fallout of this crisis for the economy and especially the financial sector is as yet unforeseeable. But one thing is certain: It will be huge. Governments and central banks know that and have responded accordingly, and they are gearing up for more forceful measures. As a sign of solidarity and in consideration of the enormous social and economic consequences of the global corona crisis, the Management Board has decided to waive 30 percent of its variable remuneration for the past 2019 financial year.

HCOB's total assets in 2019 decreased by more than seven billion to 47.7 billion euros. What is the reason for this?

SE → A number of factors were at play here: low interest rates, which now almost seem like a permanent feature; the weakening economy, including Germany's industrial sector, which has been in recession since the end of 2018; mounting risks, following an economic upswing lasting an entire decade; and the emergence of new risks to global trade. In light of all that, we decided in the fourth quarter of the last financial year to tighten our lending standards, and we made a conscious decision to take potential cyclical risks off our books. We communicated this step clearly and well ahead of time.



“We successfully asserted ourselves in the market: With earnings before taxes of 77 million euros we are in line with our expectations.”

We are focusing on de-risking, which means contracting and compressing our balance sheet. Especially in view of the latest developments, which were in no way foreseeable in their magnitude, this has proven to be the right decision.

What impact has de-risking had on new business signings?

SE → We deliberately reduced our gross new business in 2019, namely by 1.2 billion euros year on year to 7.2 billion euros and we readjusted our business plans. Our aim is to bring about a further sharp reduction in our exposure to such potentially susceptible cyclical asset classes as leveraged loans and specific forms of funding in commercial real estate. These business segments remain important

and round off our profile as providers of specialist finance. But we are reducing their share in our overall business. All told, we have planned to further reduce the bank's total assets to just under 35 billion euros by the end of 2022. This more cautious positioning of the bank in a highly challenging competitive setting will lead to further adjustments in personnel capacity. We will reduce our staff to around 710 full-time equivalents by 2022, down from an original estimate of 950. Unfortunately, these cuts are necessary due to the changed underlying conditions and they will, as always, take place in close consultation with unions and employees.

Conventional wisdom says that successful businesses don't contract, they grow.

SE → That may be true in a normal market. Currently, however, there are too many banks in Germany that have market shares which are too small due to insufficient consolidation, and that are not generating sufficient earnings. At the same time, costs are far too high, which also suggests there has not been enough consolidation. This is not a healthy mix. In such a situation it is very difficult to earn the cost of capital in the operational business, something that should actually be the aim of all businesses and, of course, banks too. Taking into account all risks, it is virtually impossible in such a market to generate above-average organic growth. Additional market shares can only be achieved by undercutting competitors, which is painful as prices are already low. For this reason, growth in the current environment is the wrong path to take. And against the backdrop of the present coronavirus crisis, there is no point in having growth targets that are too bold anyway. Both the regulatory authorities and the rating agencies take a positive view of our strategy of balance sheet de-risking.

Sustainability is currently a major topic in the public debate. How is HCOB addressing it?

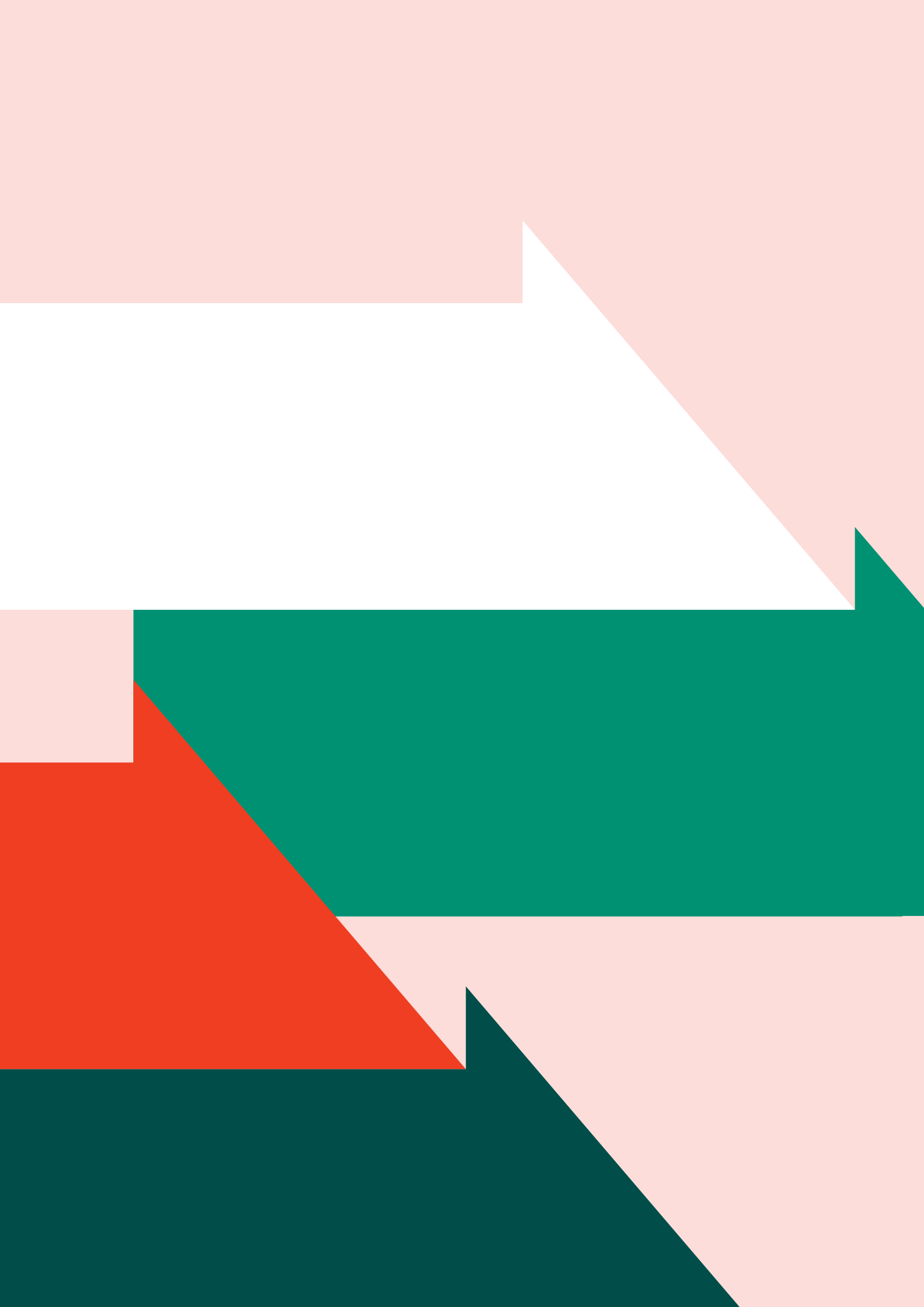
SE → The issue is very important for us. We are working on embedding and implementing the relevant sustainability criteria at HCOB. It is clear to us that we as a company must take on the challenges presented by climate change and changed conditions for society. We want to do that not only by assuming responsibility, but also by taking advantage of the opportunities provided by conscious sustainable management. I see this issue as a great opportunity for the bank, given its core competencies as a provider of specialist finance.

What do you mean by that?

SE → Climate change and major social transformations will lead to massive upheaval – some business players will be winners and some losers. We want to focus on financing companies and sectors that have good prospects for the future. The large financial intermediaries, such as insurance companies, and the regulatory authorities are now taking a very close look at this issue and are requiring banks to consider these aspects in their risk analyses. Our goal is to embed the issue of sustainability in the bank's DNA and to harness it as a competitive edge.

The bank has set itself ambitious medium-term profitability targets of 8 percent. Virtually no bank in Germany achieved that in 2019.

SE → Which is not to say we can't achieve it. We are already reaching this target for our new business activities. If we further reduce our operating and funding costs, we will have a good basis for being successful in the market: We are highly competent in sectors such as commercial real estate, shipping and project finance – including the renewables and infrastructure segments – as well as in parts of classic corporate banking. In these areas, we have good access to clients, to whom we offer excellent solutions for which we are compensated appropriately. We are using these strengths and building on them. To increase our profitability, we have spun off unprofitable parts of the balance sheet. Business must be profitable for both sides. To that end, our new business activities for 2019 clearly show we are on the right path. Now we must see how we can succeed even under the current tough conditions. The key will be continuing to forge ahead with the bank's transformation, which is already well under way, even if delays cannot be ruled out given the new environment in which we are operating due to the coronavirus crisis. We are working flat out to ensure we will be successful despite this new setting.



“Anticipating risks that might emerge”



Ulrik Lackschewitz,

Chief Risk Officer and Deputy CEO

2019 was HCOB's first year as a new bank. Has the way risks are viewed now changed?

Ulrik Lackschewitz → Our first year as a new bank was very successful overall – and from a risk perspective, interesting and good. Our goal is to anticipate what is happening on the markets and what risks might occur. We therefore seek to develop solutions well ahead of time. Our new Supervisory Board includes many experts with whom we hold in-depth discussions. This helps us become better as a bank. After all, it's not just a matter of protecting the bank against risks – that is only part of the equation. We also want to make the bank much more profitable.

In 2019, HCOB imposed tighter credit standards for itself. Why is that?

UL → The introduction of new, tighter credit standards made us a pioneer in Germany in 2019. We have tightened our requirements when awarding loans because we are actively tackling challenges and taking a clear view of the road ahead. Our loan book has an average term of about four years. We need to keep this period under close observation. Also in 2019, while analyzing the markets in a forward-looking manner, we concluded that the risks at present are greater than the opportunities. Nobody could have anticipated the situation changing so quickly and dramatically because of the coronavirus. Nor can anyone currently predict how long the fallout from the virus will last or how serious it will be.

“After all, it’s not just a matter of protecting the bank against risks – that is only part of the equation. We also want to make the bank much more profitable.”

Why did you already rate the situation as not uncritical in 2019?

UL → The economic uptrend had already been going on for about a decade, which is a very long time. At some point the downturn would come, that was certain. No one could predict exactly when it would happen or just how strong it would be. However, it was clear things could not continue going uphill indefinitely. After all, the mechanical engineering sector was already in recession. The entire automotive industry – one of the mainstays of the German economy – faced major changes. In addition, there was Brexit-related uncertainty, the pending US elections, and trade disputes, not to mention the problematic combination of very low interest rates and extremely high liquidity, which in turn had led to exceptionally high asset prices. Against this backdrop, we adjusted our risk standards and started to reduce risks in cyclical areas – including the real estate sector. In other words, we began to engage in de-risking.

What impact will this strategy have on new business volume?

UL → First of all, we will of course be there for our clients in this difficult time. It is now a matter of jointly finding effective solutions. Even before the coronavirus, we had lowered our targets in conventional new business by around 30 percent. In particular, we planned to reduce the volume in German commercial real estate, where we are heavily invested. In part, the plan was to compensate for this decrease with our new diversified lending portfolio, which is designed to take better advantage of international market opportunities. We must now see how

these markets perform. Our goal still is, however, to put our loan book on a broader footing – at the moment, we are still relatively heavily weighted towards Germany. Nothing about this fundamental direction will change. But of course, like everyone, we must now analyze what the coronavirus will mean for economic growth in Germany, in Europe and around the world.

HCOB is making preparations to join the Association of German Banks (BdB) in early 2022. What does that mean with respect to the risks?

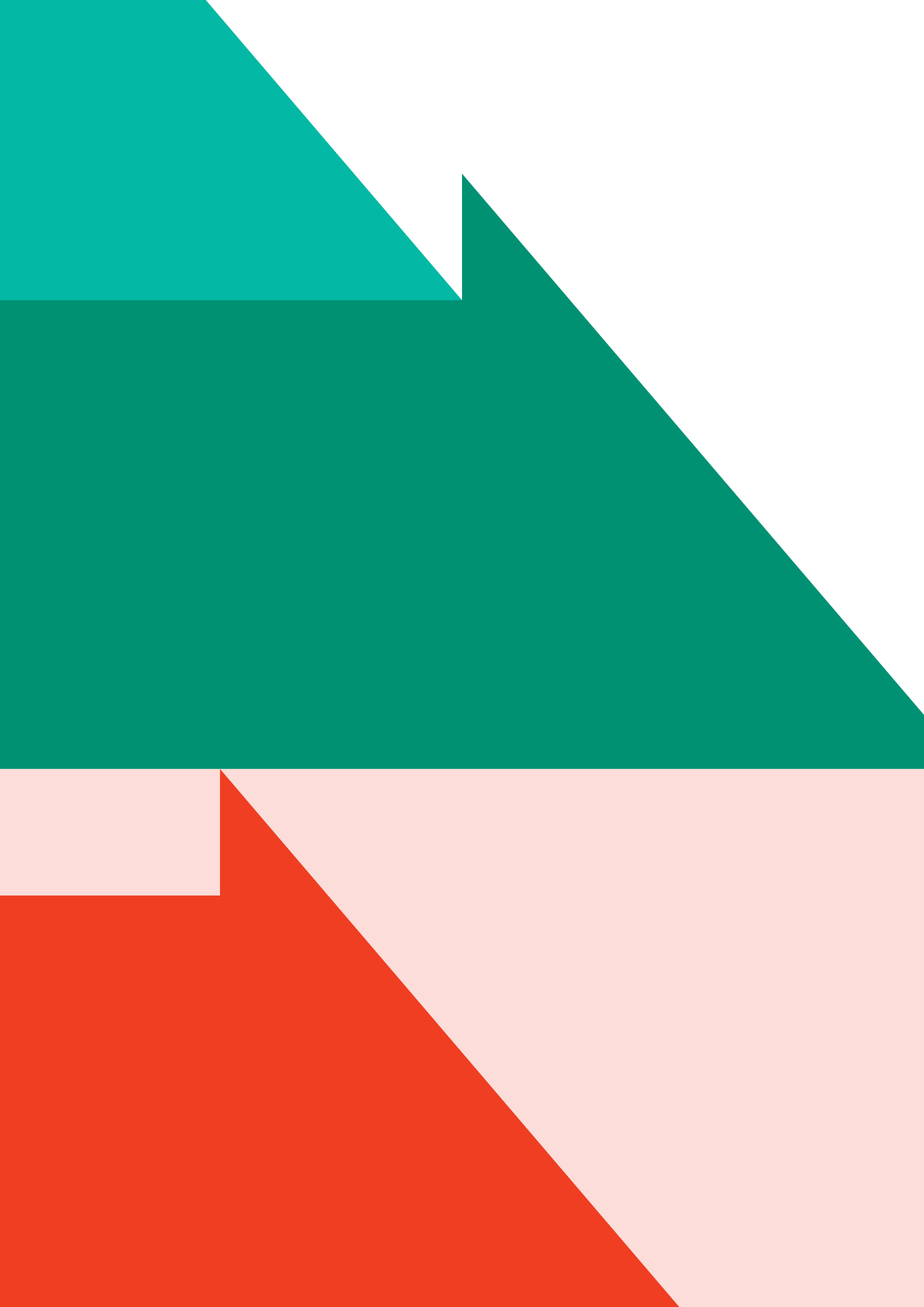
UL → BdB membership is about three criteria: capital, credit quality and profitability. In terms of capital, we are in good shape, with a CET1 ratio of 18.5 percent. The same applies to credit quality. Our NPE ratio is a solid 1.8 percent. We must, however, make improvements in terms of profitability. Our return on equity in 2019 was 1.8 percent and thus fell substantially short of our goal, which was a minimum of 8 percent. We must do remedial work here and have already achieved good results in our new business. All in all, we are well on track to meet the BdB’s requirements – our solid-good capitalization capital resources is helping us, especially in these difficult times.

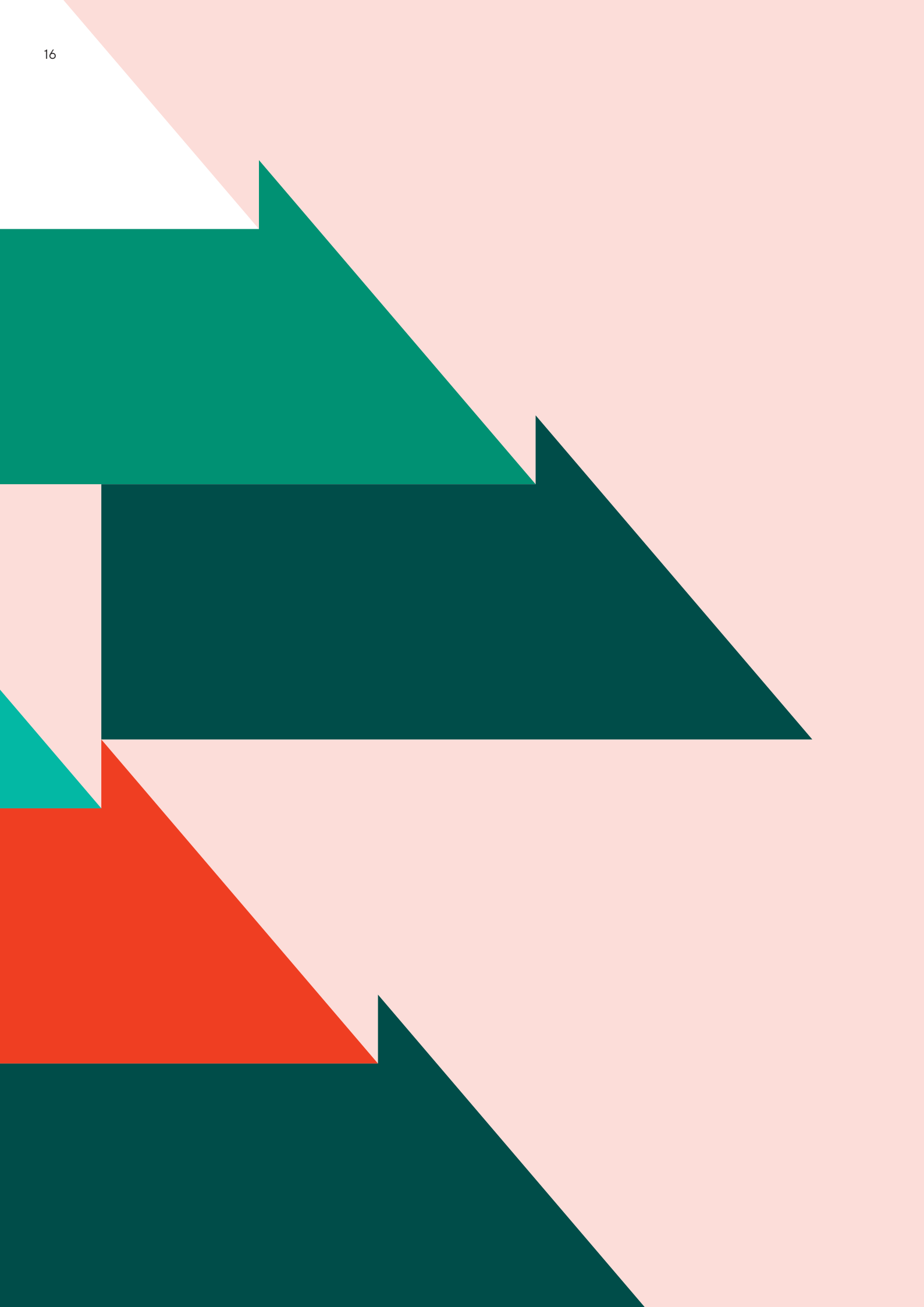
HCOB wants to keep risks as low as possible, but still conclude transactions with good returns. How does that work?

UL → For a bank like HCOB it is difficult to earn money with triple-A-rated clients. Our funding costs are just too high. That’s why we have to conclude transactions that match the bank’s profile. At the same time, we are spreading our risks and not accepting overly big tickets on our books. Maturities also can’t be too long. To be profitable over the long term, however, we must streamline our processes even more and consistently reduce our costs. It is about becoming a very efficient bank – something we are working on harder than ever. Efficiency is a decisive success factor, particularly in times of crisis.

One of HCOB’s major goals is reducing costs and streamlining processes. Could this endanger the bank’s careful risk control?

UL → No, that will not happen. The question is whether the bank at present is ideally placed to identify risks at the three lines of defense, i.e. front office, back office including the risk functions, and internal auditing. I believe there is potential for further improvement here, which we intend to leverage this year.





“A much greater acceptance”



Ian Banwell, Chief Operating Officer

2019 was the first year for Hamburg Commercial Bank with new owners. How do the capital markets perceive this change?

Ian Banwell → I think the news is very encouraging. We issued a benchmark bond in 2019, but more importantly, in our direct interactions with lenders we saw a much greater acceptance of our name and our spreads – which is a key driver of earnings. People understand that we are trying to do something different in German banking, something that has not been done before. This requires big behavioral changes and a different way of thinking about our business.

“In our direct interactions with lenders we saw a much greater acceptance of our name and our spreads – which is a key driver of earnings.”

What does this mean?

IB → The big difference is our focus on the creation of shareholder value. From an operating standpoint that means a clear focus on return on equity. One might think that this only favors our owners, but this is not true. Our regulators also require a fairly high and stable return on equity for their assessment of corporate viability. We have to think about how our business can contribute to this.

The bank had planned to issue several capital instruments in 2020. What is the status of these projects in light of the coronavirus crisis?

IB → We will enter the capital markets later in the year when they reopen. For now we have an enormous amount of liquidity and capital and don't need to raise funds. Our Board is working hard to make sure that we continue to execute our plan, even in the face of stress. Notwithstanding the effects of the coronavirus crisis, the company has a very large capital base, high capital ratios, a very large liquidity position and good credit quality. We will stay strong in the face of the crisis, and it will pass. Now is a really good time to focus on family, health and also on our core clients. We can help them in this complicated period of time.

How is Hamburg Commercial Bank seen by rating agencies?

IB → My impression is that they appreciate what we are doing. They look at liquidity, and profitability is of course very important. In terms of our capital, they see an incredibly strong story. At 18.5 percent, our CET1 ratio is extremely high. My impression is that rating agencies are very

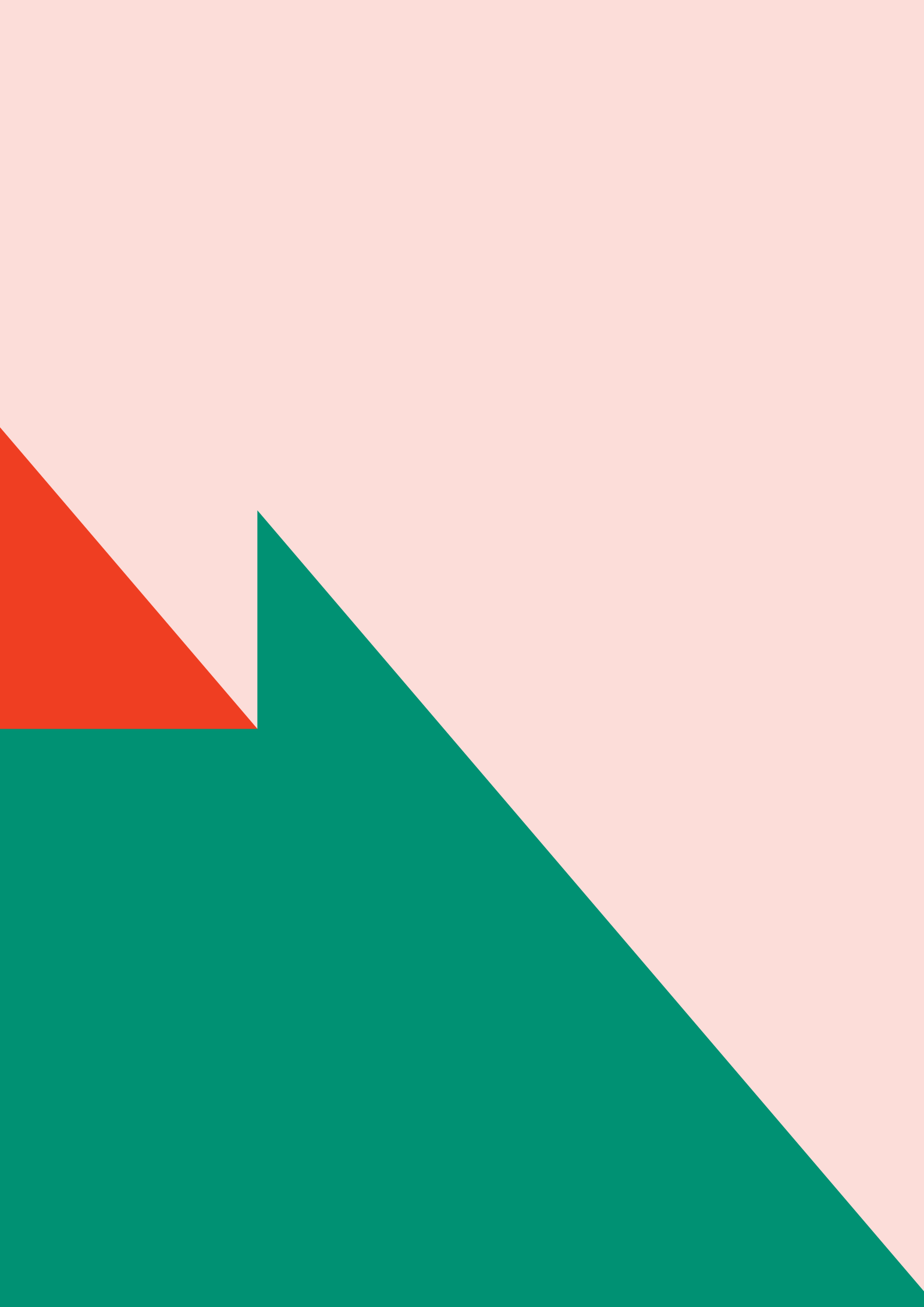
comfortable with our capital and liquidity positions, and want us to demonstrate consistency as a profitable banking institution. Our transformation and IT modernization will deliver the results that we, and the rating agencies, want to see. I am very confident about this.

Rating agencies also look at profitability. The bank's return on equity stands at 1.8 percent, the aim is to reach 8 percent in 2022.

IB → We are getting better, but we still have a way to go. Our core profitability is improving because our net interest margin is expanding and our costs are coming down. Our objective is for the rating agencies to see an extremely strong capital position, an extremely conservative funding position and an improving profitability story. They will see this in 2020, in 2021 and in 2022. I don't know when we will be upgraded, but we are working on that.

The bank decided to shrink its balance sheet and to de-risk its loan book. Will this strategy be followed up?

IB → Our decision to lower the risk in the company was a good decision. We need to stay disciplined and focused on that task.



“Offering fresh perspectives”



Dr. Nicolas Blanchard, Chief Clients and Products Officer

One year as a new bank: How have clients responded to the switch from HSH Nordbank to Hamburg Commercial Bank?

Nicolas Blanchard → Our clients now experience us as an efficient commercial bank, and they are pleased to see that we were successful in the first year following privatization. They can also see that, as a private bank, we offer new and interesting perspectives. Our top positioning has been well received. This comprises our focus on corporate financing, including integrated corporate finance, and our expertise in infrastructure projects and the financing of renewable energies. Together with our substantial expertise in commercial real estate and shipping, this makes a coherent package. We offer tailored solutions, which means we are especially attractive. All in all, our new business last year was 7.2 billion euros, in gross terms. This figure is one we can be pleased with, especially since we deliberately focused on profitable signings that offer a good risk profile.

“We need to remain focused and concentrate on what we are good at: real estate finance, shipping, project finance and, of course, our traditional corporate client business.”

And yet that figure is 1.2 billion euros below the volume recorded for gross new business in 2018.

NB → That’s correct, and that’s a path we have deliberately chosen. We have decided to be very careful in the new business we select. The macroeconomic situation clouded over perceptibly in the course of last year, and risks increased. We have responded to that. We do not do business unless it is at risk-adequate prices. At the same time, last year we separated from client situations – always by mutual agreement – for which we did not believe there was any medium-term future in terms of our earnings and risk-focused strategy. This was a painful process, of course, but it was necessary.

Despite slightly less new business, signings in shipping were up by more than 300 million euros to 1.3 billion euros. Why?

NB → In shipping, we have traditionally had excellent expertise and outstanding access to clients. This applies to Germany but also internationally. We are indeed well positioned, thanks to our team. In general, the shipping markets developed positively last year. This provided attractive opportunities for us to sign deals at good terms. And this is exactly what we did. A majority of the deals, by the way, were with international clients. Our shipping loan portfolio thus stands at around 5.3 billion euros. I am convinced that this type of international freight transport will continue its dynamic growth and that it will remain fundamentally indispensable between continents over the long term.

What role does project finance play for the bank?

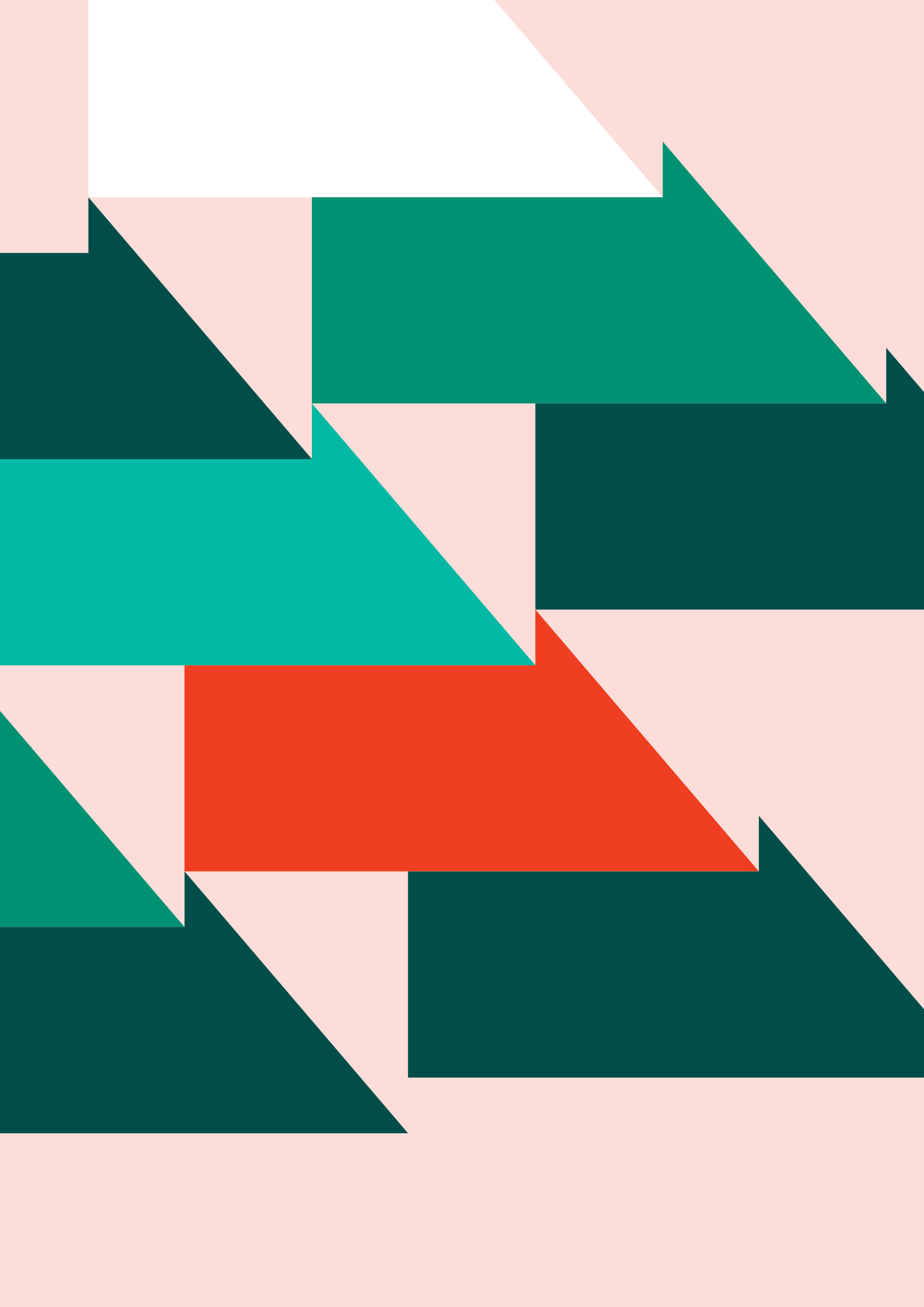
NB → The predecessor institutions of Hamburg Commercial Bank played a pioneering role in financing renewable energies in Germany. Accordingly, we are well positioned in this sector. We also have considerable experience financing large infrastructure projects like the expansion of Europe’s fiber-optic network. We are now structuring these transactions, making them interesting to investors with a long-term horizon. This year we will continue strengthening our expertise in advising clients and in placing such transactions with investors.

The bank tightened its lending standards in 2019 in view of the changed underlying economic conditions. What impact is this having?

NB → In our original planning, we had assumed a better macroeconomic trend in 2019. Because the economic prospects have deteriorated, it was necessary to readjust our business. It’s about finding the right mix between our risk assessments and our return expectations. The general developments in the first few months of this year have shown that our cautious approach is absolutely the right one. This is now all the more true in view of the huge economic impact the coronavirus crisis is having. It’s a development nobody really could have anticipated. Some industrial sectors in Germany were already under strain – and now this is the next serious blow. The growth prospects in Germany, but also worldwide, will decline massively, including over the medium term. We are all facing difficult and unprecedented times. We must now pool all our strengths.

What are the main challenges you face in 2020?

NB → Coping with the coronavirus crisis will require the greatest effort – not only for our bank, but also for the economy and society as a whole. At present, the consequences cannot yet be estimated. No one can see beyond what lies immediately ahead. During all of this, we need to remain focused and concentrate on what we are good at: real estate finance, shipping, project finance and, of course, our traditional corporate client business. In doing so, we are continuing to focus on long-term business relationships. Consistency remains an important part of successful business relationships.



“We are looking for diversification”



Christopher Brody, Chief Investment Officer

2019 was the first year as a new bank with new owners. You joined the bank last summer to build up the Diversified Lending division. How do things stand?

Christopher Brody → 2019 was a good year for the whole bank. I joined the bank in July as chief investment officer to overlook all assets. Since then we have had many reviews with all divisions and the members of the management board, especially with my colleagues Nicolas Blanchard, who is head of our corporate and shipping businesses, and with our chief risk officer, Ulrik Lackschewitz. We examined HCOB’s assets with regard to their quality and performances. We looked at their strengths and which aspects we should reinforce. We strengthened our lending standard significantly in response and in anticipation of

“We are looking for diversification. If you want to have a diversified portfolio, you have to go outside of Germany, which historically is an extremely competitive market.”

and in anticipation of a recession in the late stage of the economy. Regarding the Diversified Lending division, it is now up and running. We have a business unit head, Jens Thiele, who has been with the bank for many years. A team is in place and we have had our first deals approved. We have only invested in one deal as we wait to see when the loan market stabilizes.

What kind of investments are you looking for in Diversified Lending?

CB → The mandate from our 2019 Mid-Term-Plan was a combination of real estate, corporates, special situations and opportunistic lending. Given that the 2020 financial crisis is like nothing any of us have ever seen, we are going into a risk off stance. HCOB needs to focus on its existing clients and utilize all the support offered by the German government and affiliated institutions, like KfW.

Why is HCOB looking for international investments?

CB → We are looking for diversification. If you want to have a diversified portfolio, you have to go outside of Germany, which historically is an extremely competitive market with more deposits than lending opportunities. Most of the German banks have a portion of their loan book outside their home market in the EU.

What is the size of the Diversified Lending portfolio that you are aiming for?

CB → Our plan was to deploy 600 million euro in Diversified Lending and the same amount in international real estate, but we are not volume driven, we are profit driven. My goal is to generate deals that are equal or better compared to the risk we get inside Germany, but for higher returns.

Forecasts of the growth rates for the world economy have been lowered. Does this influence your business?

CB → It clearly does. Amid the coronavirus crisis we are clearly in a global recession. Markets across the globe have been hit hard with all assets and borrowers under severe pressure.

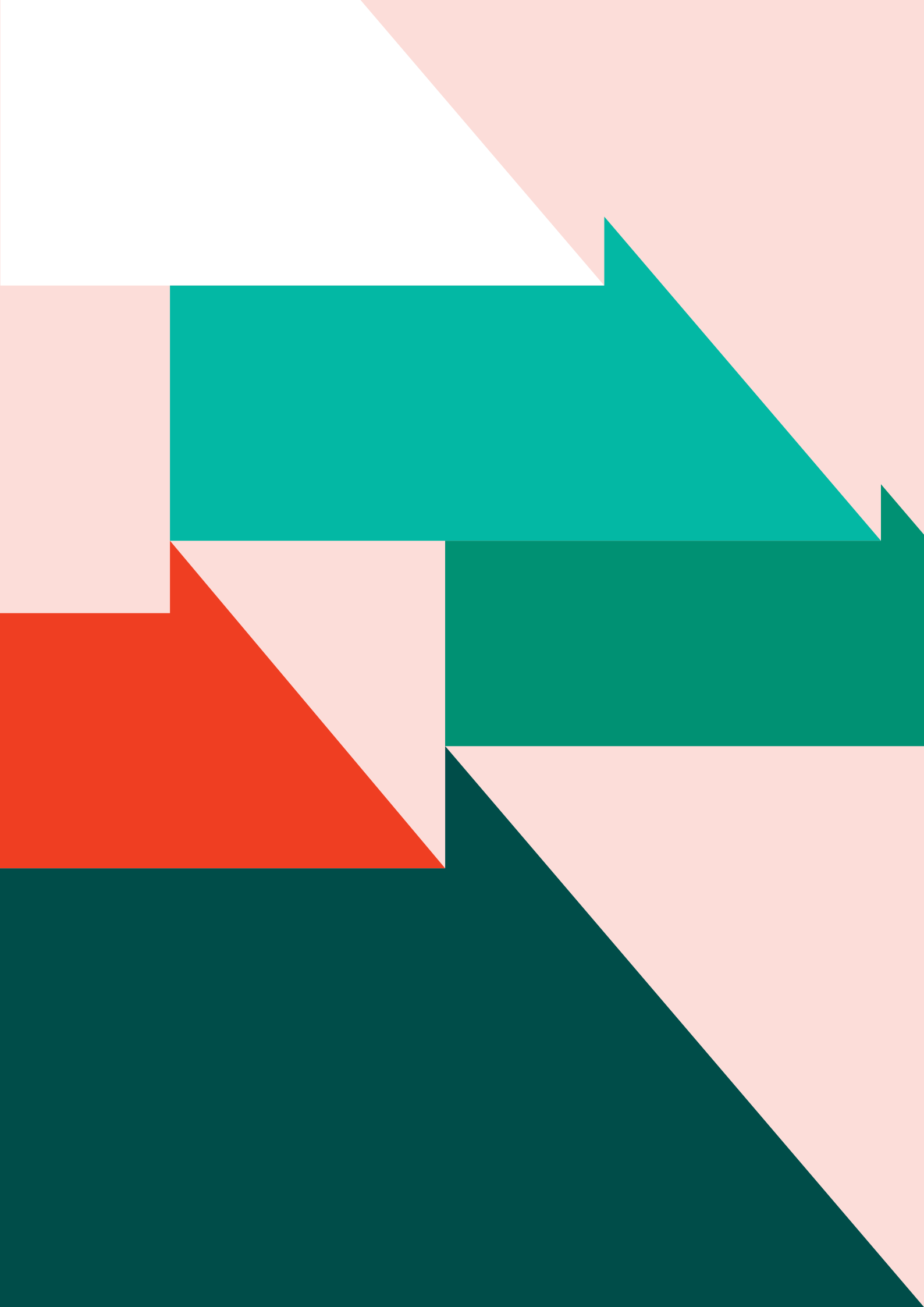


HCOB is about to de-risk its book. What does this mean for Diversified Lending and the Commercial Real Estate business?

CB → All our businesses are de-risking. Of course this also has consequences for Diversified Lending and Commercial Real Estate. The businesses' targets were scaled down, so were the costs and the personnel.

What are your main challenges in 2020?

CB → Our first priority is the safety of our employees. We will all be challenged with dealing with new issues the financial crisis throws at us. The management board is united and committed to making sure HCOB survives this crisis and emerges stronger. I want to make sure that we retain the great talent in the bank and that our people see that the restructuring will be successful.





Oliver Gatzke, Chief Financial Officer and Chief Technical Officer

“Reducing risks and strengthening the capital base”

Its first year as a new bank with private owners now lies behind HCOB. In terms of the bottom line, the bank is showing a profit before tax of 77 million euros. How would you sum it all up?

Oliver Gatzke → Our income before tax is on target. In the second half of the year, we recorded an encouraging and substantial improvement in our net interest result. We achieved this through a strict selection of business from a risk/return viewpoint and through lower funding costs. At the same time, we are reducing risks and strengthening our capital base, which is already stable in any case. Administrative expenses remained largely at the previous year's level - which means lower current costs were offset by higher spending on strategic projects. All told, we are continuing to work diligently towards the achievement of our cost targets.

At 463 million, total income in 2019 is well below the pre-year figure. Why is that?

OG → Last year we had non-recurring income of just under 1 billion euros from the revaluation of Tier 1 hybrid instruments. That was a huge one-off benefit which will be absent this year. At the same time, net interest income in 2019 was weighed down exceptionally by the agreement reached with hybrid investors, resulting in a substantial difference over the previous year all told.

In 2019, HCOB reversed eleven million euros in loan loss provisions – despite the fact that the macroeconomic setting has clouded over. Is this proof that the bank acted with great caution in previous years?

OG → It is true that, in 2018, we set aside higher loan loss provisions in light of the looming weakening of the economy and unusual macroeconomic developments. By contrast, in 2019, we were able to reverse loan loss provisions in shipping, for example, against the background of the initiation of the de-risking strategy, because the markets in this segment exhibited respectable performance. In return, we have formed valuation allowances for heightened macroeconomic risks, for example in the UK.

The CET1 capital ratio at the end of 2019 was strong at 18.5 percent. Will it remain this high?

OG → In the future, we are aiming for a capital ratio of around 20 percent. We will continue to reduce the size of our balance sheet in 2020 and – provided the underlying conditions develop as expected – seek to achieve a CET1 ratio of around 20 percent. At the same time, we are already looking into adjusting our internal models in the direction of the higher risk weightings that will apply in the wake of Basel IV. Our strong capital ratio in tandem with a more conservative weighting of our credit assets provides us with great resilience in crises and with an ability to act.

Total assets at the end of 2019 decreased by more than seven billion euros to some 47 billion euros compared with the previous year. Is this the impact of de-risking?

OG → In 2019, we optimized our liabilities side as well as our funding, and we reduced our high liquidity, which served as a necessary buffer during our privatization, to normal levels. At the same time, we have run down securities holdings and derivatives and begun to adjust our new business to stricter risk standards. All these measures have resulted in an overall reduction in total assets. This year we will continue to decrease assets, reducing the total to below 40 billion euros. This is the right strategy for us given today's difficult market setting and the clouding over of the economy.

One of the bank's aims is to raise profitability significantly. By 2022, the plan is for return on equity (ROE) to be above 8 percent, and the cost/income ratio to be mid-range between 40 and 50 percent. In 2019, ROE stood at 1.8 percent and the cost/income ratio at just under 70 percent. The set targets are still a long way off.

OG → That is correct. However, we are implementing our strategy systematically, and are convinced we will achieve the set targets in 2022.

How, exactly, will the bank close the gap between the current situation and the targets?

OG → Primarily through systematic implementation of our transformation program. We will reduce the number of employees to around 710 full-time equivalents in a way that minimizes social hardship. We will also scale back our operating costs by introducing state-of-the-art IT and reducing the complexity of our business processes. In terms of portfolio management and our new business, we are paying close attention to appropriate risk/return profiles that contribute to reaching our ROE target of 8 percent before taxes. These initiatives will be supported by a further decline in funding costs.

How will a smaller number of employees be able to generate the requisite income in the future?

OG → We will have to improve and streamline our processes substantially. We are working hard to achieve this goal and made important decisions to that end in 2019: We decided to collaborate with the major Indian IT service provider Wipro, which now maintains our existing IT architecture. In cooperation with SAP, we are introducing the latest S4/HANA software, and we are working with IBM to improve our infrastructure environment. That is how we are creating the basis for the bank's further digitalization. As a result, our activities will become more collaborative, more flexible, more efficient and faster. In the coming years we will become a much more modern bank.

How is the outsourcing of IT functions to Wipro going?

OG → It is going well. Of course, this kind of outsourcing project requires flexibility and adaptability, on both sides. The applications have now been handed over to Wipro, which will provide the required services. A team of 50 people based in Bangalore works exclusively for us. Wipro is among the leading businesses in the sector and uses state-of-the-art technology – which we benefit from. By outsourcing we are reducing our costs significantly. In 2018, we spent around one-quarter of our admin costs on IT. Going forward, we will realize savings of more than 40 percent in this field.

What are the biggest challenges for you in 2020?

OG → One of the major challenges is, of course, responding to the coronavirus pandemic. Our top priority is to protect the health of our colleagues and all our business partners. Naturally, we are also monitoring the economic risks resulting from the coronavirus crisis. Hamburg Commercial Bank is very resilient here, given its de-risking strategy, good portfolio quality, high provisions in its lending business, and very high capitalization.

**Report
of the
Supervisory
Board**

2019 Annual and Consolidated Financial Statements of Hamburg Commercial Bank AG

Report of the Supervisory Board for Financial Year 2019

The Supervisory Board performed the duties conferred on it by law and the Articles of Association during financial year 2019. In particular, it monitored the management of the company and advised the Management Board on issues of company management. The new orientation following privatization has been a major focus of activities. In addition to strategic questions concerning the Bank's orientation, the Supervisory Board was always kept informed about the economic and financial development as a whole, and individual business areas, and discussed all this in depth. Deviations from the planning in the course of business were discussed with the Supervisory Board.

The Management Board regularly, promptly and comprehensively informed the Supervisory Board during the 2019 reporting year about business policy and other fundamental questions concerning business management and planning, financial development, the profit situation and also the Bank's risk, liquidity and capital management, about significant legal disputes and transactions and events which were of considerable significance for the Bank. The Supervisory Board was involved in decisions of major importance for the Bank. The chair of the Supervisory Board and the chairs of the Risk and Audit Committees were also kept informed by the Management Board of important issues and imminent decisions, including between the planned meeting dates. Where decisions were required between meeting dates, the Supervisory Board handled them by written resolution procedure.

The 2019 financial year was marked by the new orientation and profound transformation for Hamburg Commercial Bank. The Supervisory Board gave these central issues in-depth consideration and required detailed reports on them throughout the entire year. The comprehensive program of transformation is perceptibly changing the Bank both as regards its market image and internally. The main focus during the reporting year lay on adjusting the business segment, client and product portfolios. During the first quarter of 2019 a reconciliation of interests and a redundancy scheme were agreed with the social partners in relation to the extensive staff reductions which had been decided at the end of 2018; this guarantees that the necessary job cuts will be made in a socially responsible manner. In addition, the central project "Business-IT-Transformation" (BIT) commenced during the second half of 2019. The organizational structure became even more closely aligned with the business model, and adjustments were made to the compensation systems. The Bank also achieved clear progress on optimizing its funding structure – this included a significant increase in refinancing via the capital market. The Supervisory Board was kept informed of the status of these



Juan Rodriguez Inciarte has been Chairman of the Supervisory Board of Hamburg Commercial Bank since November 2018

significant milestones and, where necessary, took appropriate decisions. The Supervisory Board also took legal advice when necessary.

Meetings of the Supervisory Board

During financial year 2019 the Supervisory Board held ten meetings, three of which were convened as extraordinary meetings. Additionally a Strategy Workshop took place on October 23, 2019. One meeting (March 12, 2019) was the constituent meeting of the Supervisory Board following the new election of the Supervisory Board as a result of the change in the co-determination regime from parity co-determination to co-determination under the One Third Participation Act (*Drittelbeteiligungsgesetz*).

The Management Board regularly reported to the Supervisory Board about the Bank's situation. In this connection it instructed the Supervisory Board by reference to the available quarterly figures about the current economic situation, business performance overall and the individual business segments as well as on the current business plan, the risk situation, development of capital and the liquidity and funding situation. Also the status of the Transformation Program and the report on further key topics regularly formed part of the Supervisory Board agenda. The Supervisory Board critically examined the reports and at times requested additional information and documents. In addition, the Supervisory Board dealt with various matters concerning the Management Board. The auditor

regularly took part in the meetings of the Supervisory Board and was available to provide additional information to the Supervisory Board.

The main focus of the meeting on February 20, 2019 was the in-depth discussion of the so-called technical update to the financial, investment and personnel planning for 2019-2022 presented by the Management Board in 2018. In addition to this, the Supervisory Board also dealt with matters affecting the Management Board, management succession for the Compliance function, its report on corporate governance and the declaration of conformity, as well as the report of the Supervisory Board for financial year 2018.

The constituent meeting of the Supervisory Board took place on March 12, 2019 following the change from parity co-determination to co-determination under the One Third Participation Act, in which the Supervisory Board elected from its members the chair and deputy chair, as well as membership of the committees. The new Supervisory Board members were elected beforehand by the shareholders and employees of the Bank. The Supervisory Board was also informed about the new compensation system for the Supervisory Board passed by the general meeting.

The subject matter of the meeting of March 27, 2019 (meeting to discuss the annual accounts) was mainly the approval of the annual accounts and consolidated accounts for 2018 on recommendation from the Audit Committee, following the Supervisory Board's own review and prior discussion with the auditor. In this connection, the audit and approval of the summarized separate non-financial report („CSR reporting“) for the year 2018 also took place in accordance with § 289b HGB (German Commercial Code). Additionally, the Supervisory Board approved the appointment of two Management Board members and the corresponding employment contracts. In addition to this, the other customary decisions were taken as required concerning recommendations to be submitted to the ordinary general meeting. At this meeting the Supervisory Board also discussed the target achievement of the Management Board for financial year 2018 and set the Management Board targets for 2019. Furthermore, the Supervisory Board examined internal regulations: for example, the Supervisory Board Rules of Procedure and the benefits policy for the Management Board and employees was redrafted and the Related Party Transactions Policy was adopted. In addition to the decisions associated with the annual and consolidated financial statements, the coming once-yearly discussions concerning an overview of the secondary activities of the Management Board („Übersicht über die Nebentätigkeiten des Vorstands“) as well as the report on the donations („Bericht über die Spendentätigkeit“) of Hamburg Commercial Bank were also on the agenda of this meeting.

On June 13, 2019 the Supervisory Board discussed the Medium-Term Planning 2019-2022. The Board also considered the Bank's Business-IT-Transformation as well as the revised Recovery Plan. At the meeting, the Supervisory Board also made decisions on the Management Board target agreement for the 2019 financial year and the Management Board compensation system. Additionally, the Supervisory Board passed an amendment to the Rules of Procedure for the Supervisory Board in connection with related party transactions, as well as a recommendation to the general meeting concerning Hamburg as the sole registered office of HCOB.

At the extraordinary meeting (phone conference) held on July 17, 2019 the Supervisory Board approved a new version of the Rules of Procedure for the Management Board.

At a further extraordinary meeting (phone conference) on August 6, 2019, the Supervisory Board was informed about the current status of the Fit & Proper procedure for new Management Board members.

At the meeting on August 28, 2019, the Supervisory Board discussed the outcome of the 2019 half-year financial statements and current developments. It passed resolutions on the deputy chairmanship of the Supervisory Board, the formal adjustment of the Management Board Rules of Procedure and the update of the Related Party Transactions Policy as well as measures under the Fit & Proper procedure for Board members and passed a decision recommendation to the annual general meeting. Also the Supervisory Board adopted a travel policy and took note of the travel policy for the Management Board.

At the meeting on October 23, 2019, the Supervisory Board dealt with the report on the current discussions concerning strategy and planning. The agenda included matters concerning the Supervisory Board, particularly the information and/or decision concerning the target agreement of the Management Board members for financial year 2019 as well as the information about the efficiency review of the Supervisory Board pursuant to the KWG (German Banking Act). On October 23, 2019 the Supervisory Board also held a Strategy Workshop.

At the extraordinary meeting of November 27, 2019, the Supervisory Board took a decision on measures as part of the Liability Exercise Management (LME).

On December 5, 2019 the last ordinary meeting of the year took place at which the Supervisory Board examined the results of its own efficiency review pursuant to § 25d KWG (German Banking Act) as well as the evaluation of the Management Board. Furthermore, the Management Board submitted its annual report compensation monitoring report and

explained it. The Management Board also informed the Supervisory Board about the status of the LME (Liability Management Exercise).

During the reporting year, the Supervisory Board also took five resolutions by way of a written procedure; these essentially concerned measures relating to the LME. The Supervisory Board also resolved on the election of a new member of the Supervisory Board to the committees as well as a submission concerning a legal dispute by resolution procedure in writing.

The Supervisory Board also underwent further training in various areas during the past year. In addition to the onboarding/introductory events concerning the role and tasks of the Supervisory Board and a more in-depth training on the German Ordinance on the Remuneration of Financial Institutions (Institutsvergütungsverordnung), specialized training was given for individual members of the Supervisory Board.

If individual members of the Supervisory Board were affected by decisions of the Supervisory Board or its committees either personally or as a result of their function, or other potential conflicts of interest arose, they did not participate in the deliberations and decisions of the corresponding committee(s). The number of significant further mandates of the members of the Supervisory Board can be found from the report on corporate governance within this annual report.

All members of the Supervisory Board participated in at least half the meetings of the Supervisory Board and its committees to which they belong.

Supervisory Board Committees

The Supervisory Board formed four committees from its members to assist in its work.

The *Nominating Committee* met three times during the past year. The Nominating Committee prepared the decisions for the Supervisory Board in accordance with the Rules of Procedure for the Supervisory Board. As far as necessary, own decisions were taken by the Nominating Committee or decision recommendations provided to the Supervisory Board.

The *Risk Committee* met four times during the past year. Representatives of the auditor also regularly took part in the meetings. The Risk Committee paid careful attention to the risk situation and risk management of the Bank. In this connection it dealt with updating the Strategic Risk Framework which represents the risk framework for business strategy and planning. In particular, reports were presented to the committee at all its meetings on current events and developments as well as the effects on the risk situation. The Risk Committee also discussed important single exposures for the Bank and was given

reports on the progress in reducing the NPL portfolios. All the guidelines on lending activities and commitments necessitating applications to be submitted were discussed in the Risk Committee, and decisions were made concerning business events which by law require approval. Additionally reports on compliance, information security and the internal control system have been addressed to the Risk Committee since 2019. With the decision of the Supervisory Board on March 27, 2019 the Risk Committee now acts in the role of the Related Party Transaction Committee in accordance with the Rules of Procedure for the Supervisory Board. In addition, at a joint meeting with the Compensation Monitoring Committee, the Risk Committee carefully reviewed the Bank's compensation systems as to whether the incentives provided by the remuneration systems take into account the Bank's risk, capital and liquidity structure as well as the probability and maturity of revenues.

The *Audit Committee* met four times during 2019. Representatives of the auditor attended all the meetings. The members of the Audit Committee discussed with the auditor PwC the 2018 annual and consolidated financial statements of the Bank as well as the corresponding audit reports. In this context, the Audit Committee also discussed the Dependent Company Report ("Abhängigkeitsbericht"). The Committee verified the independence of the auditor according to the requirements of the German Corporate Governance Codex, using as basis the auditor's statement of independence, and prepared for the reappointment of PwC Wirtschaftsprüfungsgesellschaft as auditor for the year 2019.

The auditor regularly reported to the Audit Committee on the current results of its audit and presented the current status of planning the audit of the annual and consolidated financial statements. The Committee was also regularly informed on the appointment of the auditor to deal with non-auditing tasks (Independence Compliance Process). The Audit Committee also received reports on the work of Internal Audit. The Committee verified the effectiveness of the risk management system - particularly that of Internal Audit and the Internal Control System - by discussing the relevant reports. In addition, the Committee considered the results of the securities account audit and the audit of investment services business under the Securities Trading Act (WpHG). Finally, current reports on the Business-IT-Transformation (BIT) and the IT Strategy were topics for discussion at the meetings.

The *Compensation Monitoring Committee* met four times during the reporting year, meeting jointly with the Risk Committee on one occasion. It dealt in detail with the Bank's compensation systems. In particular, the Compensation Monitoring Committee considered the system of compensation and the target agreements and target achievement of the Management Board. In addition, the Compensation Monitoring Committee regularly received reports on the status of

implementing the IVV requirements. The Compensation Monitoring Officer also reported to the Compensation Monitoring Committee on the results of his control activities and presented his annual Compensation Monitoring Report. The chair of the Compensation Monitoring Committee also regularly exchanged views on relevant issues with the Compensation Monitoring Officer outside the meetings.

The chairs of the Committees regularly reported to the Supervisory Board at the subsequent plenary meetings on the work and results of the committee discussions.

Review and adoption of the annual and consolidated financial statements 2019

The book-keeping, annual financial statements with management report, and the consolidated accounts with the group management report for the year 2019 were audited by Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft, Hamburg. This firm was chosen as auditor of both sets of accounts at the ordinary general meeting held on May 23, 2019. The audits each resulted in an unqualified audit certificate.

The accounts documentation and audit reports with all appendices were sent out to all members of the Supervisory Board prior to the meetings. The auditor initially reported on the performance and major findings of its audit to the Audit Committee at its meetings on April 1, 2020 and April 15, 2020. On this basis as well as on the basis of its own review, the Audit Committee discussed the findings with the auditor in detail. The chair of the Audit Committee informed the Supervisory Board of the outcome of the discussions within the Audit Committee at the Supervisory Board meeting held on April 1, 2020 and April 15, 2020. The auditor also attended the meeting of the Supervisory Board and reported on the major audit findings. At the recommendation of the Audit Committee, the Supervisory Board finally approved the outcome of the audits after examining the audit reports and holding in-depth discussions, and determined that according to the conclusions of its own reviews as well there are no objections to be raised. The Supervisory Board approved the 2019 annual financial statements prepared by the Management Board which are therefore adopted and approved the consolidated financial statements for 2019. It also passed the report of the Supervisory Board for financial year 2019.

Personal details

As a result of status proceedings which took place in March 2019, the Supervisory Board now convenes in accordance with the provisions of the One Third Participation Act. Since then the Supervisory Board has consisted of 18 members. The following staff representatives stepped down from the

Supervisory Board as of March 12, 2019: Peter Axmann, Cornelia Hintz, Bert Michels and Klaus-Dieter Schwetterscher. The shareholder side has increased to include Klaus Heinemann and Stephan Wilcke, the two new members elected at the general meeting on March 12, 2019, making 12 members. Following the new election, the employee side now comprises six members: Olaf Behm, Oliver Dircks, Bert Ehlers, Simone Graf, Rieka Meetz-Schawaller and Stefan Schlatermund. Since September 1, 2019 Peter Yordán has been a member of the Supervisory Board, replacing Michael Christner as the substitute member elected at the general meeting. In the first quarter of 2020, there were changes in the representation of the shareholder side on the Supervisory Board: Allen Gibson left the Supervisory Board on 29 February 2020; Sat Shah joined the Supervisory Board on 1 March 2020.

The Management Board was increased during the 2019 reporting year to include two new members:

Ian Banwell became COO as of April 1, 2019 and Christopher Brody became CIO as of July 1, 2019, entering the Management Board of Hamburg Commercial Bank AG.

The Supervisory Board wishes to thank the Management Board and all employees for their great personal commitment and service during a crucial year for the Bank in the course of its new orientation and transformation.

Hamburg, April 15, 2020
The Supervisory Board

Juan Rodríguez Inciarte
Chair of the Supervisory Board of Hamburg Commercial Bank AG

Corporate Governance

All information contained in this Corporate Governance Report reflects the status as of 19 March 2020, unless otherwise noted.

Hamburg Commercial Bank has voluntarily recognised the German Corporate Governance Code (DCGK) as an unlisted company since 2005. Furthermore, Hamburg Commercial Bank's corporate governance is essentially based on the provisions of the German Stock Corporation Act (AktG), the German Banking Act (KWG) and on internal regulations such as the Articles of Association, the rules of procedure for the Board of Managing Directors and Supervisory Board, and the Code of Conduct of Hamburg Commercial Bank. The presentation of the system of management and control of the Bank and transparent reporting on compliance with the Code rules is intended to strengthen the confidence of shareholders and investors, customers, employees and the public in Hamburg Commercial Bank.

Declaration pursuant to Section 161 of the German Stock Corporation Act

Pursuant to Section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of listed companies are required to declare annually the extent to which their management and monitoring systems conform with or deviate from the recommendations of the German Corporate Governance Code. It is the Bank's aim, even as an unlisted company, to comply with the Code as far as possible. In April 2020, the Board of Managing Directors and Supervisory Board of Hamburg Commercial Bank therefore voluntarily submitted the following Declaration of Conformity with the GCGC and declared deviations from the Code's recommendations.

Declaration of Conformity

The Management Board and Supervisory Board of Hamburg Commercial Bank declare that Hamburg Commercial Bank has conformed with the recommendations of the German Corporate Governance Code in the version dated 7 February 2017 since its last declaration of compliance on 20 February 2019, with the exception of the points listed below. The next Declaration of Conformity by Hamburg Commercial Bank will consider with the recommendations of the Code as of 20 March 2020.

According to Clause 4.2.3 (3), the Supervisory Board should determine the respective target pension level for pension commitments and take into account the resulting annual and long-term expenditure for the company.

A defined contribution plan applies to the members of the Board of Managing Directors of Hamburg Commercial Bank, which is not aimed at a specific pension level.

In accordance with section 4.2.4, the total compensation of each member of the Management Board, divided into fixed and variable compensation components, is disclosed by name.

This is not a recommendation of the GCGC, but a statutory mandatory provision for listed companies, as the German Commercial Code requires disclosure for listed companies. However, as a non-listed company, Hamburg Commercial Bank is generally not subject to this obligation.

According to Clause 4.2.5, certain information regarding compensation and fringe benefits for each member of the Management Board should be presented using sample tables.

As Hamburg Commercial Bank does not disclose the remuneration of individual members of the Board of Managing Directors, this information is not disclosed either (see also section 4.2.4)

According to Clause 5.3.2. (3) Sentence 2 the Chair of the Audit Committee shall be independent.

From November 28, 2019 to March 12, 2019 the interim chair of the Audit Committee was in terms of the GCGC a non-independent member of the Supervisory Board. From March 12, 2019 on the chair of the Audit Committee is an independent member of the Supervisory Board and the derogation is thus deleted.

According to Clause 5.4.1 (2), the Supervisory Board shall specify concrete objectives for its composition, including a rule limit to be defined for the duration of membership of the Supervisory Board.

The Supervisory Board has decided not to adopt a standard limit for the length of service on the Supervisory Board, as it is difficult to define an optimum length of service.

According to Clause 7.1.2, sentence 4, the Group financial statements are to be publicly accessible within 90 days of the end of the financial year, and the mandatory financial information published during the year is to be publicly accessible within 45 days of the end of the reporting period.

Hamburg Commercial Bank had not published the interim reports for 2019 by the specified deadlines.

Hamburg Commercial Bank has complied with the suggestions of the Code insofar as this is appropriate for a non-listed stock corporation.

Hamburg, April 15, 2020

For the Management Board

For the Supervisory Board

Stefan Ermisch

Juan Rodríguez Inciarte

Supervisory Board

Composition

The Supervisory Board of Hamburg Commercial Bank currently consists of 18 members in accordance with the Bank's Articles of Association. Within the framework of the one-third participation, it is composed of 12 shareholder representatives and six employee representatives.

According to Section 5.4.1 of the GCGC, the Supervisory Board shall specify concrete objectives for its composition which, in the context of the specific situation of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members, an age limit to be specified for Supervisory Board members and a rule limit to be specified for the length of time spent on the Supervisory Board as well as diversity. The latter objective shall in particular provide for an appropriate participation of women.

In its former composition, the Supervisory Board has set targets. Following the transition to the new codetermination regime of one-third ownership, the Supervisory Board adhered to the previously defined targets.

The objectives of the Supervisory Board already adopted in 2011 are as follows:

1. the aim is to ensure that the current proportion of international members of the Supervisory Board (at least one member) is not undercut in the future either.
2. the aim is to ensure that potential conflicts of interest are avoided in the future as early as at the time of nomination, but also in accordance with the rules of procedure for the Supervisory Board.
3. the aim is to ensure that the age limit of 68 years at the

time of appointment as stipulated in the rules of procedure for the Supervisory Board is complied with in future.

4. the aim is to ensure that the current share of women (20 %) is not undercut in the future either. As a target figure, the Supervisory Board considers a quota of initially 30% to be an appropriate proportion of women.
5. It is intended that at least half of the Supervisory Board on the shareholder side will continue to consist of independent members. (Target added in 2012)

When nominating new members, care is taken to avoid potential conflicts of interest and to achieve a sufficient number of independent members. The age limit of 68 years at the time of appointment was not reached in each case. As a codetermined company - irrespective of whether on a parity basis or in accordance with the One-Third Participation Act - Hamburg Commercial Bank is also subject to the Act on the Equal Participation of Women and Men in Management Positions in the Private Sector and in Public Service („Quota Act“). The Supervisory Board has set a target of 30% for the proportion of women on the Supervisory Board. Also due to the requirements of the German Corporate Governance Code (GCGC), since 2011 the target for the proportion of women on the Supervisory Board is not to fall below 20 %. Following privatization and the associated reduction in size and the new composition of the Supervisory Board, the proportion of women has fallen from 15% (December 31, 2018) to 11%.

The Supervisory Board of Hamburg Commercial Bank has deliberately not adopted a standard limit for the length of time a member of the Supervisory Board may serve on the Supervisory Board. The Supervisory Board considered it difficult to define such a limit and also considered it important to be able to retain existing expertise on the Supervisory Board.

In addition, according to Clause 5.4.1, the Supervisory Board shall draw up a competence profile for the entire body. In the course of the annual efficiency review of the Supervisory Board, which was conducted in December 2019, the Supervisory Board dealt with the competencies, skills and experience available in the body and largely updated the competency profile, which was drawn up for the first time in 2014. The competence profile provides the Supervisory Board with an overview of the competencies represented on the Supervisory Board. In the future, it will be able to formulate corresponding objectives directly for the necessary appointments to the Supervisory Board and for the search for suitable candidates in order to fill or supplement competencies.

Section 5.4.1 of the DGCK further provides that the Supervisory Board shall inform in the Corporate Governance Report about the number of independent Supervisory Board

members and the names of those members which it considers appropriate. When a member of the Supervisory Board is to be considered independent is determined by section 5.4.2 of the GCGC. According to this, a member of the Supervisory Board is in particular not to be regarded as independent if he or she has a personal or business relationship with the company, its executive bodies, a controlling shareholder or a company affiliated with the latter that could give rise to a material and not merely temporary conflict of interest. As of December 31, 2019, four of the 12 shareholder representatives on the Supervisory Board were classified as independent: Juan Rodríguez Inciarte, Klaus Heinemann, Chad Leat and Stephan Wilcke.

Procedure

The Supervisory Board appoints, monitors and advises the Management Board and is involved in fundamental decisions of the Bank. The Board of Managing Directors informs the Supervisory Board about the intended business policy and other fundamental issues at the meetings and also verbally, in particular in discussions between the Chairman of the Management Board and the Chairman of the Supervisory Board.

§ Section 25 d (11) sentence 2 no. 3 of the German Banking Act (KWG) stipulates that the Supervisory Board must regularly, at least once a year, evaluate the structure, size, composition and performance of the management and supervisory bodies. To this end, the Supervisory Board not only examined various aspects of its own work using questionnaires, as in the previous year, but also evaluated the work of the Management Board. The efficiency review at the end of 2019 showed that the Supervisory Board is satisfied overall with the efficiency of its activities.

In order to ensure that the Supervisory Board always has the latest specialist knowledge and expertise, the Supervisory Board was given further training both when the Supervisory Board was introduced and on special topics. These were always current topics. Further information on the content of the training courses can be found in the Report of the Supervisory Board.

Other mandates

In order to be able to adequately perform its supervisory activities, the Supervisory Board must devote sufficient time to this task. This presupposes that the individual members of the Supervisory Board perform only limited duties in addition to their Supervisory Board activities. The members of the Supervisory Board of Hamburg Commercial Bank hold the following number of additional Supervisory Board mandates in other companies:

Supervisory Board member	Number of other mandates (as of February 20, 2020)
Juan Rodríguez Inciarte	2
J. Christopher Flowers	2
Manuel González Cid	3
Klaus Heinemann	1
Chad Leat	3
Stephan Wilcke	2
Peter Yordán	2

Detailed information on the Supervisory Board's activities in 2019 can be found in the Report of the Supervisory Board.

Compensation

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

Management Board

Composition

As of March 2020, the Management Board of Hamburg Commercial Bank consists of six members and is divided into the following areas of Board responsibility: CEO (Chief Executive Officer), CRO (Chief Risk Officer), COO (Chief Operating Officer), CFO / CTO (Chief Financial Officer / Chief Technical Officer), CIO (Chief Investment Officer) and CCO (Chief Clients Officer). When selecting new members of the Management Board, the Supervisory Board must adhere to the relevant legal requirements. In particular, the German Corporate Governance Code requires appropriate consideration of women, while the German Banking Act requires that the balance and diversity of knowledge, skills and experience of all members of the Management Board be taken into account. The rules of procedure for the Supervisory Board also contain specifications that the Supervisory Board or the Executive/ Nomination Committee must take into account when determining applicants for a position on the Management Board. The Supervisory Board therefore deals with the Management Board position to be filled on a case-by-case basis and selects Management Board members on the basis of an individual job profile, taking into account the requirements of the position in question as well as the competencies already available on the Management Board.

Procedure

The Management Board manages the company on its own responsibility and cooperates with the other executive bodies of Hamburg Commercial Bank and the employee representatives in a spirit of trust and for the benefit of the Bank. The Management Board develops the Bank's strategic orientation and coordinates it with the Supervisory Board. The Chairman of the Management Board represents the Management Board as a collegial body, chairs its meetings and coordinates the work of the Management Board. The Board of Management met mainly once a week during the period under review. The members of the Management Board are jointly responsible for the management of the Bank. Their tasks and responsibilities are set out in the rules of procedure for the Management Board, which are supplemented by the schedule of responsibilities.

Other mandates

Three members of the Management Board hold a mandate on the Supervisory Board of a subsidiary of the Bank and one member of the Management Board holds two mandates on supervisory bodies of another company or institution. Another member of the Management Board holds a seat on the supervisory body of another company. Apart from this, the members of the Management Board do not exercise management or supervisory functions in other companies.

Compensation

Information on the remuneration system for the members of the Bank's Board of Managing Directors can be found in the management report and the notes to the financial statements.

Shareholders, Annual General Meeting

Hamburg Commercial Bank's shareholders exercise their rights at the Annual General Meeting. The Annual General Meeting takes place 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 2019 also dealt with the purchase or transfer of silent participations - in addition to the legally required agenda items of an Annual General Meeting. In March, July, September, November and December, a total of six further Extraordinary General Meetings were held, which dealt with a wide range of issues such as the elections to the Supervisory Board, revision of the Articles of Association, remuneration of the Supervisory Board and Management Board, settlement agreements with D&O insurers, giving up one of the Bank's registered offices, repurchase or transfer of silent participations and other measures relating to the Bank's capital.



Combined Management Report

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Information on the combined management report

To improve the clarity of presentation, the management reports of Hamburg Commercial Bank AG (formerly HSH Nordbank 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, unlike in the previous year. 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. Due to rounding, numbers presented throughout this report may not add up precisely to the totals shown and percentages may not precisely reflect the absolute figures.

Basis of the Group

Business activities

New Bank and transformation programme

The sale of the former HSH Nordbank AG marked the first successful privatisation of a Landesbank in Germany. At the same time, this represents the turning point in the realignment of the Bank, which has been operating on the market under the new name Hamburg Commercial Bank AG since it was re-named on 4 February 2019.

The Bank's realignment, supported by the strong commitment of its international owners, is associated with a far-reaching and comprehensive transformation phase spanning a period of several years, the objective of which is to make the Bank's business model customer centric and competitive in the long run. This realignment is reflected, first of all, in solid financial key figures which Hamburg Commercial Bank has defined as part of its strategic target vision. On the basis of the current corporate plans, the Bank is aiming for a CET1 ratio of around 20%, an NPE ratio of no more than 2%, a cost-income ratio in the middle of the 40%- 50% range and pre-tax profitability of more than 8%.

In order to achieve its strategic objectives, which should enable the Bank to achieve a seamless transition to the deposit guarantee fund of private banks at the beginning of 2022, the Bank has implemented a comprehensive transformation programme as part of its realignment. All of the strategic measures that form part of the transformation project are geared towards achieving this target in full by 2022 at the latest. The packages of measures that make up the transformation programme can be allocated to the following five areas:

- Development of profitable and risk-oriented growth strategies ("**go-to-market**"),
- Strict focus on profitability and earnings ("**portfolio management**"),
- Diversification and optimisation of the funding structure ("**liability optimisation**"),
- Systematic cost management and efficiency improvements ("**operating efficiency**") and
- Optimisation of the organisational structure ("**organisational vitality**").

Headquarters, regional focus, clients and products

Hamburg Commercial Bank AG, formerly HSH Nordbank AG, is the first privatised Landesbank and is managed in the legal form of a stock corporation. The Bank has its registered office in Hamburg.

Hamburg Commercial Bank is one of the leading banking partners for upper medium-sized companies in the core region of Northern Germany. The Bank is also active throughout Germany in the Real Estate, Project Finance, Corporate Banking & Advisory and Shipping segments. In the project and real estate financing business, as well as in the newly established Diversified Lending division, the focus is also on other European countries and selected international markets. The Bank conducts business with shipping clients throughout the world. Based on conventional loan financing, Hamburg Commercial Bank offers supplementary payment transaction and capital market-related products, as well as individual financial solutions for its clients.

Segments, divisions and locations

The operating business activities of Hamburg Commercial Bank are divided into the following four segments: Corporates & Structured Finance (formerly Corporate Clients), Real Estate, Shipping and Diversified Lending & Markets (formerly: Treasury & Markets). The administrative divisions and overall bank positions are disclosed as segments not subject to reporting requirements in the "Other and Reconciliation" division.

In the year under review, the following adjustments were made to segment reporting: The separation between the Core Bank and the Non-Core Bank that was still in place on 31 December 2018 was abolished. The small number of transactions remaining in the Non-Core Bank after this separation was abolished, which are immaterial in terms of amount, and the prior-year results of the Non-Core Bank will be shown in the segment report in the column "Other and Reconciliation" from now on. Adjustments were also made to the cost allocation, resulting in a greater burden on the operating segments overall. This change will improve the transparency of the Group's earnings situation based on the performance of its operating segments. In addition, the segment structure was adjusted to reflect the changes made to the internal organisational structure in the year under review. This resulted primarily in new names

for the Corporates & Structured Finance and Diversified Lending & Markets segments, and in slight shifts between these two segments. The three changes referred to above meant that we had to adjust the previous year's figures accordingly.

The Bank still has branches abroad, namely in Athens and Luxembourg, in line with its focused direction. The Singapore branch is to be closed in the 2020 financial year. 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, the scope of consolidation for the Group financial statements comprised 26 fully consolidated subsidiaries as at the reporting date (31 December 2018: 32 fully consolidated subsidiaries). There were no additions compared with the previous year's reporting date. The company CAPCELLENCE Vintage Year 19 Beteiligungen GmbH & Co. KG, which was newly established during the year, was incorporated into a Group company during the year under review.

The reduction in the scope of consolidation by six subsidiaries is the result of the deconsolidation of the non-operating companies listed below (in each case owing to their immateriality for the earnings, net assets and financial position of the Hamburg Commercial Bank Group)

Ownership 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. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft
Promontoria Holding 221 B.V.	Promontoria Holding 231 B.V.	Promontoria Holding 233 B.V.	JCF IV Neptun Holdings S.à r.l.	GoldenTree Asset Management Lux S.à r.l.	Chi Centauri LLC	
9.89 %	13.88 %	18.73 %				
42.5 %			35.0 %	12.5 %	7.5 %	2.5 %

Management Board of Hamburg Commercial Bank strengthened

At its meeting held on 27 March 2019, the Supervisory Board passed a resolution to appoint two new members to the Management Board to work alongside Stefan Ermisch (CEO), Ulrik Lackschewitz (CRO/Deputy CEO), Dr Nicolas Blanchard (CCO) and Oliver Gatzke (CFO/CTO): Mr Ian Banwell joined Hamburg Commercial Bank as Chief Operating Officer (COO) on 1 April 2019 and Christopher Brody has been the Bank's Chief Investment Officer (CIO) since 1 July 2019.

- Avia Management S.à.r.l., Luxembourg
- Bu Wi Beteiligungsholding GmbH, Hamburg
- Neptune Finance Partner S.à.r.l., Luxembourg
- Neptune Finance Partner II S.à.r.l., Luxembourg
- Next Generation Aircraft Finance 2 S.à.r.l., Luxembourg
- Next Generation Aircraft Finance 3 S.à.r.l., Luxembourg

The aforementioned changes in the scope of consolidation do not have any material impact on the Group's statement of income. Further details on the scope of consolidation can be found in Note 5 (Scope of consolidation) in the notes to the Group financial statements.

Shareholder structure

Following the sale of the Bank by HSH Beteiligungs Management GmbH (94.9% of the shares) and the nine trusts initiated by J.C. Flowers & Co. LLC (5.1% of the shares), Hamburg Commercial Bank has been owned, since 28 November 2018, 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:

Further information on the members of the boards is set out in Note 60 (Related companies and parties).

Deposit guarantee fund

With the successful completion of the privatisation process (closing) for Hamburg Commercial Bank AG (formerly: HSH Nordbank AG) on 28 November 2018, the legal requirements for Hamburg Commercial Bank's membership of the German Savings Bank Association (DSGV) ceased to apply and its

membership subsequently expired (Section 5 of the DSGVO Articles of Association).

Membership of the guarantee scheme of the German Savings Banks Finance Group (SFG) will continue for a further three years until 31 December 2021 in accordance with the agreement concluded on the basis of Section 94 (4a) of the Framework Statute. All issues of HSH Nordbank AG/Hamburg Commercial Bank AG (excluding equity/instruments with equity characteristics, notably under paragraphs 41, 44 of the EU – Commission Communication 2013/C 216/01 of 30 July 2013 (“Banking Communication”)) therefore continue to fall under the voluntary institutional protection of the guarantee fund of the Savings Banks Finance Group (Section 39 (1) of the Framework Statute) until 31 December 2021.

The German Savings Banks Finance Group has an institutional protection scheme that protects deposits with a savings bank, a federal state bank (*Landesbank*) and a regional building society (*Landesbausparkasse*). The objective of the guarantee scheme is to protect the member institutions and to avert imminent or existing financial difficulties at these institutions. Under the voluntary institutional protection there is no legally binding entitlement to support measures vis-à-vis the protection scheme in the event of the occurrence of a guarantee case.

The seamless transition of Hamburg Commercial Bank to the deposit protection fund for private banks is planned for 1 January 2022. This deposit protection fund consists of the Compensation Scheme of German Banks (“EdB”, statutory deposit guarantee fund”) and the voluntary deposit protection fund of the Association of German Banks (“ESF”). The scope of what is covered by the ESF is governed in particular by Section 6 of the Statute of the ESF.

Hamburg Commercial Bank will be admitted to the EdB as of 1 January 2022 on the basis of the German Deposit Protection Act (EinSiG) by way of a referral by BaFin. The inclusion of Hamburg Commercial Bank in the ESF on 1 January 2022 requires the Bank to meet the requirements, as set out in the Statute, for participation in the ESF at the end of 2021. If this is the case, the Bank, like all other banks, will in principle contribute to the ESF based on the maximum deposit guarantee per depositor set out in the Statute, corresponding to 15% of the Bank’s regulatory capital. The Auditing Association of German Banks (*Prüfungsverband deutscher Banken e.V.*) has already been supporting Hamburg Commercial Bank, as part of the three-year transition period, since 1 January 2019.

This procedure, which has been agreed with the German Savings Banks Finance Group and the Association of German Banks (*Bundesverband deutscher Banken*), ensures continuity in the security of deposits at Hamburg Commercial Bank in line with the regulations of the relevant protection scheme.

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, 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 ESF, as well as the further development of the transformation process.

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. The main processes include strategy and planning, corporate management, customer management, financing, capital markets as well as support processes.

Objectives and strategy

Hamburg Commercial Bank is committed to clarity; in line with the Hanseatic tradition, the privatised 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. Its actions are straightforward, decisive and precise. Central to this perceived role is a focussed and entrepreneurial approach that creates added value for clients, society, shareholders, and the Bank and its employees.

The Bank’s overarching objective is to slowly but surely continue to develop its business model, which is anchored in northern Germany. At the same time, the Bank also aims to selectively enter into new business abroad. In view of the demands placed on the Bank by a rapidly changing banking environment, the Bank is focusing on its transformation in order to achieve a sustainable, viable and agile corporate structure. This will be based on a cost-effective and, at the same time, needs-based service and product portfolio that concentrates on competitive areas and is continuously optimised in line with client needs.

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



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 gradual optimisation of the liabilities side, taking profitability requirements into account.

Other functional strategies are defined based on the basis of the Bank's core business strategies.

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 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. In order to address the increasingly important issue of sustainability for Hamburg Commercial Bank in a holistic manner from a social, business policy and regulatory perspective, an interdisciplinary project under the patronage of the CEO was launched towards the end of the year under review. The aim of this project is to identify specific recommendations for action for the future strategic orientation of Hamburg Commercial Bank, focusing on the opportunities and risks involved. 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

The divisions are adapting dynamically to changes in market and competitive conditions. In this regard, Hamburg Commercial Bank has adjusted the risk/return requirements in its strategic objectives. In addition to its business in Germany, the Bank is planning to make a risk-oriented adjustment to the portfolio structure spanning all segments to ensure a balanced portfolio structure and in view of macroeconomic developments. The aim is to expand project-related and sector-related activities outside of Germany, namely throughout Europe and in selected international markets, in line with a prudent approach. In addition, product sales will be optimised to create a competitive offering. This will also involve a stronger focus on syndicated business.

The **Corporates & Structured Finance** segment is the umbrella for the business areas Corporate Banking & Advisory, Project Finance, Business Development & FIG (Financial Institutions Group), as well as Global Sales & Syndicate.

In the Corporate Banking & Advisory business area, the Bank will continue to pursue its established nationwide distribution strategy. The northern German core region has traditionally been a particular focus of these activities. Corporate Banking & Advisory comprises the corporate client teams, broken down by region, as well as the advisory areas of structured finance, leveraged buy-outs, mergers & acquisitions, factoring and leasing.

As in the past, the Project Finance segment exploits potential in project finance business in its domestic German market, as well as in Europe and in selected non-European countries. The focus here is on the Energy and Infrastructure business areas, which meet high demands in terms of sustainability. The Bank also focuses on future-oriented niches in which it can use its experience and advisory skills to generate added value for clients and the Bank. This puts Hamburg Commercial Bank in a position to adapt its orientation in a flexible

manner. In addition, the Bank's OtD (originate-to-distribute) strategy provides a further opportunity for actively shaping and managing the portfolio.

As a product specialist, Business Development & FIG supplies clients in the market divisions with payment transaction and trade finance products and is also responsible for customer service for savings banks, banks and institutional customers.

In addition, the sales activities involving capital market-related products and payment transaction products, with an adjusted, forward-looking product range, and syndication activities are combined in the Global Sales & Syndicate business area.

The **Real Estate** segment has a risk-conscious focus, taking the development of the German real estate market into account. In line with the forward-looking business and risk strategy, new business will therefore be entered into selectively and in line with appropriate risk/return requirements until further notice. The OtD approach will be pursued further and expanded. The cautious expansion of the Bank's international activities is being driven with selected established clients with international operations. The focus here is on European metropolitan regions.

In the **Shipping** division, the Bank will continue to conclude new business as a strategic partner based on its long-standing expertise and in accordance with stringent margin and risk requirements. The focus is on the diversification of the portfolio through domestic and international commitments with counterparties with a good credit standing, the aim being to generate business that is sustainable in the long run.

The **Diversified Lending & Markets** segment focuses on the international corporates business in the Diversified Lending business area, and on "Special Solutions" in the form of business opportunities arising in other European countries. Since the new Bank was formed, the portfolio has been gradually established in line with the stringent risk specifications, and contributes to the diversification of the Bank's portfolio.

The activities in the Capital Markets business area, which were restructured as part of the transformation process, are now focused on the management of strategic investments and the treasury function, including the central management of the Bank's liquidity and market price risks, the management of the cover pool and the Bank's issuer activities.

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 and planning 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 2020 and the strategic objectives for 2022 are 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, 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 (Return on Equity)	RoE is calculated as the ratio of income before taxes to average equity capital disclosed on the balance sheet and shows the return on capital. The risk-adjusted allocation of the average equity capital disclosed on the balance sheet is determined on the basis of the regulatory capital committed.
CIR (Cost-Income Ratio)	The CIR is a cost efficiency ratio that measures administrative expenses as a percentage of total income plus other operating income.
CET1 ratio (Common Equity Tier 1)	The CET1 ratio is defined as the quotient of the core Tier 1 capital excluding hybrid instruments 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 institutional protection 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 agencies in relation to the issuer rating (long-term).
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The extent of the indicators used at Hamburg Commercial Bank for managing the overall bank goes far beyond the important management indicators listed in this section and includes many other supporting key performance indicators, which are used by management for the purposes of managing and allocating financial resources in an effective and integrated manner. 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

Global slowdown in growth has continued, interest rates lower overall, euro weaker

The rate of growth in global economic output declined for the second year running, coming to only 3.0% in 2019 as against 3.6% in 2018. This is the lowest value seen since the year of the severe recession of 2009. The slowdown in growth left virtually no region unscathed. In particular, the world's major economic blocs – the US, the eurozone and China – were unable to maintain the pace of expansion witnessed in the previous year due to a mature economic cycle and numerous uncertainties. The global industrial sector, which has been grappling with recession since the second quarter of 2019, was hit particularly hard. In the meantime, the global PMI purchasing managers' index for the manufacturing sector has been hovering just above the expansion threshold again since November. The main source of uncertainty is the trade war between the US and China, which intensified in the period leading up until the second half of 2019. It was not until the end of the year that this conflict started to ease somewhat. The same is true of the Brexit process, in which new elections in the United Kingdom in December delivered the necessary clarity, meaning that British EU membership ended on 31 January 2020.

In this environment, yields on German and US government bonds fell until August and then started to rise again moderately. The three interest rate cuts implemented by the US Federal Reserve and the expansionary steps taken by the European Central Bank in the second half of 2019 may have played a role in this trend, as they have allowed a little more economic optimism to emerge again. All in all, the exchange rate for the euro against the US dollar weakened last year, recently proving to be slightly stronger. The stock markets showed greater immunity to the geopolitical uncertainties and made considerable gains in both the US and the eurozone in 2019.

Broad-based growth slowdown

The US economy lost momentum last year and expanded at a rate of 2.4%, compared with 2.9% in 2018. This reflects the expiring effects of the tax breaks for companies and private households that were implemented in 2017, as well as the high level of capacity utilisation on the employment market, which is making it difficult for companies to grow unhindered. Weaker demand for capital goods also indicates that some

companies have been more cautious in view of the uncertainty surrounding the trade war with China.

In China, economic growth continued to fall in 2019 and is estimated to have come to 6.1% (previous year: 6.6%). Here, the trade war with the US had an impact in the form of practically stagnating exports. The central bank eased its monetary policy only slightly by lowering the key interest rate for one-year loans only marginally in the second half of 2019.

Growth also slowed in most other regions, such as Europe and Latin America. The latter region has attracted attention in recent months due to numerous cases of social unrest. GDP in the eurozone rose by only around 1.2% last year, as against 1.9% in the previous year. The global recession in industry was felt particularly strongly in the euro zone, with Germany and Italy standing out as particularly negative examples. In Germany, the industrial sector has been in recession since mid-2018. The problems in the automotive sector, which include not only inadequate preparations for new emissions regulations, but also the process of structural change towards electromobility, are proving to be a disproportionate burden from Germany's perspective. As a result, the recession in the manufacturing sector is also much more pronounced here than in other eurozone countries.

ECB resumes bond purchases, stock markets surprisingly buoyant, yields lower overall

After the ECB stopped its net asset purchases at the end of 2018 and left the deposit rate unchanged, the central bank launched a comprehensive monetary easing package in the second half of 2019, consisting of renewed bond purchases, new long-term tenders (TLTRO) and the reduction of the deposit rate to -0.5%.

The US Federal Reserve, for its part, cut its key interest rate by 75 basis points to within a range of 1.50% to 1.75% in the period from July to October. It also took measures to address the tension emerging in the money market in mid-September, including the purchase of short-dated government bonds. The easing packages implemented by the two major central banks helped to alleviate fears of a recession, which in turn gave a slight boost to government bond yields from September onwards. At the end of the year, 10-year Bunds yielded a return of -0.19%, which was still significantly lower than at the end of 2018 (+0.25%).

The stock markets benefited from falling interest rates and were only temporarily distracted by geopolitical events such as Brexit and the trade conflict. The Dax and the Euro Stoxx 50, for example, each rose by 25% over the course of the year, with

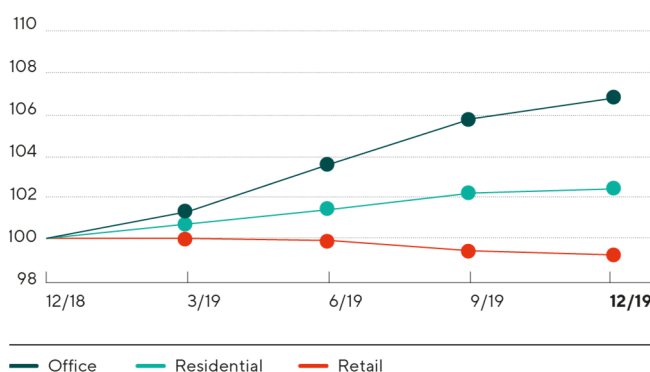
the S&P 500 gaining as much as 29%. The euro depreciated by 1.9% against the US dollar in the course of the year. The single currency was, however, ultimately able to recover from its low for the year of USD 1.09, and stood at USD 1.12 on 31 December 2019.

Still encouraging development in the relevant markets overall

The trends in the German **real estate markets** were still predominantly positive in 2019. Rents and property prices continued to rise, particularly on the office and residential property markets in the country’s major cities, with the latter once again rising at a faster rate. Not least thanks to the persistently low interest rates, real estate remained an attractive investment alternative for investors, with the return advantage actually becoming more pronounced in the course of the year.

Rents

(Indexed market average, 12/2018=100)



Construction activity remained brisk at a high level in 2019, although only office properties saw noticeable growth. In the **residential real estate** sector, on the other hand, there was no longer any increase to speak of in the number of building permits for multi-storey residential buildings, with building permits for owner-occupied houses stagnating. This means that in the country’s large cities, the supply of housing is moving closer in line with demand, which is now growing at a considerably slower rate. Nevertheless, the markets in major cities remained characterised by excess demand, and rent restrictions on apartments in most cities remained largely ineffective, with the result that rents continued to rise noticeably almost across the board. In view of what are already very high housing costs, however, rental growth also lost momentum in the year under review.

On the **office real estate markets**, net demand for space continued to increase thanks to a positive labour market situation. The number of staff hired by companies, however, declined significantly in the second half of the year as the economy cooled down. Although office completions increased sig-

nificantly, they were still not sufficient to meet the high demand. Vacancies fell for the ninth year in succession, and have now fallen below the fluctuation reserve in all major cities with the exception of Düsseldorf and Frankfurt. This caused rents in all major cities to rise very sharply in some cases, with the most pronounced increase once again in Berlin. Growth in peripheral locations and locations on the outskirts almost rivalled that witnessed in prime locations.

On the **retail property markets**, however, rental trends were more dependent on location and property type. The decline in prime locations continued, for example, especially in medium-sized and small cities, but also affected a number of large metropolitan areas in 2019. Lastly, and importantly, shopping centres were affected by the negative trend. This is once again due to the ongoing structural change in stationary retailing in favour of online retailing, which is putting pressure on the demand for rental space among retailers, especially in the non-food sector. Rents were noticeably more resistant in city districts where the local food supply is located, an area that has barely felt any competition from online trading so far. In most major cities, rents in these secondary locations remained largely stable, while they increased slightly in some metropolitan areas. The market values of retail parks, in particular, increased significantly despite the lack of or modest growth in rents. On the other hand, shopping centres recorded slight losses in value, as in the previous year.

The upward trend on the **European office property markets** lost momentum in 2019 as the economy slowed. Growth in the number of office employees slowed down virtually across the board. In many markets, there was also a marked increase in completions, although they were often not sufficient to satisfy what was still high demand for space, pushing vacancies down slightly. As a result, rents still rose slightly in most markets. Demand for space in the London office property market continued to decline in 2019. Thanks to a noticeable drop in the number of office space completions, however, vacancy rates fell marginally and ensured that prime rents rose moderately for the first time in four years. Investors nevertheless remained cautious given the uncertainty prevailing in 2019 regarding the consequences of the United Kingdom’s withdrawal from the European Union. The stabilising rental market also fuelled a moderate increase in market values. In most markets in the rest of Europe, office properties again recorded significant increases in value.

In the German **manufacturing industry**, production volumes in 2019 were down significantly on the previous year’s level, and the industrial recession that had already begun in the third quarter of 2018 continued in the year under review. All major sectors with the exception of the construction and food industries were on a downward trajectory, with the automotive sector recording a particularly sharp decline in production data.

In 2019, **wholesalers** once again recorded only modest increases in revenue compared with the same period of the previous year. The **retail sector**, on the other hand, still benefiting from consumer-driven economic growth in Germany and also recorded a clearly positive sales trend in 2019, with growth momentum actually increasing compared to the previous year.

The **health market**, including the hospital market, is growing constantly as a result of demographic trends and medical advances. Many hospitals are still battling with a tense financial situation despite rising income, and cost pressure remains high. The profitability of hospitals is, however, expected to increase in the medium term thanks to the entry into force of the Hospital Structure Act (*Krankenhausstrukturgesetz*) at the beginning of 2016.

In the **logistics sector**, revenues still showed clearly positive development (in real terms) in the first three quarters of 2019, albeit at a slightly slower pace than in the same period of the previous year. Business climate measurements, however, deteriorated in November 2019 for the seventh month running, and is below the neutral threshold of 100 for the first time since the turn of the year 2012/13. Compared to the previous year, economic expectations have also deteriorated further.

Global **project financing volume** increased noticeably in 2019, rising by 3% year-on-year and reaching the highest volume ever recorded (USD 297 billion). While the volume of project financing in the US declined significantly compared with the same period of the previous year (-6%), the financing volume showed a marked increase both in Asia (+7%) and in the "Europe, Middle East and Africa" (EMEA) region (+9%).

Investments in **transport infrastructure** showed the same development as the global project financing volume (+3%) across the globe, but accounted for only 17.7% of the project financing volume in the EMEA region in 2019 (2018: 21.1%). The major institutional investors include pension funds and insurance companies, which consider infrastructure investments to be a supplementary investment alternative in the low interest rate environment.

The expansion of **renewable energies** made further progress in the course of 2019, both in Europe and in Germany, although developments varied considerably. The switch to bidding procedures has led to a significant weakening of demand in Germany since 2018: the gross capacity increase in the onshore wind energy segment was down by 55% year-on-year in 2019 as a whole. This means that the gross capacity increase has reached the lowest level witnessed since the introduction of the German Renewable Energies Act (EEG) in 2000.

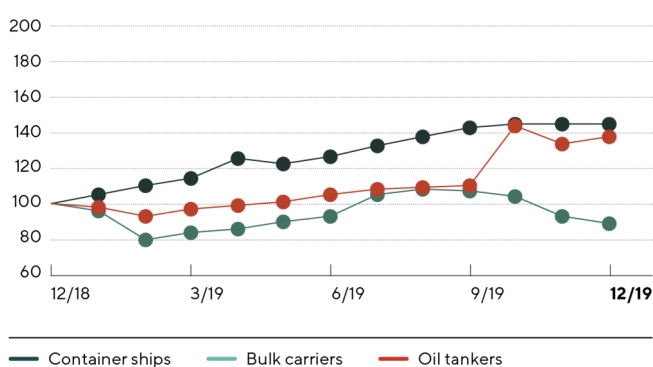
The expansion in the solar segment continued in Europe. In Germany alone, new installations in the photovoltaics segment came to 3,944 megawatts in 2019, up by almost one gigawatt on the prior-year value.

In the year under review, the **shipping markets** were influenced to a considerable degree by special effects, painting a

mixed picture in terms of development. Charter rates for container vessels developed very positively, with a sharp increase witnessed for oil tankers in the last quarter of the year and bulkers hit by weak demand. As far as second-hand prices are concerned, only oil tankers were able to show an increase year-on-year.

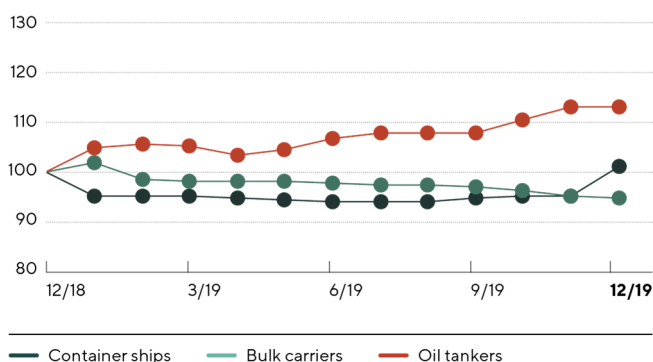
Time charter rates

(Indexed market average, 12/2018=100)



Secondhand prices

(Indexed market average, 12/2018=100)



The transport demand for **container vessels** was weaker due to trade conflicts and the global economic slowdown. At the same time, however, fleet growth slowed somewhat compared to 2018. Deliveries declined slightly, while there was a moderate increase in scrapping. Overall, this resulted in a slight year-on-year decline in freight rates on the main routes.

Nevertheless, charter rates rose steadily, especially for larger vessels. This can be traced back, in particular, to the tightening of emissions standards at the turn of 2019/20. In order to comply with these requirements, larger ships, in particular, are being retrofitted with flue gas desulphurisation systems ("scrubbers"). The lengthy installation process means that a substantial part of the fleet is not available. While shipping lines chartered in replacement ships, this increasingly led to a shortage of available tonnage. Since, however, this effect is only temporary, i.e. will only last until all of the ships concerned

have been retrofitted, charter rates have decoupled themselves from the almost stable development in second-hand prices.

In the **bulker** segment, market developments in 2019 were much less smoother. The beginning of the year was marked by a slump in demand. This was triggered by the bursting of a dam in a Brazilian iron ore mine, resulting in a substantial part of the country's production being shut down. Although production has already increased again, the negative consequences are still having an impact. The recovery in charter rates in the second and third quarter was additionally supported by the fact that an increasing share of the fleet was not available due to scrubber retrofitting measures. In the final months of the year, declining demand for coal transport to China and India in particular, as well as weaker grain trade, pushed charter rates down. Second-hand prices for bulk carriers recorded a slight decline in 2019.

After a moderate first quarter of 2019, charter rates for **oil tankers** went on to increase significantly, due primarily to tankers remaining in the shipyard to undergo scrubber retrofitting measures. In October, rates for VLCCs (very large crude carriers) jumped to their highest level in almost four years. The increase in second-hand prices, which had been cautious in the past, also accelerated noticeably. This was mainly due to an acute tonnage shortage in crude oil tankers. In the wake of the US sanctions imposed on Iran and Venezuela, a far from insignificant part of the fleet associated with these countries was shunned. In addition, Saudi Arabia was able to quickly normalise its oil production after drone attacks. Oil tankers also benefited from additional demand as a result of the emissions standards. The majority of the fleet has had to use low-sulphur fuel since the turn of the year 2019/20. As this fuel has to be produced, distributed and stored, it ties up additional tonnage for transportation and storage. This also made it possible to compensate for the significant growth in supply as a result of increased deliveries and scrapping activities that virtually came to a standstill.

Rising earnings and consolidation pressure in the German banking sector

The volatile geopolitical situation and the macroeconomic slowdown were reflected in increasing risks in the banking environment over the course of the year, which were reflected not least in the share prices of banks on both sides of the Atlantic. American banks, however, once again outperformed their European and, in particular, their German counterparts considerably. The structurally low levels of profitability of European banks, and in particular of German banks, is further aggravated by the low interest rates, which are set to continue for the foreseeable future. Measured based on the respective indices, both European and German financial institutions showed much weaker performance than the market as a

whole. Against this backdrop, the major rating agencies downgraded the outlook for the German banking sector, in particular, to negative.

In view of these developments, the well-known issues in the European banking market are becoming more urgent than ever before. It is now more pressing than ever that German banks in particular, which have long been at the bottom of the European league in terms of their profitability, review their strategic orientation. This is because the intense pressure on margins, which also imposes narrow limits on the ability to re-invest, increasingly entails the risk of loan financing not being priced in a manner that is commensurate with the risk involved. What is more, the expansion of non-banks, mainly FinTechs, is creating additional competitive pressure. At the same time, expenses for the necessary investments in the future viability of institutions are leaving their mark on the cost side in the form of high project and IT costs. In this environment, many banks initiated comprehensive cost and efficiency programmes in order to be able to generate adequate returns on a sustained basis. Within this context, it is evident that conventional cost-cutting measures alone are not sufficient in order to achieve a sustained improvement in profitability. Rather, measures should aim to strike the best possible balance between the business model and client profiles, to explore the potential offered by digital technologies and to implement a forward-looking corporate culture.

As part of the SREP process, the ECB has once again made reviewing banks' internal risk models a priority. The results will be benchmarked at both national and European level. From the perspective of the banking supervisory authority, the aim is to make the results of internal models more transparent and comparable. Ultimately, this is likely to increase the risk-weighted assets of many banks even before the introduction of Basel IV from 2022 onwards.

The regulatory focus was also on developments on the real estate markets given the risks of overheating and the resulting possible implications for the banking market. Other focal points of the SREP process in 2019 included data quality, governance, and IT and cyber risks.

Overall conditions impacting Hamburg Commercial Bank's business

The highly competitive environment, which is proving increasingly challenging for banks, was also reflected in Hamburg Commercial Bank's business performance. Trends in those markets that are relevant for the Bank were still encouraging in 2019, although the picture was a mixed one. The real estate environment in Germany, for example, remained predominantly positive, not least due to the low level of interest rates. The situation on the shipping markets was volatile, but remained positive overall. In the Corporate Clients segment, the positive liquidity situation on the client side and the low interest rates put pressure on demand and profitability in a persistently competitive environment. The industrial sector, in particular, was also affected by the slowing economy.

New business was managed selectively in view of the market developments and Hamburg Commercial Bank's stringent focus on profitability and earnings ("portfolio management"). With a deliberately lower gross volume of € 7.2 million (previous year: € 8.4 million), it achieved much higher levels of profitability compared with the previous year, also thanks to the expected decline in funding costs. The new business volume was also affected by the business approach, which became even more cautious from the second half of the year onwards, particularly in some areas of real estate financing. At the same time, systematic portfolio management in line with the stringent, further tightened risk requirements has meant that the ambition levels for new business profitability have been exceeded in many areas.

Despite the mounting macroeconomic and geopolitical risks, there was a slight net reversal of loan loss provisions at Hamburg Commercial Bank in 2019 as a whole. The positive

development in loan loss provisions reflects the good quality of the Bank's loan portfolio and is also an expression of its forward-looking loan loss provisions policy, which had already anticipated macroeconomic risks as at 31 December 2018 and taken account of these risks by setting up appropriate loan loss provisions. With regard to the development of loan loss provisions in the year under review, there were opposing developments in the Corporate Clients (net additions to loan loss provisions) and Shipping (net reversals) segments, largely in line with market developments.

Despite a slight recovery from the fourth quarter of 2019 onwards, medium and long-term interest rates, in particular, fell significantly year-on-year. This development had a negative impact on the asset and earnings situation in the year under review. On the one hand, interest rates increased the measurement of pension obligations, with a corresponding negative impact on equity. On the other hand, they led to temporary negative valuation effects in the result from financial instruments categorised as FVPL, which had a negative impact on earnings.

In view of the reduced new business targets as part of the de-risking strategy, the Bank is facing even tougher challenges in terms of achieving a cost base that is commensurate with the market environment. The Bank is consistently rising to this challenge by identifying and implementing cost-cutting measures, the scope of which was increased further towards the end of the year under review. Further progress was made in this respect during the period under review, with the personnel measures already implemented, in particular, only unfolding their full cost-cutting potential subject to a time lag.

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

Business development – significant developments and events in the 2019 reporting year

First year completed as a private bank: positive IFRS net income before taxes with profitable new business, key progress made in all areas of action of the transformation programme, strategic adjustment due to weaker economic outlook, agreement with hybrid capital investors

Satisfactory business performance with positive IFRS net income before taxes and profitable new business

At the end of the 2019 financial year, Hamburg Commercial Bank can look back on its very first year as a private bank. In the Management Board's view, the new Bank has been well received in the market and its realignment process is receiving positive and constructive support from the relevant stakeholders. Internally, the comprehensive transformation programme is changing every single area of the Bank, as was to be expected. Operating business performance in the first year as a privatised bank was satisfactory overall.

Against the backdrop of a deliberate slowdown in new business in the Real Estate segment, and lower volumes in the Corporate Banking & Structured Finance segment, the gross new business volume of € 7.2 billion was below the budgeted figure of € 8.0 billion (previous year: € 8.4 billion). New business profitability was increased significantly with stable gross margins overall. Key factors in this development include, on the one hand, the consistent focus on concluding business of offering an appropriate level of returns and, on the other, funding costs, which fell as expected after privatisation.

The positive IFRS Group net result before taxes of € 77 million achieved in the 2019 financial year is slightly higher than expected. Compared with the forecast from the previous year, negative effects arose from the agreement with the hybrid capital investors that was concluded in the year under review (see the last section of this chapter) and from temporary valuation effects in the result from financial instruments categorised as FVPL. These negative effects were offset by special effects in other operating income, positive development in loan loss provisions, which is attributable to the good quality of the Bank's loan portfolio, and income from prepayment penalties.

The Bank's good capital resources and credit quality are reflected in strong financial ratios, a CET1 ratio of 18.5% and an NPE ratio of 1.8%, which at the same time represent the pillars for a transformation process that will continue to show successful development. The development of the Bank's other key management indicators also met expectations overall.

Key progress was made in 2019 in all fields of action of the transformation process

The Bank achieved its objectives for the year under review in all areas of action of the transformation programme. The following developments and events are particularly worthy of mention:

The strategic objective of the Bank's **portfolio management** is a stringent focus on profitability and earnings in relation to the Bank's business areas, client relationships and products. In the year under review, the focus in this area of activity was on streamlining the business area, client and product portfolios. As part of this streamlining process, the Bank terminated, or improved the terms and conditions of, numerous client relationships and products that did not meet its internal ambition levels. In addition, the exit from business areas that were no longer consistent with the Bank's strategy, such as Wealth Management and certain parts of Global Trade Finance, was completed as part of the Bank's realignment.

In the **go-to-market** area (the development of profitable and risk-oriented growth strategies), the Bank not only achieved a significant increase in returns on new business in the year under review (see previous section in this chapter), but also laid the foundation for developing new business areas, such as factoring and leasing finance, as well as vintage shipping and diversified lending.

The central focus of Hamburg Commercial Bank's transformation programme in the 2019 financial year was on implementing systematic cost management and achieving efficiency gains ("**operating efficiency**"). In this area of action, the following milestones have been reached/the following developments are to be highlighted:

Towards the end of the first quarter of 2019, and thus without any significant delay, a reconciliation of interests and social compensation plan was agreed with the Bank's social partners with regard to the extensive staff reduction measures adopted in December 2018, which are designed to ensure that the necessary job cuts are implemented in a socially acceptable manner. The challenging operational implementation of the staff reduction measures is based on employees leaving the Bank in several waves, and has so far been running largely according to plan.

In the area of facility management, agreements were concluded on the sale of eleven Group-owned properties in December 2019. The transactions were closed in February 2020. The conclusion of these transactions now gives the Bank a focused position in terms of its location, with one building each in Hamburg and Kiel, in line with the target number of employees.

The Bank also strategically repositioned its business operations in the year under review. In addition to ongoing process optimisation measures, the Bank concluded outsourcing agreements with a strategic partner for certain operations functions in the reporting year. The aim of these measures is to

increase operating efficiency while simultaneously reducing the cost base.

The Business IT Transformation (BIT) project, which is central to achieving the Bank's cost targets, was launched in the second half of 2019, and the Bank is working at full tilt on its implementation. After the agreements for outsourcing IT application support to an internationally focused strategic partner had been signed in the middle of the year, the second half of the year was characterised by the corresponding transition activities, with the first modules already being handed over to the service provider in full towards the end of 2019. In addition, the year under review was also characterised by the planned comprehensive renewal of the IT landscape, as well as by the successful implementation of digitalisation initiatives (examples: digitalisation of the know-your-customer process and the implementation of robotics software and digital leadership solution). For further details regarding the business IT transformation process and its focal areas for the financial year 2020, we refer to our comments in the section entitled "Expected business development of Hamburg Commercial Bank" in the chapter "Forecast, opportunities and risks report".

In the **Organisational Vitality** strand, the Bank implemented measures to further optimise its corporate culture and organisational structure. Within this context, the Bank also made strategic new hires, with the new staff members contributing skills that will further accelerate the transformation process and ultimately increase value creation. The organisational structure was strengthened with a view to bringing it even more closely into line with the business model, and adjustments were made to the remuneration systems to further promote the establishment of a performance culture.

The Bank also made significant progress in diversifying and optimising its funding structure ("**liability optimisation**"). In this context, refinancing via the capital market, among other things, was significantly strengthened in the year under review. A senior preferred bond rated "Baa2/stable" by Moody's with a nominal volume of € 500 million and a term of three years was successfully placed on the capital market. In addition, the maturity of deposits was significantly increased, which made a significant contribution to the longer average maturity of liabilities overall.

Proactive adjustment of strategy and medium-term planning as a result of a weaker economic outlook

In light of

- a dynamically changing general economic environment with a reflex effect on the banking environment and a generally negative outlook for the German banking sector,
- interest rates which, contrary to previous planning assumptions, have continued to fall, with no recovery expected in the medium term,
- the increasing risk of an economic downturn or stagnation (especially in Germany) and

- Hamburg Commercial Bank AG's overall objective of being admitted to the BdB deposit guarantee scheme at the beginning of 2022,

the Bank proactively adjusted its medium-term strategy and corporate planning in December 2019 despite the successes already achieved in the transformation process in the year under review.

The adjustment essentially consists of reducing the Bank's reliance on cyclical lending business and thus minimising the risks of future loan defaults. At the same time, the aim is to strengthen the Bank's capital position, which is already good. In addition, Hamburg Commercial Bank will be fundamentally restructuring its capital market business in response to changing market conditions and client needs, focusing on discontinuing unprofitable products and significantly reducing complexity. By making these strategic adjustments, Hamburg Commercial Bank is taking proactive and forward-looking measures to equip itself for a weaker economic scenario and, by building up a strong capital cushion, is keeping all strategic options open in the medium term should the German banking landscape enter a period of consolidation over the next few years.

The adjustment is associated with lower target volumes in the lending and capital market business, inevitably leading to a reduced earnings base compared with the previous planning. As a result, the Bank's previous personnel and operating expense targets also have to be adjusted downwards. Due to the reduced volumes, less capacity is required in the front and back office. As a result, the number of employees in the Group is to be reduced further to around 700 (FTE) as the target for 2022. Negotiations with the Bank's social partners on a reconciliation of interests started at the beginning of 2020 and were concluded successfully in the first quarter of 2020. The operating expense targets set out in the 2019 cost reduction programme are defined by individual business management measures.

The adjustment of the strategy also involves adjustments to the strategic targets (2022) for total assets and for the key management indicators CET1 ratio and cost-income ratio. For further details in this regard, and on the main measures planned as part of the strategy/plan adjustment, please refer to the section entitled "Forecast, opportunities and risks report" in the "Forecast, opportunities and risks report" section.

Agreement with hybrid capital investors

Towards the end of the reporting year and at the beginning of the current financial year, Hamburg Commercial Bank made substantial progress in restructuring and optimising its capital structure by repurchasing hybrid capital instruments as part of the "Liability Management Exercise (LME)". The hybrid capital includes both hybrid capital instruments refinanced on the capital market via securities and hybrid capital instruments contracted bilaterally with institutional investors (silent participations). Towards the end of the 2018 financial year, the Bank

terminated all hybrid capital instruments outstanding at that time with a total nominal value of approximately € 2.3 billion. As a result of the termination, the contractual provisions stipulate that the hybrid capital instruments will be redeemed in 2021 at the HGB carrying amount for the 2020 financial year. Individuals investors/groups of investors in hybrid capital instruments/securities refinancing them have filed lawsuits against the Bank in court and were/are calling not only for the termination to be declared ineffective, but also for the value of the hybrid capital instruments to be written up to the nominal value/for damages to be paid to compensate for lost interest payments.

In December 2019 and January 2020, the Bank reached an agreement with the vast majority of the holders of the securities regarding a voluntary repurchase by the Bank: Within this context, the Bank first of all concluded an out-of-court settlement (private settlement) with a large group of plaintiffs in December 2019. Under this agreement, securities with a nominal amount of approximately € 1.15 billion were transferred by the group of plaintiffs to Hamburg Commercial Bank AG in December 2019 in return for payment of a settlement price, plus reimbursement of costs and a settlement fee. The group of plaintiffs withdrew the pending lawsuit with effect for the plaintiffs concerned and waived the right to take future legal action. In addition, Hamburg Commercial Bank also published a public tender offer in December 2019, which was addressed

to the remaining securities holders. The public tender offer ended in January 2020. As a result, the Bank bought back further securities with a nominal value of almost € 0.39 billion. In total, approximately 90% of the hybrid instruments listed on the capital market had been repurchased by the time these financial statements were prepared.

In addition, in the year under review and by mid of March 2020, significant portions of the silent participations concluded on a bilateral basis had also been repurchased. In total, approx. 53% of the outstanding silent participations concluded on a bilateral basis with a volume of just under € 0.28 billion had been repurchased by mid of March 2020.

In total, by mid of March 2020 approximately € 1.8 billion of the original nominal volume of all hybrid capital instruments, amounting to approximately € 2.3 billion, has been purchased. The Bank is still involved in negotiations with creditors regarding the acquisition of further hybrid capital instruments before the repayment date.

As a result of the above-mentioned development, the capital structure will be made significantly less complex, and legal risks with regard to hybrid capital instruments will also be reduced. The above-mentioned measures/events have led to significant effects in the Group statement of income. These are explained in greater detail in the chapter "Economic Report".

Earnings, net assets and financial position

Group key management indicators	Actual figures		Actual figures 2019
	2018	2019 forecast	
Net income before taxes (€ m)	97	Slightly positive	77
RoE	2.2%	Between 1% and 3%	1.8%
CIR	27.2%	Significant increase, as favourable special effects will not recur to the same extent as in 2018	69.3%
NPE ratio ¹⁾	2.0%	Around 2%	1.8%
CET1 capital ratio	18.4%	Significantly above the regulatory requirements	18.5%
LCR	225%	Still comfortably above the regulatory requirements	165%

¹⁾ As at 31 December 2019 and 31 December 2018, taking into account adjusting events after the reporting date.

Group performance slightly ahead of expectations overall

The following aspects, in particular, contributed to the business development that was slightly ahead of expectations overall:

- The positive **net income before taxes** of € 77 million (previous year: € 97 million) was slightly above expectations. The following developments in the key item contributed to this trend: Total income of € 463 million was slightly below plan. This development is due, on the one hand, to the clearly negative net income from hybrid financial instruments (€ -181 million), which was influenced by the repurchases. On the other hand, the negative result from financial instruments categorised as FVPL (€ -19 million), which was characterized by temporary valuation effects, had a negative impact. These developments could not be fully offset in total income by the result from the disposal of financial assets classified as AC (€ +82 million). Positive developments in loan loss provisions (net reversal of € 11 million) meant that total income after loan loss provisions was slightly higher than expected at € 474 million. While general administrative expenses (€ -413 million) developed according to plan on the whole, the very positive other operating result (€ +133 million) more than compensated for the burdens resulting from restructuring and transformation (€ -66 million). A comparison with net income before taxes for the 2018 financial year is only possible to a very limited extent, as the previous reporting period was influenced to a considerable extent by special effects. On the income side, net interest income and, as a result, total income in 2018 benefited significantly from valuation effects, with the effect from the revaluation of hybrid capital (€ 994 million) particularly noteworthy in this regard. On the expense side, the previous year's pre-tax result was hit, in particular, by substantial additions to loan loss provisions (€ -367 million), restructuring and privatisation expenses

(€ -366 million) and for the last time guarantee expenses (€ -158 million).

- The return on equity (**RoE**) for the Group calculated on the basis of net income before taxes is consistent with expectations at 1.8% (31 December 2018: 2.2%). The cost-income ratio (**CIR**) comes to 69.3% on the reporting date (31 December 2018: 27.2%) in line with expectations. The marked year-on-year increase is in line with expectations insofar as the ratio as at 31 December 2018 was positively overstated by significant special effects resulting from the reassessment of interest and principal cash flows from hybrid instruments (€ 994 million). In view of the special effects which will also occur in the 2019 financial year and the early phase of the Bank's transformation process, the RoE and CIR key management indicators reported for the year under review do not currently provide any reliable information on the Bank's operating performance in the long run.
- With the successful completion of the privatisation process at the end of 2018, the **NPE ratio** amounted to 2.0% at the end of the previous year. In the year under review, the NPE ratio was reduced further than expected and amounted to 1.8% at the end of the reporting period. The decisive factor in this development was the continued systematic reduction in risk positions in line with the Bank's strategic objectives.
- The **CET1 ratio** came to 18.5% as at the reporting date (31 December 2018: 18.4%). CET1 capital declined due to actuarial interest rate effects in the context of the measurement of pension obligations and increased regulatory capital requirements. The slight increase in the CET1 ratio compared with the previous year is due to a corresponding decline in risk-weighted assets (RWA).
- The liquidity ratio **LCR** fell year-on-year, as planned, to 165% (31 December 2018: 225%) and is in line with the Bank's forecast. At this very good level, it is still well 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.

Net earnings

Statement of income

(€ m)	2019	2018	Change in %
Interest income from financial assets categorised as AC and FVOCI	861	952 ¹⁾	-10
Interest income from other financial instruments	1,338	1,592	-16
Negative interest on investments categorised as AC and FVOCI	-25	-21	19
Negative interest on other cash investments and derivatives	-181	-227	-20
Interest expenses	-1,671	-1,893	-12
Positive interest on borrowings and derivatives	180	224	-20
Net income/loss from hybrid financial instruments	-181	994	> -100
Net interest income	321	1,621	-80
Net commission income	61	35	74
Result from hedging	-2	-9	78
Result from financial instruments categorised as FVPL	-19	-136	86
Net income from financial investments	20	73 ¹⁾	-73
Result from the disposal of financial assets classified as AC	82	2	>100
Total income	463	1,586	-71
Loan loss provisions	11	-316	> -100
Hedging effect of credit derivative second loss guarantee	-	-51	100
Total income after loan loss provisions	474	1,219	-61
Administrative expenses	-413	-402	3
Other operating result	133	-107	>100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-51	-89	-43
Net income before restructuring and transformation	143	621	-77
Result from restructuring and transformation	-66	-366	82
Expenses for government guarantees	-	-158	-100
Net income before taxes	77	97	-21
Income tax expense	-65	-20	>100
Group net result	12	77	-84
Group net result attributable to non-controlling interests	-	7	-100
Group net result attributable to Hamburg Commercial Bank shareholders	12	70	-83

¹⁾ The previous year figure was adjusted. Please refer to Note 3 for more details.

Total income down as expected

As expected, total income fell significantly in the past year and amounted to € 463 million (previous year: € 1,586 million). The main reason for this development is the net income from hybrid financial instruments, which reduced total income by € -181 million in the reporting period, whereas in the prior-year period, the revaluation of hybrid financial instruments made a significantly positive contribution of € 994 million to total income.

The following developments in the individual income statement items should be highlighted:

The main contributor to total income was **net interest income** at € 321 million (previous year: € 1,621 million). The development in net interest income in the year under review was characterised first of all by a scheduled decline in total assets. Operating net interest income was above expectations. The higher level of ambition for new business and the expected reduction in funding costs following privatisation had a positive impact in this respect. Net interest income was hit to a considerable degree by the negative result from hybrid financial instruments of € -181 million driven by the buy-back of hybrid capital. Net interest income in the comparative period was significantly affected by special effects, in particular the revaluation of hybrid capital as at 31 December 2018 and the fair value measurement of the portfolio transaction in the context of the privatisation process.

Net commission income developed according to plan and amounted to € 61 million as at the reporting date (previous year: € 35 million). In comparison with the previous year, the lack of premium expenses, reported in net commission income, for a synthetic securitisation transaction that was terminated at the end of 2018 had a positive effect.

The **result from financial instruments categorised as FVPL** had a negative impact on total income at € -19 million (same period of the previous year: € -136 million). This negative result can be traced back to developments in the interest rate environment, in particular. This resulted in temporary valuation effects in connection with interest rate hedging derivatives that cannot be taken into account in hedge accounting. In the previous year, the negative result in this item was influenced to a significant degree by subsequent valuation effects from the portfolio transaction as part of the privatisation process, with these negative valuation effects being offset by interest income in the same amount.

Other income items

In the year under review, the positive **result from the disposal of financial assets classified as AC** in the amount of € 82 million (previous year: € 2 million) made a significant contribution to total income. It included prepayment penalties for early repayments. **Net income from financial investments** amounted to € 20 million in the year under review (previous year: € 73 million). In the previous year, this item had benefited in particular from gains realised on the sale of securities.

Loan loss provisions (income statement result) with net reversals

Loan loss provisions (income statement) made a positive contribution to net income in the reporting period with a net reversal of € 11 million (previous year: € -316 million), reflecting the good and indeed further improved quality, and the high level of risk coverage of the Bank's loan portfolio. Against the backdrop of further increases in macroeconomic and geopolitical risks, there was an increase in general loan loss provisions (€ -38 million). Net reversals of specific loan loss provisions (€ +47 million) more than offset the increases. Specific loan loss provisions developed differently in the individual segments. Net additions to specific loan loss provisions that were necessary in the Corporates & Structured Finance segment were more than offset by net reversals in the Shipping segment. Shipping benefited from structural improvements in portfolio quality, partly because the expected negative impact from the emissions standards applicable from 2020 onwards were lower.

On the other hand, the same period of the previous year was characterised to a considerable degree by additions to both specific loan loss provisions in the Shipping segment and general loan loss provisions due to the increased geopolitical risks.

Administrative expenses developed according to plan overall

Overall, administrative expenses developed according to plan and amounted to € -413 million as at the reporting date (previous year: € -402 million).

The implementation of the staff reduction measures, in particular under the 2018 restructuring programme, led to a further reduction in the number of employees by 234 to 1,482 (calculated in terms of FTE) at the year-end. Despite this decline, personnel expenses in the year under review rose to € -218 million (same period of the previous year: € -198 million). The main reasons behind this development included higher expenses for provisions set up for variable compensation than in the previous year, and the filling of strategic positions. The staff reduction measures will only develop their full cost-cutting potential in the income statement in the coming periods. Personnel expenses do not reflect that the Management Board has decided in 2020 against the background of the development of the corona crisis to waive 30 % of its variable remuneration for the financial year 2019.

Operating expenses amounted to € -185 million (previous year: € -186 million). When comparing the development with the previous year, it is important to note that the Bank's stringent cost management is taking effect and has led to a noticeable decline in expenses in central expense categories of operating expenses, particularly in the area of external services and project work. In contrast, IT expenditure in the year under review initially increased as planned due to future-oriented investments in revamping the technological infrastructure.

Compared to the previous year, legal consultancy fees also increased due to one-off costs in connection with the Liability Management Exercise and additions to provisions for litigation costs in a lawsuit in which the Bank is acting as the plaintiff.

Depreciation of property, plant and equipment and amortisation of intangible assets decreased year-on-year and amounted to € -10 million (previous year: € -18 million). This was mainly due to the decline in unscheduled depreciation reported under this item to € -1 million (previous year: € -7 million).

Other operating income favoured by reversal of provisions for litigation risks

Other operating income amounted to € 133 million (previous year: € -107 million), making a significant positive contribution to the Group net result before taxes. Other operating income was driven in particular by the reversal of provisions for litigation risks and the recognition in income of a reimbursement claim arising from a legal dispute. The reversals of litigation risks are mainly due to the agreement reached in the year under review with the vast majority of hybrid capital investors, or relate to the partial reversal of a provision for a litigation risk from the lending business. In the previous year, additions to provisions for litigation risks, in particular, had had a marked negative impact on this income item. Further details can be found in Note 16 in the notes to the Group financial statements.

Regulatory expenses

The expenses for regulatory affairs, the deposit guarantee fund and banking associations amounted to € -51 million (previous year: € -89 million). The year-on-year decline in expenses is due to the fact that provisions were recognised at the end of 2018 for expected one-off payments to the Federal Association of German Banks due to the change in the guarantee scheme that is planned for 1 January 2022. These provisions were increased slightly in the 2019 financial year.

Result from restructuring and transformation

Further negative effects on earnings, albeit to a significantly lesser extent than in the previous year, resulted from restructuring and transformation expenses totalling € -66 million (previous year: € -366 million).

In the period under review, the restructuring result of € -24 million had only a comparatively minor impact on the Group net result, as the expenses arising from the adjustments to the transformation programme adopted in December 2019

are largely covered by the existing restructuring provisions. On this basis, only a moderate addition had to be made overall in the 2019 financial year.

Transformation expenses incurred in the year under review (€ -28 million) relate to operating expenses that are directly linked to the Bank's transformation process. In the year under review, these include, in particular, expenses in connection with the change of payment service provider, measures relating to IT transformation and consultancy costs.

In addition, the earnings item includes subsequent expenses from the privatisation process of € -14 million for measures that were largely completed in the reporting year. In the previous year, privatisation expenses of € -66 million had been incurred.

Guarantee premiums no longer apply due to termination of the second loss guarantee

The guarantee was terminated in the fourth quarter of 2018 as part of the completed privatisation process. As a result, no guarantee premiums were incurred in the reporting period. The expenses for the guarantee premium, including a compensation payment for the termination of the guarantee (€ -100 million), amounted to € -158 million in the previous period and had had a significant negative impact on the Bank's net income.

Group net result before taxes slightly higher than expected

As at 31 December 2019, Hamburg Commercial Bank generated net income before taxes of € 77 million (previous year: € 97 million), which was slightly higher than expected overall. The LME-related negative impacts on net interest income and a negative result from financial instruments categorised as FVPL were offset by special effects in other operating income, positive development in loan loss provisions, and income from prepayment penalties.

After taxes, the Group net result comes to € 12 million (previous year: € 77 million). Income tax expense includes tax income from current taxes of € 43 million and tax expense from deferred taxes of € -108 million. The vast majority of income from current taxes relates to previous years. Deferred tax expense is composed of an expense from the reversal of deferred taxes on temporary differences (including from consolidation) in the amount of € -36 million and the reversal of deferred taxes on loss carryforwards in the amount of € -72 million.

Net assets and financial position

Material items on the statement of financial position

(€ m)	2019	2018	Change in %
Assets			
Cash reserve	4,850	5,362	-10
Loans and advances to banks	2,521	3,167	-20
Loans and advances to customers	30,708	32,791	-6
Loan loss provisions	-708	-831	-15
Trading assets	2,663	3,094	-14
Financial investments	6,100	10,100	-40
Non-current assets held for sale and disposal groups	355	65	>100
Other assets	1,223	1,373	-11
Total assets	47,712	55,121	-13
Equity and liabilities			
Liabilities to banks	5,066	5,470	-7
Liabilities to customers	23,966	28,093	-15
Securitised liabilities	7,845	9,458	-17
Trading liabilities	1,946	2,812	-31
Provisions	1,699	1,746	-3
Subordinated capital	1,349	1,614	-16
Equity	4,350	4,437	-2
Other liabilities	1,491	1,491	-
Total equity and liabilities	47,712	55,121	-13

Total assets reduced further as planned

In the 2019 financial year, the Group's total assets declined considerably again, by around 13% to € 47,712 million (31 December 2018: € 55,121 million). The decline is reflected in all major balance sheet items. On the assets side, this is reflected in particular in the items financial investments and loans and advances to customers, while on the liabilities side, it is reflected in liabilities to customers. In detail, the developments were as follows:

The cash reserve fell compared with the previous year-end to € 4,850 million (31 December 2018: € 5,362 million).

Loans and advances to banks also decreased and amounted to € 2,521 million (31 December 2018: € 3,167 million). The decline is mainly attributable to investments with a term of up to three months/more than three months and up to one year.

As at 31 December 2019, the carrying amount of loans and advances to customers was € 30,708 million. As against 31 December 2018 (carrying amount: € 32,791 million), this represents a decrease of around 6%. The decline is attributable in roughly equal parts to loans and advances to public authorities and commercial clients.

Loan loss provisions disclosed on the balance sheet were also down as at 31 December 2019 and amounted to € -708

million (31 December 2018: € -831 million). With reversals slightly exceeding additions overall, the decline is mainly attributable to utilisation in the reporting period.

Trading assets fell to € 2,663 million (31 December 2018: € 3,094 million). While the securities held for trading purposes declined only slightly, the decline in the carrying amount is mainly due to the lower positive market value of derivatives (especially interest-related transactions) compared with the previous year. This development reflects the scheduled reduction in the derivatives portfolio, which is also designed to help reduce the complexity of the business model.

Financial investments have been reduced significantly from € 10,100 million to € 6,100 million, i.e. by around 40%, as a result of systematic portfolio reduction measures. The portfolio reduction is based on measures for active liquidity management, which are designed to systematically reduce the excess liquidity built up during the privatisation period and take account of the strategic objective of reducing total assets.

The increase in non-current assets held for sale and disposal groups to € 355 million (31 December 2018: € 65 million) is connected with the sale of loans to public-sector borrowers and the building consolidation measures of Hamburg Commercial Bank. The corresponding transactions were completed shortly after the reporting date.

On the liabilities side, liabilities to banks fell slightly to € 5,066 million (31 December 2018: € 5,470 million).

The noticeable reduction in the balance sheet volume on the assets side and, as a result, the lower funding requirements had an impact on the liabilities side of the balance sheet, in particular in the form of a significant decline in liabilities to customers to € 23,966 million (31 December 2018: € 28,093 million). In line with the funding strategy, short-term deposits, in particular, were reduced as planned.

Securitised liabilities were also down considerably on the previous year-end to € 7,845 million (31 December 2018: € 9,458 million). The decline is mainly due to an increase in own issues bought back, which are deducted in the item securitised liabilities.

Trading liabilities comprising negative market values of derivatives (€ 1,946 million, 31 December 2018: € 2,812 million) were down in line with the positive fair values of trading assets. As with trading assets, the deliberate reduction in the derivatives portfolio also had an impact here.

Provisions decreased slightly and amounted to € 1,699 million at of the reporting date (31 December 2018): € 1,746 million). The decrease is attributable to provisions for litigation

risks and restructuring. This was offset by an increase in pension obligations, which is essentially based on actuarial interest rates.

Subordinated capital as at 31 December 2019 came to € 1,349 million (31 December 2018: € 1,614 million). The decline is attributable to the Bank's silent participations and is connected with the restructuring and optimisation of the capital structure (Liability Management Exercise).

Despite the Group net result after taxes being in slightly positive territory, the Bank's reported equity fell and amounted to € 4,350 million (31 December 2018: € 4,437 million). Actuarial interest rate-induced effects in the context of the remeasurement of defined benefit pension obligations were the main factor behind this development.

Business volume also down

In line with the declining total assets, business volume decreased to € 55,635 million (31 December 2018: € 64,496 million). Off-balance sheet transactions also decreased: Sureties and guarantees fell to € 1,438 million (31 December 2018: € 1,748 million), while irrevocable loan commitments dropped to € 6,485 million (31 December 2018: € 7,627 million).

Structure of liabilities by financial instruments

(€ m)	2019		2018	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Pfandbriefe and asset-based funding	10,863	9,562	13,074	11,148
Covered bonds (Pfandbriefe)	6,481	5,215	8,021	6,772
Other secured funding	4,382	4,347	5,053	4,376
Unsecured liabilities (senior preferred)	21,609	6,011	23,212	2,873
Unsecured liabilities (senior non-preferred)	4,317	3,723	6,555	4,441
Profit participation certificates and other subordinated liabilities	1,069	1,069	1,067	1,067
Hybrid instruments	368	368	727	687
Total	38,226	20,733	44,635	20,216

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 (covered bonds, 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 € 10,863 million as at 31 December 2019 (31 December 2018: € 13,074 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 € 25,926 million as at the reporting date (31 December 2018: € 29,767 million). Call and time deposits are

shown together with structured unsecured financial instruments in the "Senior Preferred" category and amount to € 21,609 million in total (31 December 2018: € 23,212 million). The "Senior Non-Preferred" category mainly consists of bearer and registered bonds that do not have any structured elements and amounts to € 4,317 million as at 31 December 2019 (31 December 2018: € 6,555 million).

The two line items Profit participation certificates and other subordinated liabilities (€ 1,069 million, 31 December 2018: € 1,067 million) and Hybrid instruments (€ 368 million, 31 December 2018: € 727 million) in total represent subordinated capital. Out of the hybrid instruments (Resparc I and Resparc II), € 88 million (31 December 2018: € 180 million) is reported under Securitised liabilities in the balance sheet.

Capital and funding

RWA, regulatory capital and capital ratios

	31.12.2019	31.12.2018
Risk-weighted assets (RWA) (€ bn)	21.0	22.1
Regulatory capital (€ bn)	4.9	5.2
of which: CET1 capital (€ bn)	3.9	4.1
Overall capital ratio (%)	23.5	23.3
Tier 1 capital ratio (%)	18.5	18.4
CET1 capital ratio (%)	18.5	18.4

CET1 ratio at a solid level

The CET1 ratio increased slightly as against 31 December 2018 (18.4%) to 18.5%. This development is due to the drop in aggregated RWA. The latter trend was driven by reduced RWA for market risks due to the significantly reduced holdings in the trading book. The positive development in RWA for credit risks is offset by negative effects due to necessary adjustments to the model parameters for credit risks. CET1 capital declined in the period under review, in particular as a result of the remeasurement of net liabilities from defined benefit pension obligations not recognised through profit or loss, which is due to the actuarial interest rate, and increased regulatory capital deductions. The CET1 ratio continues to significantly exceed the limit set internally, as well as the regulatory requirements resulting from the SREP process.

The tier 1 capital ratio and the overall capital ratio increased in line with the Common Equity Tier 1 ratio compared with 31 December 2018. The regulatory requirements were adhered to at all times during the reporting period. Please refer to the Risk Report for information on compliance with the minimum banking supervisory requirements.

Hamburg Commercial Bank's leverage ratio came to a very solid 8.2% as at 31 December 2019 (31 December 2018: 7.3%). This development was driven by the winding down of the leverage exposure to € 47.5 billion in the reporting period (31 December 2018: € 55.6 billion). The leverage ratio is still much

higher than the internal limit and the regulatory benchmark of 3% (binding as of the end of June 2021).

Refinancing via capital market significantly strengthened

With the very successful placement of a € 500 million senior preferred issue on the capital market, the Bank has significantly strengthened its funding base over the long term. The debut bond has a term of three years and was more than twice oversubscribed with strong demand from institutional investors in Germany and abroad, allowing the Bank to achieve attractive pricing conditions.

In total, the Bank raised around € 2.8 billion in long-term funds in the 2019 financial year.

The regulatory requirements for the liquidity ratios were exceeded by far during the reporting period.

Key liquidity ratios

	31.12.2019	31.12.2018
Total deposits (€ bn)	13.6	16.7
LCR (%)	165	225
NSFR (%)	114	121

As expected, the LCR declined in the context of the transformation of the balance sheet, with the reduction of liquidity reserves that are no longer required.

Rating

Rating overview as at 31.12.2019

	Moody's	S&P
Issuer rating (long-term)	Baa2, stable	BBB, stable
Short-term liabilities	P-2, stable	A-2, stable
Stand-alone rating (financial strength)	ba2, stable	bbb-, stable
"Preferred" Senior Unsecured Debt	Baa2, stable	-
"Non-Preferred" Senior Unsecured Debt	Baa3, stable	-
Public Pfandbrief	Aa2, stable	-
Mortgage Pfandbrief	Aa2, stable	-

Hamburg Commercial Bank is rated by Moody's and S&P. Both rating agencies regard the successful privatisation and the conclusion of the EU state aid proceedings, as well as the structural measures implemented within the context of these proceedings, which have led to a significant improvement in the Bank's financial and risk profile, as a decisive milestone on the path towards a sustainable business model. In light of the intensive transformation process and the agreed seamless change of the deposit protection fund, the agencies are focusing on the implementation of the measures, particularly with regard to improvements in operating performance. At the

same time, the agencies continue to regard the maintenance of a comfortable capital and liquidity position, and solid asset quality, as central pillars of the rating.

Given the mounting pressure on profitability and the expectation of less favourable economic environment, both agencies downgraded the rating outlook for the German banking sector from "stable" to "negative" in the autumn of 2019. By contrast, the ratings of Hamburg Commercial Bank

were confirmed by both agencies as "stable" in expectation of a transformation process that will continue to progress in a positive manner.

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

Segment results

Segment overview

(€ m)							
	Corporates & Structured Finance ⁴⁾	Real Estate	Shipping	Diversified Lending & Markets ⁴⁾	Other and Reconciliation ⁵⁾	Group	
Total income	2019	199	266	116	96	-214	463
	2018	274	189	108	166	849	1,586
Loan loss provisions ¹⁾	2019	-63	-25	84	10	5	11
	2018	-54	-55	-205	16	-69	-367
Administrative expenses ²⁾	2019	-147	-117	-71	-66	-12	-413
	2018	-180	-91	-61	-59	-11	-402
Net income before taxes ³⁾	2019	-36	161	124	33	-205	77
	2018	27	33	-182	113	106	97
Segment assets (€ bn)	31.12. 2019	12.3	12.5	4.6	12.8	5.5	47.7
	31.12. 2018	13.6	12.4	4.5	17.2	7.4	55.1

¹⁾ Summary of "Loan loss provisions" and "Hedging effect of credit derivative under the second loss guarantee.

²⁾ After change in cost allocations; prior-year figures adjusted accordingly.

³⁾ Net income before taxes including result from restructuring and transformation.

⁴⁾ After changes in the names of Corporates & Structured Finance (formerly: Corporate Clients) and Diversified Lending & Markets (formerly Treasury & Markets) and slight shifts between these two segments; previous year's figures have been adjusted accordingly.

⁵⁾ Incl. Non-Core Bank; prior-year values adjusted accordingly.

Adjustments to segment reporting

Following the completion of the portfolio transaction in November 2018, the segment reporting was split into the Core Bank (as the sum of its four operating segments) and the Non-Core Bank for the last time as at 31 December 2018. In the 2019 financial year, the segment structure was changed in accordance with the requirements set out in IFRS 8 (Management Approach) to the effect that the Non-Core Bank has been dissolved and, as a logical consequence, the four operating segments, which have been maintained unchanged, no longer operate under the term "Core Bank". The small number of transactions remaining in the Non-Core Bank will be shown in the segment report in the column "Other and Reconciliation" from now on. In addition, changes to the internal organisational structure were taken into account in segment reporting. This mainly resulted in changes to the names of the segments Corporates & Structured Finance (formerly Corporate Clients) and Diversified Lending & Markets (formerly Treasury & Markets) and slight shifts between these two segments. Adjustments were also made to the cost allocation, resulting in a greater burden on the operating segments overall. The Bank's overhead costs are now allocated to the divisions in full. This change will improve the transparency of the Group's earnings

situation based on the performance of its operating segments. The previous year's figures have been adjusted accordingly.

Business development in the segments

The **Corporates & Structured Finance** segment is well diversified and, as at the reporting date, combines the Corporate Banking & Advisory and Project Finance business areas in the energy and infrastructure sectors. The expertise pooled in this segment in the advisory fields of structured finance, leveraged buy-outs and mergers & acquisitions is offered to all the Bank's customers. The business unit is also a product specialist for payment transactions and trade finance, factoring and leasing, bundles distribution activities relating to capital market-related products and is responsible for bank-wide syndication activities, including the OtD approach, as well as for supporting institutional clients.

In the Corporates & Structured Finance segment, net income before taxes amounted to € -36 million in 2019 (previous year: € 27 million). This development is mainly due to negative earnings effects in total income and in loan loss provisions resulting from non-strategic assets which were adjusted as part of the realignment of the portfolio to focus on profitable client relationships. In addition, negative valuation results for customer derivatives and risk provisions also had a negative

impact on the segment result. The development in net interest income reflects both the Bank's business development in a highly competitive environment and a deliberately profitability-oriented business approach, which results in a planned decline in the average volume of interest-bearing receivables in combination with restrained new business development.

Overall, gross new business in the Corporates & Structured Finance segment contributed € 2.0 billion (previous year: € 2.8 billion). While the highly competitive environment continued to weigh on the Corporate Banking & Advisory segment, in particular, the Project Finance business area largely maintained its contribution to earnings.

For the **Real Estate** segment, net income before taxes in the 2019 financial year amounted € 161 million (previous year: € 33 million). The solid net interest and commission income documents the Bank's good market position in this segment. There were also positive effects from prepayment penalties in connection with early repayments, and from the partial reversal of a provision for a litigation risk from the lending business. Gross new business amounted to a total of € 4.0 billion (previous year: € 4.6 billion) and has thus been adjusted to reflect current developments in the German real estate market in a risk-conscious manner. The positive development in the business with international institutional investors in the German real estate market was continued. It was possible to further consolidate the high market penetration in the core region of North Germany. The division is also exploiting its good market position in the metropolitan regions of western Germany. In addition, selected customers were also supported in international activities with a focus on European metropolitan regions.

In the **Shipping** segment, net income before taxes amounted to € 124 million (previous year: € -182 million). Operating income developed positively in line with expectations. Loan loss provisions benefited from structural improvements in portfolio quality, among other things because the expected negative effects of the emissions requirements that apply as of 2020 were lower. Gross new business written with national and international shipping companies with good credit ratings was up by € 1.3 billion on the previous year (€ 1.0 billion).

The **Diversified Lending & Markets** segment generated net income before taxes that was higher than expected at € 33 million (previous year: € 113 million). In particular, the systematic optimisation of the funding structure and the management of liquidity and market price risks resulted in a positive contribution to earnings from the treasury function. Both the ongoing focus on profitable client business and the good spread development among positions in the investment books also had a positive impact on the results of the Markets activities. The decline in the net result compared with the previous year can be traced back to the effects associated with the sale of securities included in the previous year. The international corporates business and the exploitation of business opportunities in other European countries under the newly established

Diversified Lending umbrella are currently being developed and have not yet contributed to the segment result.

“Other and Reconciliation” result

Administrative functions and overall bank positions are disclosed in Other under “Other and Reconciliation” as segments not subject to reporting requirements. “Reconciliation” also comprises items that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. In addition to the measurement and disclosure differences the result from restructuring and transformation is allocated in full to this division. The costs for liquidity reserves associated with the transformation process and the funding structure are also reported under “Other and Reconciliation”. Due to the uncertainties that were naturally inherent in the privatisation process, the Bank had switched its liquidity management approach over to an above-average supply of liquidity. This was systematically reduced in the reporting period.

The Group net result before taxes amounts to € -205 million as at the reporting date (previous year: € 106 million). Various special effects contributed to this net result.

Total income was hit to a considerable degree by the negative result from hybrid financial instruments of € -181 million driven by the buy-back of hybrid capital. In the previous year, the valuation of the hybrid instruments had a positive effect on total income in the amount of € 994 million.

The costs for building up liquidity reserves and for the funding structure described above, as well as the negative effects resulting from valuation and hedging effects for overall bank positions, were reduced significantly. Furthermore, net income before taxes includes restructuring expenses in the amount of € -66 million (previous year: € -366 million) and the other operating result of € 91 million (previous year: € -118 million), including the reversal of provisions for litigation risks in connection with the repurchase of hybrid capital.

The segment assets of “Other and Reconciliation” mainly include the liquidity reserve. Segment assets as at 31 December 2019 came to € 5.5 billion (31 December 2018: € 7.4 billion).

Final assessment of the situation of Hamburg Commercial Bank

The development of the Hamburg Commercial Bank Group in the 2019 financial year was characterised by the far-reaching process involved in transforming the Bank into a profitable private bank. This included stringent cost management and balance sheet optimisation measures on the assets and liabilities side, as well as the risk and earnings-focused refinement of the business model and process optimisation. In the course of this comprehensive transformation process, substantial progress

was made, not least with regard to the conditions for admission to the BdB. Overall, the situation was satisfactory. The Bank achieved its main objectives, and in some cases even exceeded them, taking into account special effects.

In operational terms, the Bank's development in a highly competitive environment was encouraging overall. This was thanks to the stringent focus on earnings, which led to rising new business margins and improved profitability, as well as deliberately selective new business driven by real estate clients, project financing and shipping. The implementation of the ongoing cost reduction programme was also satisfactory, even though administrative expenses were slightly higher than in the previous year (+3%). This was due, within personnel expenses, to a higher amount of provisions being set up for variable compensation than in the previous year and to strategic new hires and, within operating expenses, to investments in the IT infrastructure. It is also important to bear in mind that savings from staff reduction measures will only take effect subject to a time lag.

In addition, special effects in connection with the ongoing optimisation of the liabilities side and the far-reaching transformation process played a significant role in shaping the Bank's development. The significant negative impacts resulting, in particular, from the restructuring of the capital position

and from restructuring expenses, are offset by one-off income relating to the balance sheet optimisation measures. Ultimately, positive and negative special effects offset each other and the earnings forecast at Group level was slightly exceeded.

Other key management indicators in the area of capital and liquidity exceeded the regulatory requirements and internal limits, in some cases significantly so. The CET1 ratio comes to 18.5%, which is also a good level in a peer group comparison. As expected, the development of the risk ratios is in line with the risk structure, which has been optimised as part of the privatisation process and ongoing optimisation measures. The NPE ratio is in line with the strategic target and improved slightly to 1.8% (31 December 2018: 2.0%).

Overall, Hamburg Commercial Bank has made significant progress on its path towards a profitable business model that is sustainably viable in the challenging banking environment, also with regard to the planned seamless transition to the deposit guarantee fund for private banks with effect from 1 January 2022.

Details regarding the continuing challenges, as well as opportunities and risks of future development, can be found in the Forecast, opportunities and risks report.

Employees of Hamburg Commercial Bank

The human resource strategy supports the overall bank strategy and provides the framework for operational human resource functions. It attaches great importance to ensuring that appropriate quantitative and qualitative staffing levels are in place and to managing and avoiding related personnel risks. This goes hand in hand with the ability to attract, retain and develop motivated and committed employees, also and in particular against the backdrop of the challenges of the ongoing transformation process. In this context, the Bank's human resources strategy and the human resources tools derived from it must always take into account the Bank's overriding objective to become a member of the Federal Association of German Banks in 2022 and contribute to the achievement of this objective.

The Human Resources (HR) division is responsible for its governance function, especially in managing personnel expenses and implementing, complying with and enhancing the legal and regulatory principles and guidelines, e.g. in respect of the German Ordinance on the Remuneration of Financial Institutions (InstitutsVergV). Modern and reliable operating processes form the basis for all topics relating to human resource functions.

The planned measures to permanently reduce administrative expenses were again successfully implemented as part of the transformation programme. The target for the planned workforce reduction in 2019 was almost reached in a socially responsible manner with the help of the arrangements agreed with the Works Council.

Far-reaching changes in the organisational structure

Based on the transformation program approved by the Management Board in December 2018, a central focal point in 2019 related to measures to optimise the organisational and cost structure. As far as HR is concerned, staff reduction measures and their implementation in line with the Bank's plans is of crucial importance when it comes to achieving the Bank's cost targets. Negotiations on a reconciliation of interests and a social compensation plan were concluded with the works council members as early on as in the first quarter of 2019. The staff reduction measures were then implemented in a socially responsible manner in the course of 2019 and went largely according to plan. As at 31 December 2019, the number of full-time staff employed by the Hamburg Commercial Bank Group had fallen to 1,482 (31 December 2018: 1,716).

Employees in the Group

	31.12.2019	31.12.2018
Full-time employees (FTE) in the Group¹⁾	1.482	1.716
of which: Women	545	631
of which: Men	937	1.085
of which: Employees in Germany	1.421	1.648
of which: Employees abroad	61	68
Total number of employees in the Group („headcount“)	1.705	2.021
Key employee figures		
Part-time employees (%)	24,8	26,7
Average age in Years ²⁾	46,8	46,0
Average period of employment (Years)	15,5	14,8

¹⁾ Total number of employees excluding trainees, temporary staff and interns.

²⁾ Head offices only; does not include branches or subsidiaries.

Focus on modern HR development

The year 2019 was characterised by the transformation of Hamburg Commercial Bank. The HR department supported both managers and employees and accompanied them on this new path. The focus in 2019 was on strategy activation and digitalisation.

Bank-wide strategy activation is supported by the HR Strategy, Communications and Strategy & Transformation departments/areas in the form of events with a clear focus on results, promoting dialogue between the Management Board and managers. Managers play an important role in the transformation process. In 2019, they introduced their teams to the corporate strategy and engaged in a process of dialogue with the teams. In addition, each manager was provided with a training budget for his or her area of responsibility; supporting HR development in this way will therefore make it even easier to offer targeted, customised development measures for individual target groups such as top performers or young professionals.

The extensive internal seminar programme made our employees "fit" for digitalisation. Subject-related and health-oriented seminars round off the range of seminars on offer.

Employee compensation

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 below the Management Board level is based on a total remuneration approach, counteracts any significant dependence on variable remuneration and thereby prevents the employees from taking excessively high risks for the purposes of realising the variable remuneration potential.

In 2019, the compensation system for employees was largely renegotiated together with the co-determination bodies, and these changes have already been implemented. Details are still being negotiated, but had not yet been finalised by the reporting date. The main changes relate to the allocation of variable performance-related remuneration to employees.

As in the previous years, the amount of the total budget for the variable performance-related remuneration is 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 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, the variable remuneration in 2020 for the 2019 reference year will be based solely on the Bank's performance for the first time. 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 their

variable remuneration are paid on a deferred basis and are dependent on the Bank's sustained performance in line with the regulatory requirements, among other things.

The Bank's individual and collective agreements with employees and employee representative bodies have been continuously adapted 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.

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 management report.

Management Declaration pursuant to Sections 289f and 315d of the German Commercial Code (HGB)

Equal opportunities, women in management positions and diversity concept

Following its successful privatisation, the Management Board of Hamburg Commercial Bank, with the support of the Equal Opportunities Officer, is actively addressing the issues of equal opportunities and the promotion of women. The Bank set the following quotas in line with the law, which came into force in May 2015, regarding equal representation of women and men in management positions in the private sector and public services and the resulting introduction of Section 76 (4) of the German Stock Corporation Act (AktG):

- At the level of managers reporting directly to the Management Board, Hamburg Commercial Bank was aiming to achieve a ratio of 16% women. This objective has been achieved. The department head ratio also meets the target at 24% (target level: 15%). The efforts made to promote young female professionals in particular will allow the Bank to fill vacant positions at the level of managers who are direct reports from the group of female department heads in the future.

Statistics on equal opportunities as at 31.12.2019¹⁾

	Number			Ratio	
	Women	Men	Total	Women	Men
Managers reporting directly	3	15	18	17%	83%
Heads of department	13	42	55	24%	76%
Total	16	57	73	22%	78%

¹⁾ Head Office excluding employees released from their duties.

- As far as the Management Board of Hamburg Commercial Bank is concerned, the Supervisory Board generally confirmed the objective, in July 2017, of acquiring a female member of the Management Board the next time a position is filled for the first time. At that time, this percentage corresponded to a ratio of women on the Management Board (which had four members at the time) of 25%. Based on the current size of the Bank's Management Board (six members), it corresponds to a ratio of just under 17%.
- Under the requirements of Section 111 (5) AktG, also newly introduced in 2015, Hamburg Commercial Bank is required to set targets for the proportion of women at the Supervisory Board level as well. In July 2017, the Supervisory Board

confirmed the target of a 30% ratio of women on the Supervisory Board. Following the privatisation process and the associated downsizing of, and new appointments to, the Supervisory Board, the proportion of women has fallen from the former level of 35% to 15% as at 31 December 2018 and 11% as at 31 December 2019.

These objectives are consistent with the rules of procedure for the Supervisory Board, which 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.

Forecast, opportunities and risks report

Forecast report including opportunities and risk

The following section should be read in conjunction with the other sections in this management report. The forward-looking statements contained in this forecast report are based on assumptions and conclusions based on information available to the Bank at the time this management report was prepared. 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

Unless otherwise stated, statements made regarding the underlying conditions are based on internal assessments and estimates.

Economy as a whole and financial markets

CORONAVIRUS: HIGH RISK FOR GLOBAL ECONOMIC DEVELOPMENT

The global economy is expected to develop only moderate momentum in the current 2020 financial year. For most of the world's developed economies, the Bank expects growth to be even lower than in 2019. The rate of expansion is also likely to decline again in China. On the other hand, growth can be expected to come from the emerging markets. These include, for example, the countries belonging to Latin America, which should recover from last year's stagnation in 2020. Global economic growth of 3.4% is expected for the year as a whole. Given the global spread of the novel coronavirus and the interruptions to global supply chains, there is a very high risk that this forecast will not be achieved. In particular, there is a risk of a recession in the first half of 2020.

In the USA, growth is predicted to slow to 2.0%, due to continued weakness in industry and possible uncertainty caused by trade disputes and the US presidential elections scheduled for the end of the year. China's expansion rate of 5.8% is likely to fall below the 6% mark for the first time since 1990 as a result of the continuing trend towards dwindling growth rates witnessed since 2011.

In the eurozone, the slump in the industrial sector, which is particularly pronounced in Germany and Italy, is likely to prove

a burden, at least in the first half of the year. Exports are not expected to be particularly dynamic either. Given what is still a relatively low unemployment rate and rising wages, support can still be expected to come from private consumption, and slight expansionary impulses should also come from the public sector. The bottom line is that economic growth in the eurozone is likely to come in at 1.1% in 2020, with a rate of 0.4% in Germany.

EZB SET TO STAY ON COURSE UNDER NEW LEADERSHIP, FED TO LOWER KEY INTEREST RATE

Under Christine Lagarde's leadership, the ECB is expected to leave the key interest rate at 0% and the deposit rate at -0.5% and to maintain its monthly asset purchases of € 20 billion per month for the time being. As the scope for further easing appears limited, no further steps are expected from this side, although inflation in the eurozone will remain below the inflation target. The Fed, on the other hand, is likely to cut its key rate in the first half of the year in the wake of weaker economic data. Government bond yields are expected to rise slightly over the course of the year from all-time lows, supported by a somewhat more encouraging global economic environment.

The anticipated interest rate cut by the US Federal Reserve should help the euro to appreciate slightly to USD 1.14.

As far as fiscal policy is concerned, we expect to see a moderate increase in expenditure, which is only likely to make way for an expansionary trend if Germany records negative growth rates.

Outlook for relevant markets

GERMAN REAL ESTATE MARKETS

In the wake of the economic slowdown, the German real estate markets are increasingly losing growth momentum in 2020 after a good decade of recovery. This is because the domestic economy, which has so far remained robust, is unlikely to be able to escape the impact of the recession in the industrial segment and the deteriorating foreign trade conditions. Moreover, the extremely low interest rates have already left their low point. This is likely to put a damper on growth on the real estate markets: As a result, the valuation trend that Deutsche Bundesbank has been observing for years now on real estate markets in major cities, which overshoots the level that would be fundamentally justified, is unlikely to increase significantly, but rather to decline again in some cases.

On the **housing markets** in most large cities, demand is likely to grow at a much slower pace than in the past few years due to a significant drop in the influx of inhabitants. It is no

longer sufficient to cover the growing supply of housing due to the brisk expansion, meaning that the reduction in housing vacancies, which has lasted over a decade, is set to come to an end. Housing vacancy rates will, however, remain at a very low level. In addition to housing costs for tenants that are already high, and the statutory restrictions on rent increases when apartments are re-let, rising completion figures are also likely to have an increasingly dampening effect. Housing rents are therefore expected to increase more slowly, but still moderately. Given the price level achieved after the very marked increases in previous years, and based on interest rates that are very low, but will not fall any further, house prices are likely to show only a moderate increase in 2020.

On the **office real estate markets**, a slowdown in recruitment is likely to lead to much less demand for space, i.e. demand that is only just in line with the average. The number of office completions, on the other hand, is expected to rise again in 2020. The space coming onto the market is likely to more than satisfy the weaker demand, meaning that vacancy rates will increase slightly. Although they remain very low, meaning that office rents will continue to rise both in central locations and in peripheral locations, this will be much more moderate than in previous years. As with residential real estate, the market values of office properties are likely to chart only a moderate increase in the foreseeable future in the aftermath of the high growth rates witnessed in previous years.

Both cyclical and structural effects are leaving their mark on **retail properties**. By way of example, the retail sector is losing tailwind from the labour market due to declining consumer income confidence and a marked decline in new hires. The growth in retail sales is declining, not least in shops in central inner-city locations. The ongoing above-average growth in online trading remains the decisive factor driving this trend. The local supply sector, especially as far as food is concerned, has so far been able to largely escape this competition. Rents for retail properties are therefore likely to stagnate at best. The prime inner city locations, in particular, remain under more pressure than the city district locations with a strong local supply situation. In view of the ongoing process of structural change and depending on the location and type of business, the market values of retail properties are likely to stagnate at best, but could also decline in some cases.

INDUSTRY, TRADE AND SERVICES, INFRASTRUCTURE AND RENEWABLE ENERGY

The overall conditions for German growth will remain challenging in 2020, also due to geopolitical and foreign trade risks (such as the danger of a hard Brexit at the end of 2020 if negotiations on long-term relations between the EU and the UK fail, or the possible renewed escalation of the trade conflict between the US and China despite a first partial agreement having been reached). This weakness is reflected in the development of exports and investments, which are not expected to recover until the second half of 2020, if at all. Growth is therefore likely to remain anaemic for the time being. Robust private consumption, based on a positive employment trend, further wage and salary increases and fiscal policy impetus argue in favour of a continuation of at least a low growth path, which should support demand and, as a result, **retail trade**. The industrial sector is likely to take a long time to regain momentum, meaning that a direct marked recovery is unlikely to be on the cards for the **manufacturing industry** or for **wholesalers and companies operating in the foreign trade** sector. The **logistics sector**, in particular, is subject to the risks of a prolonged general macro-economic downturn and a weakening in global trade. **Construction output** is likely to be close to the capacity limit, meaning that no further substantial expansion is to be expected.

The increase in transport demand as a result of the – albeit moderate – global economic growth on the one hand and high maintenance requirements on the other are providing positive stimuli for investments in **transport infrastructure**. Institutional investors are likely to continue to be important.

The prospects for the expansion of **renewable energies** remain mixed as far as 2020 is concerned. In the absence of political support, the German (onshore) wind energy segment is likely to continue to be characterised by weak performance in terms of new installations in 2020. New installations are likely to increase again in the rest of Europe. The absolute increase in generation capacity in the solar energy sector in Germany and also in Europe as a whole is likely to be continue to expand in 2020 due to the European climate protection targets and cost depression. On the one hand, however, restrictions on state subsidies are resulting in a gloomier outlook, while on the other, the planned "Green Deal", the climate protection plan of the new European Commission to achieve climate neutrality by 2050, could provide new growth impetus for renewable energies in Europe.

SHIPPING MARKETS

In view of the risks hanging over the global economy (geopolitics, trade conflicts) and the effects of regulatory requirements, the outlook for the shipping markets is characterised by uncertainty.

The market for **container vessels** is expected to stabilise at a higher level in 2020. The fundamental factors are likely to show a moderate improvement compared to the previous year. Demand growth would benefit from the expected slight recovery in the global economy and the easing of trade restrictions. On the supply side, fleet growth will slow as the order book is at a relatively low level and the new regulatory requirements are likely to lead to the increased scrapping of inefficient vessels. The positive effect of scrubber retrofitting measures will, however, fade as the year progresses. It is therefore to be expected that charter rates will stabilise while ship values will chart a moderate increase.

The demand growth for **bulkers** is likely to slow over the coming year. This is mainly due to Chinese imports of coal and iron ore, which are expected to continue to lose momentum. If trade disputes were to escalate further/again or persist for a prolonged period, this could have serious implications. On the supply side, growth rates remain at the moderate level seen in the previous year. As a result, the utilisation of the fleet in 2020 as a whole should remain more or less on a par with the current level, and the development of charter rates and vessels should show a sideways movement.

The **oil tanker market** is likely to normalise overall after the recent rally in charter rates, as the positive effects of the more stringent emissions regulations (scrubber retrofitting measures reducing the available fleet, additional demand for the transportation and storage of the low-sulphur fuel) begin to fade. The renewed OPEC+ production cut adopted in December 2019 will put a damper on demand. Further increases in US crude oil exports could partly compensate for this, meaning that solid growth in demand for oil tanker tonnage is expected overall. Geopolitical factors in the Middle East and trade conflicts are sources of risk. On the supply side, scrapping is likely to increase again due to the emissions requirements. Coupled with declining deliveries, this means that fleet growth should be restrained.

Even if the fundamental influences for the shipping markets are expected to be moderately positive overall, the expiring special effects are likely to have a noticeable negative impact. In particular, if geopolitical tensions and trade conflicts affect demand, this could translate into major fluctuations in charter rates and also ship values during the year.

BANKING ENVIRONMENT

Against the backdrop of the ongoing geopolitical and economic uncertainties, as well as potentially high volatility in the financial markets, the overall banking environment is expected to remain challenging in 2020. Although the growth forecasts are currently still relatively satisfactory, the downside potential is still to be classified as critical due to the complex range of influencing factors (e.g. trade conflicts, Iran, Brexit).

With regard to monetary policy, this is likely to mean a period of low interest rates which will last much longer than was expected a year ago, with no turnaround in sight. The ECB, for

example, is likely to maintain its expansive monetary policy in the first instance, meaning that the pressure on net interest income resulting from the low interest rate environment will gradually increase further. At the same time, the credit cycle is expected to become significantly less favourable and the need for loan loss provisions will increase in general. In the medium term, this is likely to apply in particular to certain sub-segments of the German real estate market and also to the industrial sector, which is reliant on exports.

In a European comparison, the need to adapt, in terms of profitability, is the most pronounced on the German banking market, as German institutions have below-average sources of income that do not rely on interest, low credit margins due to the intense competition and, at the same time, very high cost-income ratios and low RoEs that are stuck, as a result, below the cost of capital. Given the increasing weakness in profitability combined, at the same time, with the need to invest in digitalisation, which will be a decisive competitive factor, the pressure on German institutions to cut costs will increase considerably as a result. At the same time, business models are being reviewed with a view to achieving a more focused approach. Irrespective of this, the consolidation pressure in the German banking market is likely to increase further over the coming years.

Regulators and market participants will focus even more on an increasingly comprehensive view of banks' capital adequacy and liquidity resources. This is particularly important regarding the extent to which banks are prepared for the new regulatory standards for bail-in eligible liabilities. These relevant capital and liquidity requirements that form part of the resolution mechanism include in particular the institution-specific minimum requirements for regulatory capital and eligible liabilities (MREL) defined by the national banking supervisory authorities and resolution authorities. This should provide banks with even more of an incentive than before to optimise the increasingly granular liabilities side of their balance sheets, as they seek to strike a balance between regulatory requirements on the one hand and cost aspects on the other.

In addition, further fundamental adjustments are already emerging. The changes summarised under Basel IV, which, amongst other things, will serve to improve the comparability of RWA profiles and the reduction of complexity concerning risk identification, are at the same time aimed at the harmonisation of supervisory practices in the EU and are designed to improve transparency vis-à-vis the markets. The focus here is on the banks' internal models for calculating risk. The ECB is evidently aiming to harmonise the varying risk weights attached to similar business transactions in Europe. ESG (environmental, social and governance) is another aspect that both banking supervisors and market participants are increasingly focusing on. Here, too, the ultimate goal is to make the banks fit for the future.

The focus of the SREP process in 2020 will be on the priority areas of continued balance sheet restructuring and

strengthening the future resilience of the institutions. As far as balance sheet restructuring is concerned, the focus will not only be on internal models, but also on follow-up measures relating to the NPL guidelines, as well as on the approach to trading risks and the valuation of assets. When it comes to strengthening future resilience, the issues addressed will include the quality of lending policies and exposures, capital and

liquidity management, and, once again, IT and cyber risks and governance.

Expected business development of Hamburg Commercial Bank

Financial key management indicators			
	Actual figures 2019	2020 forecast	Strategic objective for 2022
RoE (%)	1.8	A ratio of between 2% and 4% is expected	> 8
CIR (%)	69.3	On the basis of a declining cost base and a planned increase in total income, which was hit by special effects in 2019, a significant decline in the CIR is expected.	In the middle of the range between 40 and 50
CET1 ratio (%)	18.5	A ratio above the ratio as at 31 December 2019 is expected	~ 20
LCR (%)	165	The ratio is expected to continue to be comfortably above the regulatory requirements	> 140
NPE ratio (%)	1.8	A ratio of under 2% is expected	< 2
Non-financial key management indicators			
	Actual figures 2019	2020 forecast	Strategic objective for 2022
Rating	Baa2/BBB	Stable at the level already achieved	Baa1/BBB+

Key basis for the forecast

In its corporate planning, the Bank generally assumes that:

- the current interest rate and monetary policy of the ECB will be continued, meaning that no normalisation of the interest rate environment will materialise in Europe in the medium term,
- the very weak economic growth in Germany and the eurozone will most likely continue in 2020, with a significant increase in the risk of a downside scenario, meaning that a recession for Germany and the eurozone cannot be ruled out for 2020,
- the development in net interest income as the main driver of total income will be characterised by a scheduled decline in total assets and reduced volumes of new business on the one hand, and structurally improved margins on the other hand, which will be attributable in particular to a further drop in funding costs and higher levels of ambition,
- the Bank's good asset quality, combined with an active strategy for risk reduction (de-risking strategy), will be reflected in the long term in a moderate level of loan loss provisions that is appropriate for the Bank's business model, although higher loan loss provisions may still be required for 2020 compared with the ensuing years,
- there will be a continuous, noticeable reduction in administrative expenses during the planning period, as the cost-cutting measures from the 2018 transformation programme and the 2019 cost-cutting programme can be implemented to the extent, and within the time frame, envisaged,
- on the basis of the restructuring provisions as at 31 December 2019, restructuring measures will only have a moderate negative impact on the earnings situation during the planning period, and
- the seamless transition to the deposit protection fund for private banks that has been agreed for 1 January 2022 will be achieved as planned and the Bank will meet the conditions set out in the Statute for participation in the ESF by the end of 2021,

Following the key progress made in the transformation programme in the year under review (cf. the section entitled "Business development – significant developments and events in the 2019 reporting year"), Hamburg Commercial Bank will continue to systematically push ahead with the implementation of the individual packages of measures in all areas of action of the transformation programme in the 2020 financial year. The management believes that 2020 will be a decisive transformation year that the Bank considers itself well positioned for, particularly due to its good capital and risk position.

In 2020, it will be important to proactively position the Bank to succeed even in an environment of changing conditions, in particular a slower global economy. At the same time, the quest is to further strengthen the Bank's position from within with the aim of ensuring that it achieves admission to the BdB. In the medium term, the idea is to position the Bank so that it has the biggest range of strategic options open to it as possible when the economic cycle and the market environment for banks change for the better again.

In order to ensure this, the Bank adjusted/focused its strategy in December 2019, particularly with regard to the client business. The specific core elements of the strategic adjustment, which is inevitably also associated with an adjustment to the Bank's medium-term planning, are (i) the significant reduction in new business targets, particularly in selected areas of commercial real estate financing which are particularly dependent on economic conditions, and (ii) the selective external placement of loan portfolios in order to reduce risks in the loan book before they potentially materialise as a result of adverse market conditions. This de-risking strategy is supported by measures to selectively tighten up lending standards that were already implemented in the year under review. Both measures are planned to lead to a significant reduction in total assets, as well as a noticeable reduction in RWA in as early as 2020. Furthermore, the adjusted strategy provides for the large-scale restructuring of capital market activities, a move that will be associated with a considerable reduction in complexity. The focus will be on discontinuing the less profitable client-oriented business (derivatives, bonds trading) and implementing and expanding more cost-effective platform-based solutions (end-to-end business).

This adjustment in strategy does not affect the Bank's fundamental strategic objective of constantly developing its client business (in a manner that transcends the limits of economic cycles and is consistent with its core competencies as a specialist finance provider). This involves concluding profitable transactions in the Bank's core business areas and markets, implementing efficient processes with and for the client, and reducing unprofitable, highly complex products that do not offer the required scalability.

As a consequence, the Bank's will focus even more on achieving risk-adjusted earnings, rather than on volume growth, in its client business in the second year of transformation, too. The strategic objective is to improve the quality of earnings by diversifying the sources of income and increasing profitability, the aim being to control concentration risks by avoiding or reducing them. The Bank plans to use the Diversified Lending business area, which is currently being established, the development of a diversified strategic investment portfolio and the expansion of the OtD business (particularly in the area of project financing) to contribute to the implementation of its diversification strategy.

Another focal point will be the continuous optimisation of the funding structure and liquidity position. Within this context, the Bank will be concentrating on the targeted further reduction of funding costs and the diversification of its funding structure, i.e. broadening the investor base and expanding the instrument categories. The Bank is also aiming to further increase the term of its deposits and their granularity. The liquidity position is to be optimised further taking into account the declining volume of total assets and the sustained low interest rate environment.

In operational and cost terms, considerable emphasis with regard to corporate governance and management in 2020 will be placed on implementing the business IT transformation process and the staff reduction measures.

The successful implementation of the business IT transformation process that was launched in the year under review is essential for achieving the Bank's cost targets due to the significant cost advantages that it entails. As a result, the Bank will continue to pursue the BIT project intensively and systematically, with the following focal points planned for the 2020 financial year: Completion of the outsourcing of IT application support (completion of the transition phase), achievement of the next set of milestones in the development of the efficient IT platform (SAP S/4 Hana) and renewal of the workplace infrastructure ("modern workplace"). Based on the current project status, the first few SAP applications, such as client management systems, are already expected to go live in the 2020 financial year, while the core banking systems are scheduled to go into operation in 2021. Implementation of the new workplace infrastructure, which is geared towards mobility and cloud use, is scheduled to start at the end of 2020.

The 2020 financial year will also be characterised by the operational implementation of the staff reduction measures that were adopted as part of the restructuring programme in December 2018, which largely went to plan in the year under review.

The additional personnel measures adopted as part of the December 2019 cost reduction programme, which are aimed at achieving a target figure of around 700 FTE in 2022, were communicated as soon as they were adopted and were presented in detail to the Bank's social partners. The Bank aims to address the changes in its organisational structure that are inevitably associated with the strategic adjustment hand-in-hand with its social partners. On this basis, negotiations with the works council on a reconciliation of interests have already been successfully concluded in the first quarter of 2020. This agreement means that the new HR management measures will also be implemented in a socially responsible manner - on the basis of a "voluntary leavers" process under the social compensation plan that has been in place since March 2019. The first few agreements with employees who will be leaving the Bank are expected to be concluded in the second quarter of 2020.

Increasing regulatory requirements will continue to affect the Bank. The supervisory authorities are placing particular emphasis on the data pool for, as well as the calibration and forecast quality of, internal rating procedures. The Bank is subjecting its rating module landscape to a fundamental review and comprehensive further development in view of the mounting regulatory requirements. Another focal issue in 2020 will be strengthening the requirements of the Three Lines of Defence (3 LoD) model.

In view of the operational measures identified and taking into account the fundamental aspects referred to above, the Bank expects to generate positive **net income before taxes** that is up slightly year-on-year in 2020 and, on this basis, a moderate positive **RoE** for the Group. The **cost-income ratio (CIR)** will fall in 2020 as planned. As at the reporting date, this ratio had taken a significant hit from negative effects on total income (in particular the balance sheet effects resulting from the repurchase of hybrid capital). Accordingly, total income is expected to rise in the 2020 financial year on the one hand, while on the other hand, the forecast assumes a further decline in administrative expenses, particularly as the savings potential from the measures already implemented under the restructuring programme adopted in December 2018 will take effect for a full financial year for the first time in the 2020 financial year. The savings potential from the 2019 cost reduction programme, both in terms of personnel and operating expenses, will only be realised gradually during the transformation phase in the period leading up to and including the 2022 financial year. This means that the strategic objective of a CIR in the middle of the 40%-50% range will also only be achieved as planned in 2022. With regard to the **CET1 ratio**, the Bank assumes that it will continue to increase from the solid level seen at the end of the reporting year in 2020. This predicted development will be driven primarily by a planned significant reduction in RWA as a result of the measures taken to reduce the risk associated with the balance sheet structure.

The Bank expects the **LCR** to remain comfortably above the regulatory requirements in 2020, too. Based on the de-risking strategy and given the Bank's solid asset quality, it is assumed that even in a weaker macroeconomic environment, the **NPE ratio** will be below the 2% mark in the planning period in line with the strategic objective. In general, the Bank expects that the progress achieved in the transformation process, and the measures adopted towards the end of the year under review to reduce risk and strengthen capital, will have a positive effect on how the **rating agencies** view the Bank, meaning that Hamburg Commercial Bank's rating position, which improved after the closing, will be strengthened further despite the negative outlook for the German banking sector as a whole.

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 or an objective 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 or an objective. The bank-specific risk types are then separately explained in the Risk Report.

General opportunities and risks

A) ECONOMIC FACTORS

There are numerous risks that could potentially put pressure on the global economy. These include a renewed escalation of the trade war, which would leave a particular mark on Germany if higher customs duties were to be introduced on German cars in the US. The coronavirus that emerged towards the end of the year represents a key risk factor for the global economy due to the importance of China for world trade, with the industrial sector in Germany set to be particularly affected. This risk has to be assessed as being even higher now that the virus is also spreading in Europe, including in Germany, meaning that it is having a direct impact on industry and the service sector. Furthermore, the negotiations between the EU and the United Kingdom entail the risk that no free trade agreement will have been concluded by the end of 2020, and that trade relations between the two economic areas will be severely affected as a result. The US presidential and congressional elections could unsettle the financial markets beyond normal levels. A crisis emanating from the US corporate bond market is also in the realms of possibility, as debt in this sector has risen sharply in recent years. In the eurozone, early elections in Italy would be associated with renewed fears regarding the sustainability of Italian finances. On a geopolitical scale, tension between Iran and the US could increase again and, among other things, spark an increase in oil prices that would have a negative impact on the economy.

Given that the upswing in the US economy is one of the longest in US economic history, it would not be entirely surprising if a recession were to emerge there after all. Finally, it is impossible to rule out a climate-related economic slump in the coming year.

Conversely, uncertainty in the corporate sector would be reduced if the above-mentioned risks were to fail to materialise, or in the event of positive surprises, such as a comprehensive trade agreement including a reversal of the new tariffs between the US and China.

B) INDUSTRY-SPECIFIC FACTORS

Given the continuing risks for global trade and in view of the declining support from the positive effects associated with the tightening of emissions standards, the shipping markets could be faced with much weaker development. The export-oriented German economy could also suffer more in such a scenario than assumed in the planning. On the other hand, a more hesitant turnaround in the ECB's monetary policy would generally have a positive impact on the development of the real estate markets, in particular.

C) COMPETITION/CYBER RISKS/DIGITALISATION

The fierce competition in the German banking market, especially in the persistently low interest rate environment, is still putting pressure on asset margins and profitability in the lending business. In line with the increasing importance of digital infrastructure for banks, as in other sectors, the cyber risks to which institutions are exposed have also increased. Further information in this regard can be found in the Risk Report.

The use of state-of-the-art information technology, as well as digitalisation, offers opportunities for optimising business processes, tapping into new sources of income and positively influencing IT developments, a trend that earnings and cost ratios, in particular, could benefit from.

Company-specific opportunities and risks

A) TRANSFORMATION PROGRAMME

If the implementation of the transformation program and, in particular, the associated measures aimed at achieving a sustainable reduction in costs and an increase in profitability do not proceed according to plan, it is impossible to rule out a scenario in which the income and cost ratios do not improve to the extent, or within the timeframe, expected.

On the income side, there is a fundamental risk that the targets regarding the profitability of new business, which require the acceptance of market participants, particularly with regard to funding targets, will not be achieved to the extent expected.

On the cost side, it is impossible to rule out a scenario in which the operational measures for achieving sustainable cost reductions, which were expanded as part of the strategy adjustment completed in December 2019, will be delayed or that higher expenses than those assumed in the planning will be incurred. This risk applies, in particular, to cross-functional projects with a very high level of complexity, such as in the area of business IT transformation. Furthermore, it is not possible to rule out a scenario in which the further reduction in headcount – the scope of which was also adjusted in December 2019 – is not implemented as planned or results in higher operational risk requiring mitigation measures. The risk of losing key expertise may also be increased as a result of the personnel measures taken.

On the other hand, if the transformation programme is implemented successfully, there will be an opportunity to continue to adapt the current cost-reduction structures and realise additional cost potential. This potential could arise from possible synergies and, where appropriate, from new strategic options. There is also a chance that the Bank will make faster progress than expected in implementing its funding targets, which would generally have a positive impact on new business profitability. The Bank is confident that it will achieve its stated cost and income objectives, also taking account of the successes already achieved in the past. The rapid and successful implementation of the transformation programme would make a significant contribution to a sustained increase in efficiency and the long-term stabilisation of the Bank's business model.

B) TRANSITION/MEMBERSHIP OF DEPOSIT PROTECTION FUNDS

Agreements have been reached regarding Hamburg Commercial Bank's inclusion in the voluntary deposit protection fund of the Association of German banks as of 1 January 2022 that provide a reliable framework for its seamless transition to full membership of the deposit protection fund (ESF). If the agreements reached are not adhered to and, as a result, or for other reasons, the Bank is not admitted to the voluntary deposit protection fund of the Association of German Banks as of 1 January 2022 as planned, this could lead to a significant outflow of deposits and a marked increase in funding costs.

Also as a result of the different manner in which the guarantee systems work, i.e. institutional protection under the protection system of the German Savings Banks Finance Group versus protection of deposits, there is a risk of liquidity outflows associated with the transition from the guarantee scheme of the German Savings Bank Finance Group to deposit protection fund for private banks.

Hamburg Commercial Bank may also be required to make special payments because of its membership of the support fund of the Landesbanks and Girocenters the European bank levy in the event that future compensation and support measures result in the underfunding of these organisations. It is currently not possible due to the calculation method used, which is based on the relative development of institution-specific parameters compared to the sector, to assess whether and to what amount such payments will arise. However, such payments may adversely impact earnings in general.

C) REGULATORY ENVIRONMENT

New regulatory initiatives could potentially result in higher RWA for Hamburg Commercial Bank. This applies in particular to the need for adjustments in the use/application of internal models in the run-up to Basel IV.

Overall appraisal and net income forecast

2020 will be a decisive year of transformation for Hamburg Commercial Bank. The focus is on meeting the requirements for the Bank's successful admission to the Federal Association of German Banks at the beginning of 2022. The progress made in the 2019 financial year in the extensive transformation programme and the Bank's solid capital and risk position, which has been strengthened further, represent a good starting point in this regard. In view of the increasingly challenging economic environment, the Bank has proactively adjusted its transformation programme and launched new initiatives, the overall aim being to strengthen its good capital position, maintain its

risk position, even in a less positive economic environment, and increase profitability.

On the basis of the generally satisfactory performance of the IFRS Group in the 2019 financial year, the Bank is confident, from today's perspective, that it will be able to achieve the targets set for 2020 as a whole. On the earnings side, the 2020 financial year will be characterised by initiatives to implement the de-risking strategy and to structurally improve the quality of earnings, with a deliberate reduction in the volume of new business. At the same time, the Bank expects to further expand its funding position on the capital market. Within this context, the agreement reached with the main hybrid capital investors should also have a positive effect. On the cost side, the focus is on the further implementation of the business IT transformation process and the extensive staff reduction measures. In order to ensure the successful implementation of the transformation programme, the associated individual measures will be continuously reviewed as part of a controlling process and adjusted if necessary.

Taking into account the restructuring provisions set up as at the reporting date, the Bank expects to achieve positive IFRS net income before taxes for the 2020 financial year that is up slightly in a year-on-year comparison. The net income forecast is subject to any unforeseeable effects resulting from the implementation of the restructuring/transformation process, unforeseeable geopolitical influences and a significant increase in the negative economic impact of coronavirus.

The earnings forecast and future development of Hamburg Commercial Bank are associated with major challenges 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 current version of the Minimum Requirements for Risk Management (MaRisk) laid down by the supervisory authorities serves as the regulatory framework for the design of the risk management system. In addition, comprehensive requirements of the European Supervisory Review and Evaluation Process, SREP, and the ECB Guides for the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) must be observed.

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.

Hamburg Commercial Bank conducts an annual risk inventory in order to identify material risks as defined by MaRisk. This includes a review of the existing quantitative and qualitative criteria for determining materiality taking due account of the Bank's risk appetite and such criteria are redefined if necessary. Based on the results of the risk inventory, risks are broken down into "financial risks" and "non-financial risks". Financial risk is defined as the risk of a change in the value of an asset having an impact on the financial figures. 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 maintain a capital or liquidity buffer for this, 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 at Hamburg Commercial Bank that can be quantified include default risk, market risk, liquidity maturity transformation risk as a type of liquidity risk for financial risks and operational risk, which also includes legal and compliance risks, for non-financial risks. These risk types are taken into account in assessing of the capital adequacy.

As far as financial risk is concerned, other material risk types at Hamburg Commercial Bank include the risk of insolvency as the second manifestation of liquidity risk, and, with regard to "other NFRs", the business strategy risk and reputation risk. Default risk is the most significant risk type based on Hamburg Commercial Bank's business model.

Determination of risk appetite and risk guidelines

The Strategic Risk Framework (SRF), which 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 and 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.

The transformation into a profitable private bank, implementation of the objectives of the new owners and meeting of the requirements of other stakeholders, in particular the banking supervisory authorities and the Deposit Guarantee Fund of the Association of German Banks, is supported by the SRF guidelines.

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 SRF also forms the basis for the business strategy and provides a central foundation for bank planning.

The RAS is broken down into a financial and non-financial RAS on the basis of the risk inventory and is aimed at providing a condensed description of risk appetite in order to achieve the Overall Bank's objectives. The Financial RAS consists of a catalogue of key financial ratios, 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 RAS. It provides the framework for the sub-risk strategies (default risk for performing and non-performing exposure respectively, market and liquidity risks, non-financial risk along with reputation risk and operational and business strategy risks)

The SRF is the subject of a resolution passed by the Management Board and is reviewed at least once a year. Where necessary, adjustments are made during the year. It is also 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 functioning limit system requires that the risk appetite be derived on a rigorous basis. 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 avert risks that could jeopardise its continued existence and to achieve the risk strategy objectives.

Key Risk Indicators of the Group

	31.12.2019		Limit	Guideline
ICAAP utilisation from an economic perspective/RBC	51 %	<	90 %	-
Economic capital required (in € bn)	2.0	<	2.5	-
of which: for default risks	1.0	<	1.4	-
for market risks	0.6	<	0.7	-
for liquidity risks	0.1	<	0.3	-
NPE ratio	1,8% ¹⁾		-	< 3.0 %
CET1 ratio (same period calculation) ²⁾	18.6%	>	11.0 %	-
T1 ratio (same period calculation) ²⁾	18.6%	>	12.5 %	-
Overall capital ratio (same period calculation) ²⁾	23.6%	>	14.5 %	-
MREL	25,6% ³⁾	>	10.1 %	-
Leverage ratio	8.2%	>	4.0 %	-
Liquidity coverage ratio (LCR)	165%	>	115 %	-
Net stable funding ratio (NSFR)	114%	>	102 %	-
NLP2 in the stress case (in € bn)	6.4	>	0.5	-
Month 1				
Month 2	6.1	>	0.5	-
Month 3	5.7	>	0.5	-

¹⁾ Taking into account adjusting events after the reporting date.

²⁾ Same period calculation: calculation taking fully into account the balance sheet carrying amounts as at the reporting date, all else being equal.

³⁾ 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 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. The Risk Committee is regularly informed of the risk position and risk management by the Management Board in meetings.

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. Specifically, this includes the Risk Control, Credit Risk Management and Non-Financial Risk & Compliance business units. The CRO makes decisions independently of the Management Board members responsible for the Market divisions and Trading and periodically informs the Overall Management Board and Risk Committee of the risk situation of the Hamburg Commercial Bank Group. In this way the separation of functions required under the regulatory provisions 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.

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, by setting risk limits and risk guidelines, supports operational portfolio management, for which the Bank Steering business unit is largely responsible.

Credit Risk Management is responsible, among other things, for credit risk analysis, including the preparation and setting of the internal rating and drafting of the credit applications for the Bank's entire lending business. Credit Risk Management is also responsible for designing the processes and rules that apply to the lending business within Hamburg Commercial Bank.

The Special Credit Management department is responsible for managing restructuring commitments.

Credit Risk Management is responsible for the management of loan loss provisions for defaulted receivables (IFRS stage 3). The processing and management of the lending business, including ongoing collateral valuation, also falls within its remit.

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

The independent Non-Financial Risk & Compliance unit is responsible for compliance risk management. The unit works to ensure compliance with the law and applicable regulations with regard to the Code of Conduct and issues such as capital market compliance, prevention of money laundering, terrorism financing and other criminal acts in accordance with Section 25h of the German Banking Act (KWG).

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. The main task is to arrive at a holistic overall view of all (systematic) risks on a case-by-case basis and at portfolio level. Hamburg Commercial Bank makes a distinction in this regard between the specialised (II a) and the overarching (II b) second line of defence. The Risk Control and Non-Financial Risk & Compliance business units act as line of defence II b. In principle, line of defence II a is responsible for monitoring and control, as well as for establishing procedures to limit the individual 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 helping 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. It regularly provides the Overall Management Board and Audit Committee of the Supervisory Board with information on the findings of its audits, which are carried out on the basis of a risk-based audit plan that is approved by the Overall Management Board on an annual 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 divisions 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 entering into transactions in new products or new markets (NMNP 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 Management Board/committees. There is also an NPNM review process in place under which the appropriate mapping of older products is reviewed on a regular basis.

Hamburg Commercial Bank uses an "economic scope of consolidation" as the basis for the Group-wide risk management. It includes those entities that are to be specifically monitored at the Group level due to material risks.

Risk management by a central committee structure

The Management Board has established committees that support it in monitoring and managing all material risks. Besides the members of the Management Board, the committees are also composed of the heads of the risk and other departments, ensuring that information regarding risk-related matters 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 committee structure was altered in the year under review as part of the Bank's transformation. The Overall Bank Management Committee (OBM Committee), as the central body for financial resource management and allocation, for dealing with strategic market risk positions and for monitoring the recovery plan, was dissolved in the year under review. Its tasks have either been transferred to other bodies or are performed directly by the Management Board.

At the end of 2019, the Bank had the following committees with the composition and remit set out below:

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 resource of liquidity and funding, manage market risks in the banking book plus overlay management, and to allocate assets and capital. If risk limits, guidelines or ambition levels 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, the deal structure and risk aspects into account.

The Credit Committee is tasked with making lending decisions on major exposures. The Credit Committee also votes in advance on loan applications at the competence level of the Overall Management Board. 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.

Risk reporting and measurement systems

Hamburg Commercial Bank maintains a central data storage system, which takes into account supervisory requirements, for the purposes of analysing, monitoring and reporting risks. Risk reporting is generally ensured 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 following key reports are prepared for the overall risk:

- The management 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/procedures and the development of the recovery plan indicators, is submitted to the Management Board. 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. The management report is generally prepared on a monthly basis. In addition, it is updated on a weekly basis for selected key figures and ratios. The management reporting policy sets out the management requirements regarding structure, contents, frequency, deadlines and form of the internal reporting combined in the management report.
- In addition, relevant extracts from the management report and the development of aggregated risk parameters of Hamburg Commercial Bank are presented to the Risk Committee for the purposes of its quarterly meetings.

Other overall risk reports include the Disclosure Report under Part 8 of the Capital Requirements Regulation (CRR) and the Risk Report in the Annual Report.

In addition to risk reports on the overall risk, there are reporting instruments based on the risk type. The Management Board is informed on a daily basis of the market risk and earnings trends as well as the extent to which limits are utilised and the CRO and the divisions concerned are informed of the insolvency risk trend in the Normal Case and Stress Case. The OpRisk Steering Committee receives a quarterly report regarding the development of the risk position, material loss events and management measures addressed within this context. The Overall Management Board is provided with regular information on the capital required, the loss event trend and material loss events and loss potential, as well as any measures required.

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 person responsible for the process is designated 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. Clear roles and responsibilities are defined within the ICS cycle to ensure that the tasks are performed in a proper manner.

Central responsibility for the management and monitoring of the ICS as well as for methodology guidelines and their enhancement lies with the ICS Office in the Non-Financial Risk organisational unit.

It is also responsible for carrying out random quality assurance checks and appropriate reporting to the Management Board and Supervisory Board.

In order to ensure that the system is functioning on a sustained basis, the process is closely monitored by means of continuous communication and governance throughout the Bank.

The Bank's sub-processes are defined annually for the control cycle based on the degree of risk determined and the last cycle run through. In addition, the outsourcing of material functions is reported to the Management Board on an annual basis via the ICS management process.

Furthermore, subsidiaries of Hamburg Commercial Bank are classified annually as to the materiality of their respective processes for the Bank's ICS. The processes of all subsidiaries classified as material are integrated into the Bank's ICS management processes.

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 for 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 should maintain a quality standard that ensures

a true and fair view of net assets, financial condition and earnings situation. 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 members of staff in charge of the process and are adjusted to the current framework conditions and requirements. In addition, the accounting process is audited by the Internal Audit from a process-independent perspective.

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. In this context, the so-called IRB Advanced Approach is applied for default risk, for which the supervisory authority has issued the relevant authorisation to the Bank. The Credit Risk Standardised Approach (CRSA) is used for a small part of the portfolio. This means that the Bank applies consistent parameters for regulatory reporting (COREP) and the internal default risk management of the IRBA portfolio. Hamburg Commercial Bank determines the amounts allocated to market risk positions in accordance with the prescribed or optional standard procedures. Hamburg Commercial Bank takes account of operational risk under the standard approach. Hamburg Commercial Bank uses the standard method 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. As an institution that uses the IRB Advanced Approach for nearly the whole portfolio, particular requirements apply to Hamburg Commercial Bank in this context. The document provides more information than statements made in this Annual Report on the basis of the accounting principles applied, as it provides a comprehensive insight into the regulatory framework and the current risk situation of the Bank based on regulatory figures. The Disclosure Report as at 31 December 2019 is available on our website, www.hcobank.com, four weeks following publication of this Annual Report. The Disclosure Report does not form part of the 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 adopted for determining specific and general credit risk adjustments under 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. For 2020, the following SREP requirements apply to the Bank. The total capital requirement (P2R), excluding the combined capital buffer requirements, is 10.75 %, including a Pillar II CET1 add-on of 2.75 %. There is also a Pillar II Guidance of 1.0 %. The regulatory capital requirements including the combined capital buffer requirements are around 10.0 % for CET1 capital (including P2G of around 11.0 %), around 11.5 % for tier 1 capital (T1) and around 13.5 % for the overall capital requirement.

In addition, the minimum regulatory capital ratios are tested under the normative perspective in the ICAAP over a multi-year time horizon in a base and stress scenario in the future.

Regulatory capital ratios ¹⁾

(%)	31.12.2019	31.12.2018
Overall capital ratio	23.5 %	23.3 %
Tier 1 capital ratio	18.5 %	18.4 %
CET1 capital ratio	18.5 %	18.4 %

¹⁾ Regulatory group according to CRR

Regulatory capital¹⁾

(€ bn)	31.12.2019	31.12.2018
Regulatory capital	4.9	5.2
of which: Tier 1 capital	3.9	4.1
of which: CET1 capital	3.9	4.1
of which: Additional tier 1 capital	-	-
of which: Supplementary capital	1.0	1.1

¹⁾ Regulatory group according to CRR

Risk weighted assets (RWA)¹⁾

(€ bn)	31.12.2019	31.12.2018
Market risks	0.2	1.0
Operational risks	1.5	1.7
Credit risks	16.5	19.0
Other RWA	2.8	0.4
Total RWA	21.0	22.1

¹⁾ Regulatory group according to CRR

The reduction in aggregated RWA at Group level is primarily due to reduced RWA for market risks as a result of the significantly reduced holdings in the trading book. The RWA for credit risks have been reduced on the one hand by the decline in exposure at default and on the other hand by an improved risk structure – in particular due to higher standards in new business. This is offset by an increase in RWA due to necessary adjustments to the model parameters for credit risks (reported under Other RWA).

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 16.2 % as at 31 December 2019 (previous year: 18.2 %). The net loss for the year and increased regulatory capital deductions has a particularly negative impact on the CET1 capital. The corresponding Tier 1 ratio reached 16.2 % (previous year: 18.2 %), the corresponding overall capital ratio amounted to 20.9 % (previous year: 22.9 %). 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, an institution-specific MREL (Minimum Requirement for Own Funds and Eligible Liabilities) requirement for Hamburg Commercial Bank has been defined by the European Single Resolution Board (SRB), the resolution authority responsible for the Bank. It corresponds to around 8.4 % TLOF (total liabilities and own funds) at Group level. The requirement was adhered to at all times during the reporting period.

Risks for the capital ratio trend

Risks may arise from the regulatory environment, for instance from interpretation decisions or audits, in addition to the risks for the capital ratios set out in the following section on “scenario calculations”.

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 impact the future LGD/PD estimates in the internal models and result in increases in RWA and thereby adversely impact the capital ratios.

Furthermore, there is a potential risk of the income statement and ultimately future capital ratios being adversely affected by legal action brought against the Bank as a result of the cancellation of silent participations in the Bank as part of the optimisation and restructuring of the capital structure at the end of 2018. As a result, the outstanding hybrid capital instruments will either be settled in 2021 at the HGB carrying amount for the 2020 financial year or will be repaid by the Bank prior to the redemption date in 2021 as part of potential voluntary repurchase offers. Individuals investors/groups of investors in hybrid instruments have filed lawsuits against the Bank in court and are calling not only for the termination to be declared ineffective, but also for the value of the instruments to be written up to the nominal value/for damages to be paid to compensate for lost interest payments. An agreement that is positive from the Bank's perspective has been reached with the vast majority of the plaintiffs involved. It has already led to some claims being withdrawn and result in others being settled in the near future. In the event that, contrary to expectations, the remaining plaintiffs are successful in court, the income statement and ultimately the future capital ratios could be adversely impacted.

Should several of the risks (including those described in the following scenario calculations) arise in combination with each other, additional measures to strengthen capital may be required. 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” – probably on a gradual basis from 2022 until 2027. For Hamburg Commercial Bank, stricter rules concerning counterparty risk resulting from Basel IV will be of particular relevance. Hamburg Commercial Bank extensively uses models approved by the supervisory authorities to map counterparty risk (Internal Ratings Based Approach – IRBA). Under Basel IV, there are plans to significantly restrict the advantages of IRBA models by basing the capital backing more closely on the standardised approach (CSA

floor), by limiting the use of the IRBA model to certain exposure classes as well as limiting the use of internal risk parameters (Constrained IRBA).

The envisaged transition to the voluntary guarantee scheme of the Federal Association of German Banks (Bundesverband deutscher Banken, BdB) is associated with requirements, including regarding the risk-bearing capacity/capitalisation. Should inclusion in the form of full membership of the BdB guarantee scheme not succeed as planned, this could have significant adverse impact on the Bank's business model as described in the section on liquidity risk.

ICAAP under the economic perspective/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. By determining it on a regular basis capital adequacy forms 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 refined economic methods and procedures. As part of the monitoring of the risk-bearing capacity Hamburg Commercial Bank regularly compares the total economic capital required for all material risk types quantifiable under internal procedures (overall risk) to the available economic risk coverage potential.

In addition to the regulatory Tier 1 capital modified for economic purposes, the risk coverage potential includes, inter alia, a negative balance comprising unrealised gains and losses on all assets and liabilities. Positive balances and positive effects associated with the Bank's own credit rating are not taken into account based on the ICAAP requirements.

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

The risk coverage potential amounted to € 3.8 billion as at 31 December 2019 (previous year: € 3.7 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 for the individual risk types are aggregated to an

overall economic risk. No risk-reducing correlations are utilised in the process.

Overall economic risk increased by € 0.4 billion compared to the 2018 year-end and amounted to € 2.0 billion as at the reporting date (previous year: € 1.6 billion). The increase is mainly due to the higher economic capital required for market risks. This is primarily driven by the methodology required by the supervisory authorities, introduced in 2019, of calculating interest rate risks in the banking book (IRRBB) separately from other market price risks, without taking risk-mitigating diversification effects into account.

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 € 1.0 billion (previous year: € 1.1 billion).

Market risk (value-at-risk, VaR) is scaled up on the basis of the confidence level chosen by the Bank and a one-day holding period to show the economic capital required for market risk positions for the purpose of managing risk-bearing capacity with a risk horizon of one year. The economic capital required for market risk amounted to € 0.6 billion as at 31 December 2019 (previous year: € 0.2 billion). € 0.4 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 danger of increased refinancing costs for the subsequent closure of open liquidity positions. As at 31 December 2019, the liquidity value-at-risk (LVaR), as a measure of the economic capital required for liquidity risk, amounted to € 0.1 billion (previous year: € 0.1 billion). Insolvency risk, 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 insolvency risk is included in the section entitled "Liquidity risk".

Operational risks are determined by means of a modified standard approach, which also takes account of results from the scenario analyses. The corresponding economic capital required amounted to € 0.2 billion as at 31 December 2019 (previous year: € 0.2 billion).

The utilisation of risk coverage potential amounted to 51 % as at the reporting date (previous year: 43 %). The main reason for the increase in the utilisation of the risk coverage potential was the need to split the market risk calculation. The risk-bearing capacity was ensured at all times during the period under review.

The following table shows the economic risk coverage potential of the HSH Nordbank Group, the economic capital required for the individual risk types, the residual risk coverage potential buffer and the utilisation of risk coverage potential.

ICAAP/risk-bearing capacity of the Group

(€ bn)	31.12.2019	31.12.2018
Economic risk coverage potential	3.8	3.7
Economic capital required	2.0	1.6
of which: for default risks	1.0	1.1
for market risks	0.6	0.2
Interest rate risks in the banking book (IRRBB)	0.4	n. a.
Other market risks	0.2	n. a.
for liquidity risks	0.1	0.1
for operational risks	0.2	0.2
Risk coverage potential buffer	1.9	2.1
Utilisation of risk coverage potential (in %)	51	43

The results determined under both the economic and normative perspective are reported to the banking supervisory authorities in accordance with the Regulation on Financial Information and Information on the Risk-bearing Capacity (Finanz- und Risikotragfähigkeitsinformationenverordnung, FinaRisikoV).

Scenario calculations

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 internal normative perspective is also assessed in accordance with the ECB Guide for the Internal Capital Adequacy Assessment Process (ICAAP). Adherence to the stipulated capital ratios and requirements 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 the downside scenario. The normative approach is not limited to the Pillar I risks covered by the regulatory capital requirements but also takes account of reciprocal relationships that have an economic effect on the key regulatory ratios.

In addition to stress tests specific to risk types, the Bank also regularly conduct stress tests across all risk types in order to be able to better estimate the effects of potential crises on key parameters such as ICAAP/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 Management Committee approves macroeconomic and segment-specific

forecasts for the carrying out of dynamic stress tests. These expected and stress forecasts are also incorporated in different simulation scenarios and presented quarterly to the ALCO and the 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. The impact of macroeconomic scenarios, such as a severe economic downturn or asset specific crises as well as adverse impacts resulting from regulatory developments, on the Pillar I and II capital ratios and leverage ratio is regularly calculated as a result.

If the sideways movement in the shipping industry assumed, amongst other things, in the planning does not materialise or there is a deterioration in the real estate market (especially real estate values) or a significantly weaker macroeconomic environment or significantly stronger USD exchange rate (downside scenario), this would result in a material deterioration in the risk parameters. In the event of a resulting 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, as a result, with the regulatory requirements (Pillar II requirement) at the level of the Hamburg Commercial Bank Group. If capital buffer requirements (Pillar II requirement) 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 of 14.5 % 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. Besides the review of the capital adequacy for the buffer maintained for risk coverage potential, regulatory capital and liquidity maintained under the economic perspective as at the reporting date and in the different stress scenarios, this analysis is used to discuss the need for 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. The effectiveness of the op-

tions 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 particular purpose of both 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. Scenarios that could endanger Hamburg Commercial Bank's ability to survive are identified for these. 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 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, settlement, country and equity holding risk.

In addition to classical credit risk, credit risk also includes counterparty and issuer risk. Classical 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. Counterparty default risk refers to the risk that a counterparty defaults during the term of a transaction and Hamburg Commercial Bank can only cover itself by entering into a new contract in the market for the residual term at a market price that might be less favourable. Issuer risk denotes the risk that a loss is incurred on a financial transaction as a result of the default or deterioration in the creditworthiness of the issuer.

Settlement risk 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 arises where Hamburg Commercial Bank has performed its contractual obligations but consideration from the contracting party is still outstanding.

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 debtor's credit rating.

The equity holding risk is the danger of financial loss due to the impairment of equity holdings.

All elements of default risk referred to are taken into account within the context of equity capital management. Additional management measures are in place for risk concentrations and equity holding risks.

Organisation of default risk management

Credit Risk Management is responsible for the risk analysis for the lending business including the preparation and setting of the internal rating and drafting of the credit applications. Furthermore, the organisation of the bodies of rules for the lending business, including the related processes, is the responsibility of Credit Risk Management. The Business Operations business unit is responsible for the settlement of new lending business, the administration of the existing portfolio as well as the valuation and monitoring of collateral. Collateral is valued in Credit Risk Management. The Special Credit Management department is responsible for managing the restructuring commitments and the associated operational restructuring activities. If a commitment is classified as a restructuring case, it is transferred from the market department in question to Special Credit Management and to the appropriate restructuring analysis team within Credit Risk Management. Workout exposures are processed by the restructuring analysis teams within Credit Risk Management. Lending decisions for normal and intensive management commitments are made jointly by the market department in question and the back office, while lending decisions on restructuring commitments are made jointly by Special Credit Management and Credit Risk Management. A decision against the recommendation made by the back office unit of Credit Risk Management is excluded in each case. Lending decisions on workout exposures are made below the competence level of the committee within Credit Risk Management.

Loan loss provision management falls within the remit of Credit Risk Management.

Hamburg Commercial Bank makes use of the option to dispense with the involvement of the back office departments within the meaning of 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.

Risk Control is also responsible for the independent analysis and monitoring of risks at the portfolio level, independent reporting and management of country risk. This also includes ensuring portfolio transparency and independent business area analysis (including scenario simulations) and the operation of an early warning system at the individual transaction

level for identifying commitments on a timely basis that are beginning to show signs of increased risk.

The principles and regulations contained in Hamburg Commercial Bank's Credit Manual, in particular on lending competencies (definition of decision-making powers for credit decisions made by the Bank and definition of decision-making powers for entering into, changing and terminating equity holdings), on limiting and reporting the concentration of counterparty default risks, the determination of the rating, treatment of collateral, loan monitoring and commitment monitoring, form the basis for the operating activities within the lending business. Thereby, credit risks which fall under the definition as set out 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. The focus is placed on meeting the requirements of the CRR (e.g. availability of a market value, ability to realise the collateral, no correlation to the collateralised loan, legal enforceability, and matching maturities). The range of approved collateral can be expanded following an assessment carried out by a team independent of the market divisions consisting of specialists from Credit Risk Management, Risk Control and Legal, Board Office & Taxes.

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

Default risk management

In line with the strategic focus of Hamburg Commercial Bank – as one of the leading bank partners of larger medium-sized enterprises – with lending as its anchor product, default risk accounts for the largest proportion of the Bank's overall risk potential. In order to measure and manage this risk, Group Risk Management uses procedures and methods that are continually reviewed and enhanced to ensure they are appropriate.

Key default risk parameters are the expected and unexpected loss. The expected loss is equivalent to the default 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 ex-

pected 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. Economic capital required is determined for internal management purposes on the basis of the calculation of the equity capital backing in accordance with CRR taking due account of any adjustments that are justified on economic grounds. In addition, institution-specific asset correlations, granularity adjustments designed to cover existing risk concentrations are taken into account in determining the economic capital required for default risk.

The economic capital required for default risk as at the reporting date amounted to € 1.0 billion (previous year: € 1.1 billion). The lower economic capital required for default risks is due to the winding down of the portfolio in 2019, which the Bank will continue to focus on in 2020.

To control the non-performing exposure (NPE), which is the total of all risk positions of borrowers in default, the NPE ratio serves as an important management indicator that has also been defined as a risk guideline in the SRF. The NPE ratio has fallen in line with expectations as a result of systematic efforts to reduce non-performing exposures. The NPE ratio was 1.8 % taking into account adjusting events after the reporting date.

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 NPE coverage ratio AC amounted to a solid 57.1 % taking into account adjusting events after the reporting date.

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 volume limit to a market conformity review carried out in a committee 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.

RATING PROCEDURES, 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. Various qualitative in addition to quantitative characteristics are also used in each rating module. The result is a probability at 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 allows comparison of differing portfolio segments but also mapping with external ratings.

In order to determine the expected drawdown for contingent liabilities and commitments in case of possible default, so-called credit conversion factors (CCF) are calculated empirically 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 (LGD). Collateral-specific recovery rates and borrower-specific recovery rates are estimated for these based on historic loss information. 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 2019 were in the real estate portfolio, which accounted for 29 % of the overall portfolio (previous year: 24 %).

There is an internal process, which ensures compliance with the regulatory requirements, for monitoring large exposure limits in accordance with Article 395 CRR. As a supplementary measure, the material counterparty concentrations in the portfolio are identified using a methodology comprising a rating-dependent net nominal upper limit and a gross nominal upper limit that is independent of the rating, and are reported to the Management Board and Risk Committee on a quarterly basis. In order to avoid future counterparty concentrations, compliance with the upper limits is also checked for every new transaction.

Country risk limitation is an additional management dimension within the management of risk concentrations. Country limits are set for country risk concentrations at the Hamburg Commercial Bank Group level. Utilisation of the limits is

monitored continuously and centrally by country risk management.

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. The opportunities and risks associated with a potential equity holding are analysed extensively prior to the conclusion of the transaction.

A regular company valuation represents an important instrument for monitoring and managing equity holding risk. Impairment tests are performed at least once a year on all equity holdings of Hamburg Commercial Bank. Important equity holdings are subject to a more detailed analysis in this context.

Furthermore, the articles of association and by-laws 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 three 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 DEFAULT RISK IN PRICING AND ACTUAL COSTING

Hamburg Commercial Bank applies a uniform method across the Bank for the pricing of lending transactions through calculating the present value of the expected and 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 regulatory capital backing. In the same way, an actual costing (profit centre accounting) is made for all transactions on a monthly basis, taking the above-mentioned cost elements into account. Standard risk costs and the resulting contribution margins are determined based on the current risk parameters of the individual transactions. 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. When bottleneck resources are overdrawn, new transactions and prolongations are subject to stricter approval requirements.

DEFAULT RISK STRUCTURE

The figures in the following tables showing the default risk structure are based on the exposure at default (EaD). The EaD corresponds to the volume of loan receivables, securities, equity holdings, derivative financial instruments (positive market values after netting) and off-balance-sheet transactions (taking the credit conversion factor into account). Risk-mitigating effects (such as recognition of collateral) are not included in EaD. Total EaD amounted to € 48,554 million as at 31 December 2019.

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) accounted for 71 % of the total exposure at the Group level (previous year: 73 %).

Default risk structure by rating category¹⁾³⁾

(€ m)	31.12.2019		
	Business areas	Other and reconciliation	Total
1 (AAAA) to 1 (AA+)	10,643	1,967	12,610
1 (AA) to 1 (A-)	7,315	1,793	9,108
2 to 5	12,229	338	12,567
6 to 9	11,033	2	11,035
10 to 12	1,472	-	1,472
13 to 15	689	4	693
16 to 18 (default categories)	735	-	735
Other ²⁾	96	239	335
Total	44,211	4,343	48,554

¹⁾ Mean default probabilities (in %): 1 (AAAA) bis 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⁾ 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 our consolidated equity holdings.

³⁾ Regardless of adjusting events after the reporting date.

Default risk structure by rating category¹⁾⁴⁾

(€ m)	31.12.2018		
	Business areas	Other and reconciliation ³⁾	Total
1 (AAAA) to 1 (AA+)	13,389	3,648	17,037
1 (AA) to 1 (A-)	7,992	2,104	10,096
2 to 5	14,005	175	14,180
6 to 9	10,642	1	10,643
10 to 12	1,848	-	1,848
13 to 15	1,539	5	1,544
16 to 18 (default categories)	699	183	882
Other ²⁾	92	319	411
Total	50,207	6,434	56,641

¹⁾ Mean default probabilities (in %): 1 (AAAA) bis 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⁾ 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 our consolidated equity holdings.

³⁾ Transactions entered into by the Non-Core Bank segment, which still existed at the end of 2018, are included in the Other and reconciliation segment.

⁴⁾ Regardless of adjusting events after the reporting date.

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

Default risk structure by sector

(€ m)	31.12.2019		
	Business areas	Other and reconciliation	Total
Industry	7,140	-	7,140
Shipping	4,921	-	4,921
Trade and transportation	2,473	-	2,473
Credit institutions	2,118	2,604	4,722
Other financial institutions	1,834	17	1,851
Land and buildings	10,713	1	10,714
Other services	4,502	369	4,871
Public sector	10,182	1,343	11,525
Private households	327	9	336
Other	-	-	-
Total	44,211	4,343	48,554

Default risk structure by sector

(€ m)	31.12.2018		
	Business areas	Other and reconciliation ¹⁾	Total
Industry	7,930	7	7,937
Shipping	4,999	137	5,136
Trade and transportation	2,836	-	2,836
Credit institutions	3,603	3,276	6,879
Other financial institutions	2,135	16	2,151
Land and buildings	10,875	39	10,914
Other services	4,528	401	4,929
Public sector	12,912	2,546	15,458
Private households	389	13	402
Other	-	-	-
Total	50,207	6,434	56,641

¹⁾ Transactions entered into by the Non-Core Bank segment, which still existed at the end of 2018, are included in the Other and reconciliation segment.

The following table shows EaD broken down by residual maturities:

Default risk structure by residual maturities

(€ m)	31.12.2019		
	Business areas	Other and reconciliation	Total
Up to 3 months	8,861	404	9,265
> 3 months to 6 months	2,260	176	2,436
> 6 months to 1 year	2,728	485	3,213
> 1 year to 5 years	17,216	2,222	19,438
> 5 years to 10 years	8,647	765	9,412
> 10 years	4,498	291	4,789
Other	-	-	-
Total	44,211	4,343	48,554

Default risk structure by residual maturity

(€ m)	31.12.2018		
	Business areas	Other and reconciliation ¹⁾	Total
Up to 3 months	9,717	728	10,445
> 3 months to 6 months	1,864	156	2,020
> 6 months to 1 year	2,841	198	3,039
> 1 year to 5 years	20,944	3,383	24,327
> 5 years to 10 years	9,660	1,607	11,267
> 10 years	5,182	362	5,544
Other	-	-	-
Total	50,207	6,434	56,641

¹⁾ Transactions entered into by the Non-Core Bank segment, which still existed at the end of 2018, are included in the Other and reconciliation segment.

The following table provides an overview of the foreign exposure by region, which reached € 18,073 million as at 31 December 2019 (previous year: € 16,689 million):

Foreign exposure by region¹⁾

(€ m)	31.12.2019		
	Business areas	Other and reconciliation	Total
Eurozone	9,053	850	9,903
Western Europe	2,567	876	3,443
Eastern Europe	206	-	206
Africa	466	-	466
North America	594	79	673
Latin America	844	-	844
Middle East	74	-	74
Asia-Pacific region	2,123	-	2,123
International organisations	16	282	298
International stock exchanges	42	-	42
Total	15,985	2,0880	18,073

¹⁾ The values as at 31 December 2019 are based on the revised allocation according to the legal country of domicile, without any further collateral allocations. The disclosures and notes as at 31 December 2018 have not been adjusted and correspond to the amounts determined as at the reporting date shown.

Foreign exposure by region¹⁾

(€ m)	31.12.2018		
	Business areas	Other and reconciliation ²⁾	Total
Eurozone	7,889	876	8,765
Western Europe	3,479	944	4,422
Eastern Europe	245	2	247
Africa	530	49	579
North America	518	-	518
Latin America	401	-	401
Middle East	28	5	33
Asia-Pacific region	1,057	79	1,136
International organisations	69	508	577
International stock exchanges	76	-	76
Total	14,292	2,463	16,755

¹⁾ Compared to 31 December 2018 separate disclosure of international stock exchanges.

²⁾ Transactions entered into by the Non-Core Bank segment, which still existed at the end of 2018, are included in the Other and reconciliation segment.

In the period under review, country risk management was revised both from a functional perspective and with a view to making it easier for external addressees to understand. The allocation of exposure to the individual regions and for the presentation of selected European countries is now based on the gross exposure on the basis of the legal country of domicile. The information is now reported without any further collateral allocations.

A number of European countries are subject to increased monitoring due to their unfavourable fiscal and economic

data. These include in particular Greece, Italy, Portugal and Spain.

As a result of economic developments and the EU sanctions, the exposure to Russia and Turkey is also being monitored more closely.

The following table shows the EaD of the exposures to the European countries shown.

Exposure at default in selected European countries¹⁾

(€ m)	Public sector		Banks		Corporates/Other		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Greece	-	-	-	-	1	337	1	337
Italy	4	15	-	-	164	270	168	286
Portugal	63	56	-	-	94	96	157	153
Russia	-	-	-	-	-	28	-	28
Spain	50	93	30	30	292	329	372	451
Turkey	-	-	-	27	135	31	135	58
Total	117	164	30	57	686	1.091	833	1.313

¹⁾ The values as at 31 December 2019 are based on the revised allocation according to the legal country of domicile, without any further collateral allocations. The disclosures and notes as at 31 December 2018 have not been adjusted and correspond to the amounts determined as at the reporting date shown.

The previously low direct country exposure to the countries shown above was further reduced in 2019. The commitments in the Corporates/Other sector for Turkey relate primarily to corporate/ship financing arrangements with Hermes coverage, which do not entail transfer risk due to the existing collateral. In addition, as the outcome of the negotiations on the long-term relationship between the UK and the EU following the end of the transition phase is still open, the exposure in the UK (€ 967 million) will be monitored more closely.

LOAN LOSS PROVISIONS

Hamburg Commercial Bank pays the most attention to default risk within the context of risk management. Impairments of a loan commitment are covered by the recognition of loan loss provisions at LECL stage 3 for loans and advances in accordance with Group-wide standards and provisions for off-bal-

ance sheet items in the amount of the potential loss. 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 or equal to 13, are subject every quarter to a comprehensive two-step review process. In a first step, a review is carried out on the basis of objective criteria (so-called trigger events) to determine whether the receivable could be impaired (impairment identification). If this is the case, the loans identified are reviewed in a second step to determine whether a loan loss provision is actually required and the amount thereof (impairment measurement). Loan loss provisions are only recognised for transactions categorised as AC under IFRS 9.

Changes in loan loss provisions in the lending business

(€ m)										01.01.- 31.12.2019									
	Stage 3 loan loss provisions	Stages 1 and 2 loan loss provisions	Loss provisions recognised for financial investments	Loan loss provisions (LLP) before cur- rency translation income and com- pensation	Currency translation income on loan loss provisions	Compensa- tion item	Total	Hedging effect of credit derivative second loss guarantee	LLP including hedging effect of credit derivative										
Corporates & Structured Finance	- 60	- 3	-	- 63	-	-	- 63	-	- 63										
Shipping	97	- 13	-	84	-	-	84	-	84										
Real Estate	-	- 24	-	- 24	- 1	-	- 25	-	- 25										
Diversified Lending & Markets	5	1	4	10	-	-	10	-	10										
Other & reconciliation	5	1	-	6	- 1	-	5	-	5										
Group	47	- 38	4	13	- 2	-	11	-	11										

Changes in loan loss provisions in the lending business

(€ m)										01.01. - 31.12.2018									
	Stage 3 loan loss provisions	Stages 1 and 2 loan loss provisions	Loss provisions recognised for financial investments	Loan loss provisions (LLP) before cur- rency translation income and com- pensation	Currency translation income on loan loss provisions	Compensa- tion item	Total	Hedging effect of credit derivative second loss guarantee	LLP including hedging effect of credit derivative										
Corporates & Structured Finance	- 45	- 9	-	- 54	-	-	- 54	-	- 54										
Shipping	- 178	- 26	-	- 204	- 1	-	- 205	-	- 205										
Real Estate	5	- 60	-	- 55	-	-	- 55	-	- 55										
Diversified Lending & Markets	-	14	2	16	-	-	16	-	16										
Other & reconciliation ¹⁾	9	1	-	10	2	- 30	- 18	- 51	- 69										
Group	- 209	- 80	2	- 287	1	- 30	- 316	- 51	- 367										

¹⁾ Transactions entered into by the Non-Core Bank segment, which still existed at the end of 2018, are included in the Other and reconciliation segment.

The change in loan loss provisions amounted to € +13 million as at the reporting date (same period of the previous year: € -287 million).

Against the backdrop of further increases in macroeconomic and geopolitical risks, there was an increase in loan loss provisions at stages 1 and 2 (€ -38 million). Net reversals of loan loss provisions at stage 3 (€ +47 million) more than offset the increase. Loan loss provisions stage 3 developed differently in the individual segments. Net additions to specific loan loss provisions that were necessary in the Corporates & Structured Finance segment were more than offset by net reversals in the Shipping segment. Shipping benefited from structural improvements in portfolio quality, partly because the expected negative impact from the emissions standards applicable from 2020 onwards were lower.

After foreign exchange effects and compensation the change in loan loss provisions amounted to a total of € +11 million (same period in the previous year, taking account the hedging effect under the credit derivative: € -367 million).

The individual elements of loan loss provisions are shown in the following table:

Total Loan Loss Provision

(€ m)	2019	2018
Loans and advances to customers AC	28,409	30,057
Loans and advances to banks AC	2,466	3,000
Volume of impaired loans (gross carrying amount Stage 3)	649	955
Total loan loss provisions (Stage 3) for loans and advances to customers	- 344	- 496
Total loan loss provisions (Stages 1 and 2) for loans and advances to customers	- 364	- 335
Total loan loss provisions (Stages 1, 2 and 3) for loans and advances to banks	-	-
Total loan loss provisions for balance sheet items	- 708	- 831
Provisions for Stage 3 in the lending business	- 46	- 48
Provisions for Stages 1 and 2 in the lending business	- 7	- 12
Total loan loss provisions for off-balance sheet items	- 53	- 60
Total loan loss provisions	- 761	- 891

As at 31 December 2019, the Group's loan loss provisions determined under IFRS 9 amounted to € -761 million (previous year: € -891 million). Total loan loss provisions for stage 3 comprise loan loss provisions of € 344 million for loans and advances to customers and banks (stage 3) (previous year: € -496 million) and provisions of € -46 million for stage 3 in the lending business (previous year: € -48 million) and totalled € -390 million (previous year: € -544 million).

Loan loss provisions for stages 1 and 2 totalled € -371 million (previous year: € -347 million) and comprise loan loss provisions of € -364 million for loans and advances to customers and banks (stages 1 and 2) (previous year: € -335 million) and € -7 million in risk provisions for stages 1 and 2 in the lending business (previous year: € -12 million).

Details regarding the total loan loss provisions are presented in Notes 14, 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 risks), share prices, indices and fund prices (equity risks), in each case including their volatilities (volatility risks).

Organisation of market risk management

The Management Board determines the methods and processes for measuring, limiting and managing market risk and budgets the economic capital required for market risk based on a limit that covers all risk types. Against the background of this upper loss limit, the risks of all business bearing market risk are limited by a dynamic system of loss and risk limits.

Market risk was actively managed in the Capital Markets business unit in the reporting year. 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 exposed to market risk.

An organisational separation between market risk controlling, financial controlling as well as settlement and control on the one hand and the trading divisions 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.

Market risk management

MARKET RISK MEASUREMENT AND LIMITATION

The economic daily result and a value-at-risk approach form the basis of the system for measuring and managing market risk. The economic profit and loss is calculated from the change in present values compared to the end of the previous year. The value-at-risk 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 value-at-risk (VaR) is determined by Hamburg Commercial Bank using the historical simulation method. It is calculated for the entire Group 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.

The material market risks at Hamburg Commercial Bank are primarily interest rate risk, credit spread risk and foreign exchange risk. In addition to these risk types, the VaR of Hamburg Commercial Bank also covers equity risk for both the

trading book and banking book. The basis risk is also 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.

Limits are set on a daily basis using a VaR limit for the Bank’s overall market risk and a stop loss limit for any cumulative losses. In addition, the economic capital required for market risks is limited on a monthly basis. Utilisation of the economic capital allocated to market risk is determined by way of a separate calculation of the IRRBB stand-alone requirement and the requirement for market risk excluding IRRBB. Both components are then added together. This means that diversification effects are not taken into account in the assessment of the economic requirement.

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

As part of the VaR approach, limits are also set for the overall VaR in the trading book, the interest rate VaR in the banking book and the credit spread VaR. A limit is also imposed on the potential net present value losses that would result from a 200 bp interest rate shock (Basel interest rate shock) in relation to the Bank’s regulatory capital.

The present value basis used in the measurement of market risk is 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 is the difference between the interest income in the case of a development in line with forwards and the interest income in the worst 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 in particular, such as interest rate and cross-currency interest rate swaps, for example, are used as hedging instruments. The effects of the hedging transactions entered into are included in the VaR disclosed. 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 7 “Accounting policies”, Note 10 “Result from hedging”, Note 27 “Hedge accounting under IFRS 9” and Note 57 “Report on business in derivatives”.

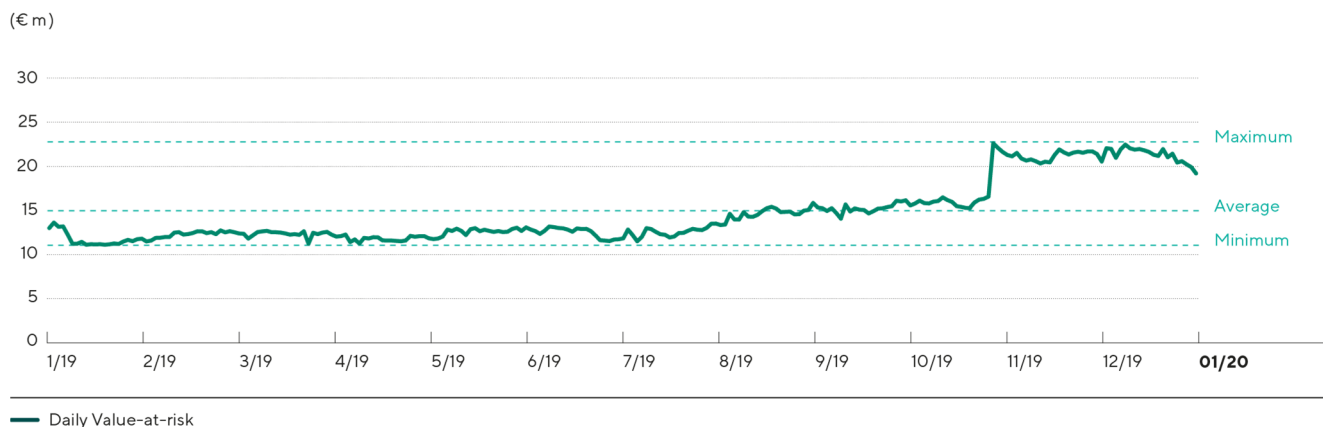
Market risks arising from Hamburg Commercial Bank’s lending business and liabilities are transferred to the trading divisions and taken into account in the corresponding risk positions. There they are managed as part of a proactive portfolio management process and hedged through external transactions.

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.

DAILY VALUE-AT-RISK DURING THE YEAR UNDER REVIEW

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 2019.

Daily Value-at-risk in the course of 2019



The daily market risk of the trading book positions was € 0.1 million and that of the banking book positions € 19.4 million as at 31 December 2019. 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 € 19.3 million. The daily interest rate risk in the banking book (IRRBB) amounted to € 22.1 million. Furthermore, in addition to the risk determined by the system, the

value-at-risk of the Hamburg Commercial Bank Group as at 31 December 2019 includes a VaR add-on of € 1.9 million for backtesting (only included at the Hamburg Commercial Bank Group level).

The following table shows the change in overall VaR by individual market risk type. The maximum and minimum represent the range over which the respective risk amount moved in 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 risk		Total ²⁾	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Average	14,8	5,6	6,8	7,3	1,8	8,9	0,8	1,2	14,6	13,3
Maximum	27,6	7,1	8,6	9,3	6,2	14,9	1,0	1,9	22,7	17,2
Minimum	6,5	3,8	5,6	5,9	0,4	3,3	0,6	0,7	11,0	9,9
Period end amount	22,0	5,8	8,0	6,1	0,9	4,2	0,6	0,8	19,3	11,4

¹⁾ Interest rate risk without 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 primarily 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 customers and bond trading. Market risk also includes credit spread risk on securities held in the liquidity buffer and cover pool portfolios that have good credit quality. Market risk increased in 2019, mainly due to a significant increase in the interest rate risk. The main factors driving this trend included, in August, the emergence of new relevant risk scenarios due to the sharp drop in interest rates and, in October, the improved reflection of negative interest rates in the valuation of the relevant financial instruments. Foreign exchange risk declined at the beginning of the year due to adjustments to refinancing transactions in US dollars in connection with the closing of the sale of the Bank.

BACKTESTING

Hamburg Commercial Bank performs regular backtests to verify the appropriateness of its VaR forecasts. On the assumption of unchanged positions, the daily profit and loss achieved in theory due to the market developments observed are compared with the VaR values of the previous day, which were forecast using historical simulation. Based on the assumption of the confidence level of 99.0 % applied by Hamburg Commercial Bank, up to four outliers indicate that the forecasting quality for market risks is satisfactory. Due to the significant increase in volatility associated with the drop in interest rates, the number of outliers increased significantly in 2019. In order to ensure adequate forecasting quality at the level of the Hamburg Commercial Bank Group, the VaR calculated on the basis of a historical simulation was corrected to include an add-on.

STRESS TESTS

In addition to limit-based steering of the daily VaR and the Basel interest rate shock (+/-200bp), further stress tests are performed to investigate the effects of unusual market fluctuations on the net present value of the Bank's items.

Hamburg Commercial Bank makes a distinction for market risk between standardised, historical and hypothetical stress scenarios. Whereas standardised scenarios are defined for specific risk types (e.g. shift in or rotation of the interest rate curve), historical and hypothetical stress tests apply to several market risk factors at the same time. In this regard historical scenarios actually map correlations between risk factors that occurred in the past, whereas hypothetical scenarios are based on 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 hypothetical scenarios are periodically reviewed and adjusted where necessary depending on changes in the market environment.

INSTRUMENTS FOR MANAGING MARKET RISK AS PART OF THE ACCOUNTING FOR HEDGING RELATIONSHIPS

The Capital Markets 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. Market risks can be hedged at the 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 so doing, the Bank only takes account of hedges of the fair value against interest rate risk. Fixed-interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only external interest rate and interest rate currency 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 is an assessment of the ability to fulfil all regulatory, supervisory and in part internal liquidity requirements and guidelines today and in the future and covers a multi-year assessment period. The objective is the forward-looking assessment of liquidity adequacy. In addition to a baseline scenario, adverse scenarios are also to be 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, 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 ensure liquidity adequacy through stress test programs. Only internal parameters (Pillar II ratios) are considered from today's perspective under the economic perspective, i.e. on the basis of the current balance sheet. Any structural events occurring at

the Bank or in the environment are taken into account. A distinction is made between insolvency risk and liquidity transformation risk in the internal risk management process.

Insolvency risk 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 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 Capital Markets business unit is responsible for funding and marketing.

The Risk Control business unit is responsible for the methods used to measure and limit liquidity risk within the Group and performs daily risk measurement and limit monitoring. 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.

The ALCO is the committee responsible for managing the resource liquidity and is assisted by the Franchise Committee and the Credit Committee in this task by means of an active portfolio management at the level of material individual transactions.

Hamburg Commercial Bank has a liquidity contingency plan and regulated procedures and responsibilities in place in the event of a liquidity crisis. Institution-specific, risk-based and capital market-oriented early warning indicators are also taken into account as part of the contingency process in order to avert a liquidity emergency. The liquidity contingency plan is closely linked to the Recovery Plan as defined in SAG.

Liquidity risk management

MEASUREMENT AND LIMITATION OF LIQUIDITY RISK

Compliance with the intra-day risk limit 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 profile) for the purposes of measuring insolvency risk or funding requirements. The difference between inflows and outflows represents a liquidity surplus or deficit (gap) in the relevant maturity bands. The gaps are shown on a cumulative basis from day one to twelve months in order to map future liquidity requirements. They are compared to the respective liquidity potential which is applied to close the cumulative gaps of the individual maturity bands and consequently represents the respective limit for insolvency risk. The net liquidity position, which shows the extent of the insolvency risk, is determined as the net amount from the gaps and the respective liquidity potential.

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. Maturity scenarios are used for a number of positions to map economic maturities more effectively. In doing so any possible minimum levels of deposits as well as liquidation periods and realisation amounts of assets, for example, are modelled conservatively as a matter of principle. The modelling assumptions used are periodically reviewed, which is also required under 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 %) 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. LVaR limits are set at Group level and are a part of the risk-bearing capacity concept.

LIQUIDITY MANAGEMENT

The short-term liquidity base and the regulatory liquidity ratios are operationally managed by the Capital 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 for determining 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. This tool is used to forecast how the worst stress case and/or stress case liquidity maturity profile develops over time.

Insolvency risk over more than one year is managed by means of the portfolio/liquidity maturity profile. It shows the pure maturity mismatches in the base case.

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, as a result, with the regulatory requirements (Pillar II) 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, capital market rumours) are assessed for insolvency risk on a monthly basis in addition to the daily calculation of the stress case liquidity maturity profile. A stressed US dollar (gradual appreciation) is taken into account in the scenarios market liquidity crisis and severe economic downturn.

Within the framework of a stress test for the liquidity maturity transformation risk an analysis is carried out to determine how the LVaR changes on increasing liquidity spreads and stressed liquidity gaps. Furthermore, events that could have a critical impact on Hamburg Commercial Bank's solvency were analysed in the reporting year within the framework of the periodic implementation of inverse stress tests.

RISK CONCENTRATIONS

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

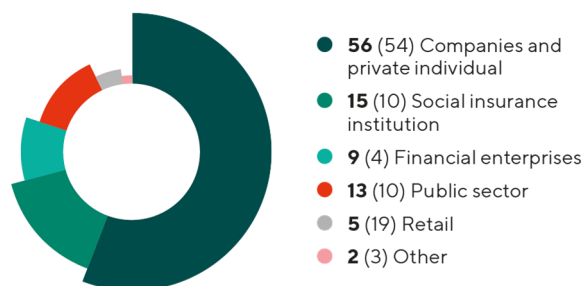
Hamburg Commercial Bank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors), maturities (original and residual maturities).

In line with the Group strategy, the volume of deposits in 2019 declined significantly year-on-year. As at 31 December 2019, the total volume was € 13.6 billion (previous year: € 16.7 billion). Counterparty concentrations increased year-on-year. The ten largest depositors account for around 21.3 % of total deposits (previous year: 16.6 %). The share of retail deposits fell to 5.0 % due to adjustments to the Bank’s strategy (previous year: 18.9 %). Based on the maturity structure, the proportion of deposits payable on demand of 46.7 % is still high (previous year: 44.5 %).

The following chart shows the composition of deposits by sector:

Depositor structure as at 31 December 2019

(%, previous year figures in brackets)



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

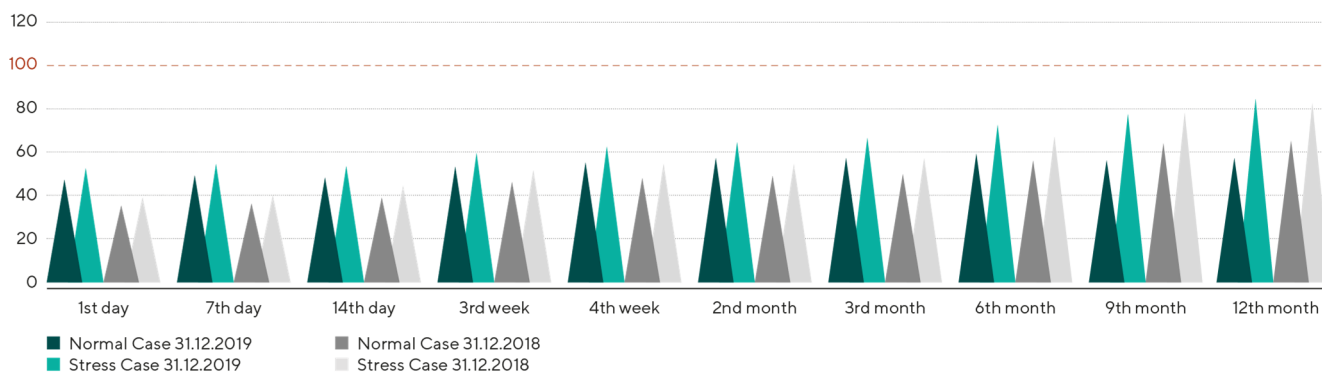
Quantification of liquidity risk

The following chart shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case as at 31 December 2019 as well as

at the end of 2018. Utilisation represents the ratio of the cumulative gap to the total liquidity potential, which also includes the liquidity buffer required under supervisory law.

Limit on cumulative liquidity gaps

(Utilisation of liquidity potential in %)



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 normal and stress cases for insolvency risk.

The maximum utilisation is 57 % in the twelfth month in the normal case assessment, which is based on the assumption of

business development in an ordinary 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 either for the minimum survival period of one month defined in MaRisk or for the minimum survival period of three months derived

from the 2018 SREP decision. Instead, the minimum survival period at the end of 2019 extends beyond the 12-month period. Compared to the 2018 year-end, utilisation levels have increased slightly in the normal case and stress case in virtually all maturity bands. The deteriorations are due, in particular, to moves to reduce excess liquidity. 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 of the market-specific and Bank-specific stress scenarios determined in addition to the stress case liquidity maturity profile show that, as at December 2019, Hamburg Commercial Bank's liquidity requirement was covered by the liquidity potential over twelve months in all scenarios despite the worst-case assumptions. A minimum survival period of three months is thereby maintained in all scenarios. The results show that Hamburg Commercial Bank is prepared accordingly for the crisis scenarios assessed.

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. Their basis of calculation is laid down in the CRR and the CRR Delegated Regulation (EU) 2015/61. The minimum CRR quota of 100 % was maintained at all times in the reporting period. The LCR amounted to 165 % as at 31 December 2019 (previous year: 225 %).

The net stable funding ratio (NSFR), which must be adhered to from 2021 at the earliest, is calculated as the ratio of available stable funding resources across all maturities to the stable funding required and must also be at least 100 % after full implementation. As at 31 December 2019 the NSFR of the Bank amounted to 114 % under the QIS (Basel framework) (previous year: 121 %).

Since 31 March 2018, Hamburg Commercial Bank has also calculated the adjusted additional liquidity monitoring metrics (AMM) including the preparation of the stipulated liquidity maturity profile in accordance with Implementing Regulation 2016/313.

By means of the AMM, the LCP (liquidity capacity period) is determined for the supervisory authorities. As part of this process, 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. At this date the Bank's liquidity reserves are no longer sufficient from a purely contractual perspective to meet further payment obligations. The supervisory authorities have stipulated a minimum LCP period of four weeks for the Bank in 2019, which may not be undershot for a period of five banking

days. This figure is determined by the Bank on a daily basis and was at least nine months as at 31 December 2019.

REFINANCING SITUATION

Hamburg Commercial Bank successfully implemented its funding strategy in the 2019 financial year. In particular, it made a very successful return to the capital markets with the placement of a benchmark senior preferred issue. Besides the issuing activities, deposits from corporates, institutional investors and retail customers contributed to the refinancing of the business. As part of the review of the strategy regarding the use of retail funding the proportion of retail funding will be initially reduced. The regulatory requirements for the liquidity ratios were met at all times during the reporting period. The future refinancing and diversification of the funding structure continue to constitute major challenges. The previously limited access to the capital market has improved with the issue of a benchmark bond in the first half of 2019. Due to short-term liquidity management measures, deposits made by institutional business partners are associated with noticeably counterparty concentration which slightly increased compared to the previous year. Should access to the existing sources of refinancing deteriorate overall, this would severely limit the funding options and would adversely impact the Bank's rating.

Execution of funding measures in the market can also be made more difficult by potential tensions in the financial markets. A less supportive monetary policy adopted by the major central banks could also significantly limit the refinancing options and increase funding costs.

Should inclusion in the form of full membership of the guarantee scheme of the Federal Association of German Banks (BdB) not succeed as planned, this would likely lead to a considerable outflow of deposits, triggering a significant increase in funding costs. As a result of the different manner in which the deposit guarantee funds work, i.e. institutional protection under the protection system of the German Savings Banks Finance Group versus protection of deposits in the guarantee scheme of the Federal Association of German Banks, there is also a risk of liquidity outflows associated with the change in the deposit guarantee fund. Furthermore, non-inclusion in the private guarantee scheme would put sustained pressure on the meanwhile stable rating position.

Hamburg Commercial Bank's liquidity and funding planning is based, for the development of short-term deposits, 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, such as the LCR and NSFR, as well as the economic survival period.

Part of the assets denominated in foreign currency are refinanced via derivatives (for example, via EUR/USD basis swaps). Although the appreciation of the US dollar continues to result in an increase in the cash collateral to be furnished and, as a result, all other things being equal, to a burden on the liquidity position, this effect was significantly reduced in the course of the past year thanks to a reduced need for USD funding.

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.

Operational risk

Hamburg Commercial Bank defines operational risk (OpRisk) as the risk of direct or indirect losses caused by the inappropriateness or failure of the internal infrastructure, internal procedures (including the IT infrastructure) or staff or as a result of external factors. This definition includes the risk of loss resulting from legal risk, compliance risk and IT risk.

For purposes of risk-bearing capacity management, operational risks are determined by applying a modified standardised approach, which also includes results from scenario analyses.

Organisation of operational risk management

The management of operational risk at Hamburg Commercial Bank is organised in a decentralised manner. The risks are identified and managed directly in the individual organisational units of the Bank. Accordingly, the division heads are responsible for the management of operational risk and the quality of such management in their areas of responsibility. The operational implementation is supported by OpRisk officers in the individual divisions. The Risk Control business unit is responsible for OpRisk Controlling.

A Bank-wide steering committee dealing with operational and other risks in the Group, the OpRisk Steering Committee, convenes every quarter. It provides support to the Overall Management Board in the implementation of the OpRisk strategy. The objective of the interdisciplinary OpRisk Steering Committee is to promote dialogue between the persons involved at all hierarchy levels and to determine appropriate measures for reducing operational risk.

Operational risk management

The identification, analysis, evaluation and monitoring of operational risk and the promotion of a corresponding risk culture in the Group represents an important success factor for Hamburg Commercial Bank. Different procedures and instruments are used in this process.

Loss events arising from operational risk are consolidated into a central loss event database for Hamburg Commercial

Bank and relevant subsidiaries. The loss events are recorded by the divisions concerned and forwarded to OpRisk Controlling.

In the reporting year 32 (previous year: 36) operational loss events occurred, 20 of them in the Employee causes category (processing errors), ten in External influences causes category (esp. material damage) and one each in the Internal infrastructure causes category and the Internal processes causes category.

In a further procedure Hamburg Commercial Bank conducts an annual, group-wide risk inventory of operational risk based on defined scenarios. Information about the risk situation of the divisions gained from this inventory supplements the OpRisk reporting and serves the purpose of preventive management and monitoring of operational risk.

Based on an analysis of the causes of significant loss events and the results of the risk inventory, suitable measures are established in order to avoid future losses as far as possible. The measures identified are to be appropriate under cost-benefit aspects. In doing this, the instruments of risk mitigation consist above all of a large number of organisational safeguarding and control measures which are also applied in the context of the internal control system. OpRisk Controlling monitors the actual implementation of the measures determined using the measures controlling procedures.

Risk indicators are collected on a quarterly basis and incorporated in the OpRisk reporting. The indicators are selected based on the estimated risk situation and are periodically reviewed to ensure that they are up to date. The aim is to identify risks at an early stage and prevent their causes by the use of ongoing and comparative analysis of loss events and risk indicators.

In addition to the methods mentioned above, specific procedures and responsibilities have been instituted within Hamburg Commercial Bank for the operational risk elements listed below.

Management of personnel risks

Personnel risk refers to the risk of losses that may occur as a result of the unplanned departure of key personnel of Hamburg Commercial Bank, shortage of skilled staff or poor motivation of employees. This risk could materialise particularly in light of the current reduction in staff. The Human Resources business unit is therefore focusing increasingly on measures to reduce personnel risk and actively supports the planned reduction in staff.

A large number of personnel 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.

IT risk management

The IT division is responsible for IT risk management. In the IT strategy, it has defined as the primary objective of IT risk management to identify IT risks at an early stage and assess them based on protection needs in order to avert or reduce particularly severe losses on the basis of clear responsibilities.

IT-specific risk tools are used by means of which risks concerning projects in the line functions and at outsourcing partners are actively managed and reduced by a monitored implementation of measures.

In close coordination with the business, Hamburg Commercial Bank's IT is being fundamentally revamped. The IT division is outsourcing application support to an external service provider, the IT application landscape and the infrastructure will then be updated, and digitisation initiatives supported on a new basis. The risks of this business/IT transformation will be reduced by a step-by-step approach with many parallel phases of the old and new environment as well as by sustainable partnerships, effective management and independent quality assurance.

Management of other information risk

Other information risk is the risk that availability, integrity, authenticity and confidentiality of data/information being breached outside of IT systems.

Stable, secure and orderly production operations are the fundamental requirement for banking services. The primary objective of information risk management is to identify information risks early on and, in particular, to prevent or mitigate serious damage. Appropriate procedures and instruments have been implemented for this purpose.

Management of cyber risk

Cyber risk refers to the possibility of becoming a victim of intentional, targeted IT-supported attacks that compromise data and IT systems. The attack vector for cyber attacks always comes from outside the organisation.

Here too, the primary objective is to identify cyber risks early on and, in particular, to prevent or mitigate serious damage. In cases involving successful cyber attacks, the Bank must be able to analyse the damage and the causes, as well as to restore data and the original state. Appropriate procedures and instruments have been implemented for this purpose, which also take into account the corresponding reporting process to the supervisory authorities and the data subjects.

Business continuity management

Hamburg Commercial Bank is exposed to risks arising from unforeseen events, which may result in business interruption. Business Continuity Management, within the Non-Financial Risk organisational unit, has established with the involvement of the relevant divisions processes to limit the risks arising from the fact that the information technology fails, or service providers 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.

Internal control system

Operational risk is closely linked to Hamburg Commercial Bank's internal control system (ICS). A major objective of the ICS is to optimise the internal bank processes in order to avoid losses that may arise as a result of, for example, processing errors. Detailed information on the ICS is set out in the Risk management system section.

Management of legal risk

Legal risk also falls under operational risk. Legal risks include economic risks arising as a result of non-compliance or incomplete compliance with regulations or with the framework defined by case law, in particular commercial law, tax law and company law. In case any of these risks materialise, this may lead to a higher financial burden than planned.

The Legal, Board Office & Taxes business unit is responsible for managing these risks. In order to reduce, limit or prevent risk all divisions are given comprehensive legal advice by regularly trained staff and where appropriate by external consultants.

Hamburg Commercial Bank set up provisions of € 144 million for litigation risks and costs as at the reporting date (previous year: € 250 million). In addition, there are also contingent liabilities arising from legal disputes. A major portion of the provisions for litigation risks relates to the legal proceedings mentioned below.

Since 2005 Hamburg Commercial Bank AG has been involved in legal proceedings with a Turkish shipping group and up to now had to pay a total amount of USD 54 million in the year 2013 due to final decisions made by Turkish courts. The plaintiffs asserted at a later date further claims in the Turkish courts under which damages are asserted based on loss of

profit and third-party liabilities in connection with measures taken to realise loan collateral provided to the Bank for a loan.

Furthermore, Hamburg Commercial Bank AG is being sued for payment by a former borrower. The claims were increased and filed by the plaintiff in the 4th quarter 2018. The plaintiff is asserting various claims, particularly claims for payment of compensation and for unjustified enrichment in connection with measures taken by the Bank concerning a non-performing loan. Judgments in the first instance in the second quarter of 2019 dismissed the action predominantly in favour of Hamburg Commercial Bank. Appeals were lodged.

An agreement that is positive from the Bank's perspective has been reached with the vast majority of investors in hybrid financial instruments who have filed lawsuits against the Bank in court, calling not only for the termination to be declared ineffective, but also for the value of the instruments to be written up to the nominal value/for damages to be paid to compensate for lost interest payments. It has already led to some claims being withdrawn and result in others being settled in the near future.

As a component of legal risk, tax risks mainly result from the fact that the binding interpretation of rules that can be interpreted in specific cases may only be known after several years due to the long period between tax audits. The tax audits for the years 2008–2011 and 2012–2015 have not yet been completed with definitive effect. Appropriate provisions have been recognised for the effects of the tax audits.

Hamburg Commercial Bank AG recognised provisions and liabilities (including interest) totalling € 11 million for tax risks (previous year: € 14 million).

Management of insourcing and outsourcing

The term "outsourcing" risk refers to the risks arising from the outsourcing of activities or processes within the meaning of Section 25b KWG, as defined in General Part (AT) 9 para. 1 MaRisk. These are external influences (e.g. default, non-performance, improper performance), internal procedures (e.g. inappropriate contract award, management and monitoring procedures), inadequate profitability calculations, as well as the loss of expertise and the risk of reliance on service providers. The insourcing risk is the risk that can arise due to the permanent/regular provision of services by the Bank, within and outside the Bank's Group, vis-à-vis third parties.

Major activities are only outsourced or reorganised if their integration into all relevant bank processes is ensured and the service providers involved have an appropriate risk controlling process and internal control system in place. For significant outsourced activities and processes, guidelines and audit rights must be agreed in the contracts for HCOB.

Management of compliance risk

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

The Non-Financial Risk & Compliance business unit is responsible for compliance risk management. Compliance with the different legal requirements is also ensured by the respective divisions concerned. Non-Financial Risk & Compliance monitors adherence to codes of conduct with respect to the topics of capital markets compliance, prevention of money laundering, terrorism financing and other criminal offences in accordance with Section 25h KWG, as well as compliance with the general data protection provisions (GDPR), financial sanctions and embargoes. In addition, the division 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.

The Code of Conduct summarises the requirements of different legal sources and internal guidelines. It applies to all employees as well as the Management Board of Hamburg Commercial Bank AG and is a mandatory part of the overall Bank's objectives. The specific code of conduct requirements of Non-Financial Risk & Compliance are set out in detail in internal instructions.

The Bank's staff is regularly trained in compliance-relevant topics. The objective of the training is to firmly anchor compliance as part of the corporate culture, to disseminate relevant standards and changes thereto, and to enable new staff to quickly become familiar with corporate practices and to ensure compliance with such legal requirements in this way.

The Bank receives notification of suspicious cases of misconduct via internal reporting channels and the so-called "whistle-blowing office", and forwards these to the responsible bodies. The whistle-blowing office is staffed by independent ombudsmen from BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and enables anonymous reporting of suspicious cases both by employees of the Bank and external third parties.

Deviations from the GDPR must be reported and remedied in a timely manner. Where appropriate, the competent authority has to be informed. The measures and the timetable for implementation require the involvement of the data protection officer. 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 involves of course a degree of uncertainty, which may cause financial losses as a result of inappropriate business decisions and give rise to regulatory risks as a result of the incorrect disclosure of capital, balance sheet and liquidity ratios and reputation risk.

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.

Other material risks

Other material risk types for Hamburg Commercial Bank include the business strategy risk and reputation risk. Together with operational risk, they make up the Bank's non-financial risk (NFR). The Bank has adopted a Non-Financial Risk Framework in order to better address the vast range of different risk types that are included in NFR, as well as regulatory developments. The framework provides an overview over the roles and responsibilities within a Three Lines of Defence model and the procedures, methods and implementation of the Bank's NFR management.

Business strategy risk

The business strategy risk includes the business risk and the strategic risk.

Strategic risk is the risk of incurring a financial loss as result of long-term strategic decisions based on incorrect assumptions that could jeopardise the ongoing transformation and business development process in particular.

Business risk is the loss potential that results from changes in customer behaviour or changes in competitive conditions in the market environment, as well as general economic conditions.

Should Hamburg Commercial Bank not be successful in identifying changes in markets relevant for it on a timely basis, this could have a negative impact on its competitiveness.

Changes to laws and regulations or new regulatory requirements for instance could also jeopardise the implementation of Hamburg Commercial Bank's business model.

This risk is 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 department is responsible for the process involved in preparing the business strategy and the Bank Steering business unit for strategy controlling. An action-oriented management dialogue, including on the strategic business objectives, is conducted as part of the Business Field Management Dialogue.

Reputation risk

Reputation risk is the risk of a direct or indirect loss caused by damage to the reputation of the company. 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. 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 reputation risk strategy that is adopted every year defines the bank-wide principles for managing reputation risk as a supplement to the existing regulations and instructions, such as the Code of Conduct.

Summary of risk assessment and outlook

The 2019 financial year was marked by the further progress made in implementing the transformation programme to establish the Bank as a profitable private bank due to the change in ownership, as well as by the ongoing moves to wind down risky, non-strategic lending and capital market business.

Hamburg Commercial Bank's risk-bearing capacity was maintained at all times during the reporting year.

Hamburg Commercial Bank is facing major challenges regarding its future development, which are described in detail in the Forecast, Opportunities and Risk Report.

The risk and bank management systems described in this report are aligned to take account of risk on a systematic basis. This also applies to our expectations regarding future market and business developments. 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 situation

Hamburg Commercial Bank AG's earnings situation in the year under review was characterised, in particular, by the expected effects relating to the repurchase of hybrid instruments, with operating business development that was satisfactory overall.

These effects were reflected in a substantial negative extraordinary result. The composition and year-on-year development of the statement of income can be seen in the following overview.

Statement of Income

(€ m)	2019	2018	Change in %
Net interest income	298	498	-40
Net commission income	58	-132	>100
of which: Fees for the second loss guarantee	-	-165	100
Net income from the trading portfolio	-4	33	>-100
Administrative expenses	-465	-485	-4
of which: Personnel expenses	-196	-181	8
of which: Operating expenses	-269	-305	-12
Other operating income	53	-101	>100
Operating result before loan loss provisions/valuation	-60	-187	68
Loan loss provisions/valuation	29	-287	>-100
Operating result after loan loss provisions/valuation	-31	-474	93
Extraordinary result	-572	-340	-68
Income tax expense	19	194	-90
Income from the assumption of losses	236	327	-28
Result for the year	-348	-293	-19

Earnings situation characterised by substantial negative extraordinary result

The following developments in the individual income items were decisive to the Bank's earnings situation:

Net interest income amounted to € 298 million compared to € 498 million in the previous year. Compared with the previous year, the decline in net interest income is largely attributable to expenses for the premature termination of interest rate hedging instruments. These transactions were terminated due to sales of securities executed in the year under review as part

of the Bank's active liquidity management measures, aimed at reducing excess liquidity. These expenses are offset by income resulting from the sale of securities in a corresponding amount, which is shown in the result from loan loss provisions/valuation. Income from prepayment penalties resulting from premature repayments increased considerably in a year-on-year comparison. In addition, the development of net interest income in the year under review was characterised by a scheduled decline in total assets. Operating net interest income was above expectations. The higher level of ambition for new business and the expected reduction in funding costs following privatisation had a positive impact in this respect.

The significant increase in **net commission income** to € 58 million (previous year: € -132 million) benefited, against the backdrop of largely stable net commission income from the lending business, as well as the payment transaction and foreign business, on the one hand from the fact that guarantee premiums were no longer incurred for the second loss guarantee, after these were incurred for the last time in the 2018 financial year (expenses in 2018: € -165 million, 100 million of which was incurred for a compensation payment for the termination of the guarantee). On the other hand, the fact that expenses were no longer incurred for a synthetic securitisation transaction that was terminated at the end of 2018 had a positive effect (expenses in 2018: € -25 million).

Net income from the trading portfolio fell to € -4 million (previous year: € 33 million). The year-on-year decline is attributable to the reduced, slightly negative net result from interest rate transactions. The negative result meant that no allocation was made to the fund for general banking risks in accordance with Section 340e HGB using the net income from the trading portfolio (previous year: € 4 million).

Administrative expenses amounted to € -465 million in the 2019 financial year (previous year: € -485 million). Personnel and operating expenses developed as follows:

The implementation of the staff reduction measures, in particular under the 2018 restructuring programme, led to a further reduction in the number of employees from 1,510 to 1,311 (calculated in terms of full-time equivalents, FTE) at the year-end. Despite this decline, personnel expenses in the year under review rose to € -196 million (previous year: € -181 million). The main reasons behind this development included higher expenses for provisions set up for variable compensation than in the previous year, and the filling of strategic positions. The staff reduction measures will only develop their full cost-cutting potential in the income statement in the coming periods. Personnel expenses do not reflect that the Management Board has decided in 2020 against the background of the development of the corona crisis to waive 30 % of its variable remuneration for the financial year 2019.

Operating expenses amounted to € -269 million, down by € 36 million from the € -305 million reported in the previous year. This was mainly due to the fact that regulatory ex-

penses, which relate in particular to the bank levy and the deposit guarantee fund, fell from € -87 million in the previous year to € -51 million. The previous year's expenses for the deposit guarantee fund were influenced primarily by the setting up of provisions. These related to one-off payments due to the planned change in the guarantee scheme at the beginning of 2022. As far as the development in operating expenses is concerned, it is important to note that the Bank's stringent cost management is taking effect and has led to a noticeable decline in expenses in central expense categories of operating expenses, particularly in the area of external services. In contrast, IT expenditure in the year under review initially increased as planned due to future-oriented investments in revamping the technological infrastructure. Compared to the previous year, legal consultancy fees also increased due to one-off costs in connection with the Liability Management Exercise and additions to provisions for litigation costs in a lawsuit in which the Bank is acting as the plaintiff.

Other operating income amounted to € 53 million (previous year: € -101 million). The increase as against the previous year is mainly due to the change in provisions for litigation risks. While there was a net reversal of € 111 million in the reporting period, the previous period had been hit by an addition of € 138 million. In addition, reimbursements from legal disputes in the amount of € 30 million (previous year: € 5 million) were collected in the reporting period.

Operating result before loan loss provisions/valuation

The operating result before loan loss provisions amounted to € -60 million compared to € -187 million in the previous year. While the year-on-year changes in net interest and commission income, which were influenced by special effects, largely offset each other, the increase in the operating result before loan loss provisions/valuation is attributable to other operating income, which was characterised by a significant decline in provisions for litigation risks.

Largely balanced result from loan loss provisions/valuation overall

The result from loan loss provisions/valuation increased significantly as against the previous year and amounts to € 29 million (previous year: € -287 million). The results from securities more than compensated for the negative impact of loan loss provisions in the lending business. In detail, this item showed the following significant developments.

Hamburg Commercial Bank AG recorded an expense of € -74 million for loan loss provisions in the lending business in the reporting period (previous year: € -287 million). This is due to an increase in portfolio valuation allowances. The increase in portfolio valuation allowances is due, first of all, to a methodological aspect due to the first-time application of the IDW AcPS BFA 7 accounting standard, but also to the consideration of a further increase in macroeconomic and geopolitical risks. There was a net reversal of individual valuation allowances,

documenting the further improvement in the good quality and the high level of risk coverage of the loan portfolio. The same period of the previous year was characterised to a considerable degree by additions to both specific loan loss provisions in the Shipping segment and general loan loss provisions due to the increased geopolitical risks.

In the securities business, the net result was significantly higher and amounted to € 100 million, compared with € 18 million in the previous year. This very positive result is due to realisation gains on the sale of securities, with a slightly negative valuation result. These gains are offset by negative effects on net interest income in a corresponding amount resulting from the premature termination of associated interest rate hedging instruments.

The valuation result from equity holdings also increased slightly and amounted to € 3 million in the year under review (previous year: € -17 million).

Substantial negative extraordinary result due to effects relating to the repurchase of hybrid instruments

The negative impact resulting from the extraordinary result, which, as in the previous year, played a decisive role in the net loss for the year, increased significantly to € -572 million as against € -340 million in the previous year. In the year under review, this resulted from several effects relating to the repurchase of hybrid instruments in the total amount of € -511 million (previous year: € 0 million). The extraordinary result also includes restructuring expenses connected to the strategic realignment of the Bank in the amount of € -80 million (previous year: € -345 million). This was offset, as in the previous year, by the reversal of provisions recognised as part of previous restructuring programmes on a relatively small scale.

The effects from hybrid capital relate, in particular, to write-downs on repurchased hybrid instruments placed on the international capital market (€ -282 million) and additions to provisions for contingent losses (€ -146 million). They also include a total of € -83 million in expenses from repayment losses on bilateral silent participations and SPARC securities. For further details on events relating to hybrid instruments that occurred in the year under review and up until the time at which these financial statements were prepared, please also refer to Note 54.

Of the restructuring expenses connected to the Bank's realignment in the total amount of € -80 million (previous year: € -345 million), a net amount of € -11 million (previous year: € -235 million) was attributable to restructuring expenses for personnel measures, with € -26 million (previous year: € -44 million) attributable to operating expenses. The item also includes transformation expenses of € -29 million (previous year: € 0 million) and follow-up expenses relating to privatisation in the amount of € -14 million (previous year: € -67 million).

High negative net result

Net income before taxes amounted to € -603 million (previous year: € -814 million). After taking account of income taxes of € 19 million (previous year: € 194 million) and income from the transfer of losses of € 236 million (previous year: € 327 million) Hamburg Commercial Bank AG reports a negative net result of € -348 million (previous year: € -293 million). The negative net result, in contrast to the slightly positive IFRS Group net result, is generally in line with the Bank's expectations.

As in the previous year (€ 194 million), income tax expense made a positive contribution of € 19 million to the net result. This item includes income from current taxes amounting to € 38 million, most of which is attributable to previous years. A deferred tax expense of € -19 million had the opposite effect. Deferred tax expense is composed of an expense from the reversal of deferred taxes on losses carried forward in the amount of € -57 million and income from deferred taxes set up on temporary differences in the amount of € 38 million.

Distributions may not be made on silent participations in the event that a net loss for the year or an accumulated loss is determined. Furthermore, based on the corresponding contractual agreement, equity instruments also have to share in the group net loss/net loss for the year. In the 2019 financial year, the silent participations shared in the loss reported by Hamburg Commercial Bank AG in the amount of € 236 million (previous year: € 327 million). The hybrid capital instruments listed on the capital market participated in the group net loss (incl. group net loss carried forward from the 2018 annual financial statements). The carrying amounts of the hybrid instruments, which are listed on the capital markets, correspond to 8.1% of the original nominal amount on the reporting date due to the attributed losses.

Net assets and financial position

Statement of financial position

(€ m)	2019	2018	Change in %
Assets			
Cash reserve, debt instruments issued by public authorities, bills eligible for rediscount	4,844	5,355	-10
Loans and advances to banks	1,614	2,277	-29
Loans and advances to customers	29,777	31,521	-6
Securities	7,969	10,508	-24
Trading portfolio	1,519	2,157	-30
Equity holdings in non-affiliated companies and interests in affiliated companies	670	654	2
Other assets	2,171	2,124	2
Total assets	48,564	54,596	-11
Equity and liabilities			
Liabilities to banks	5,425	6,012	-10
Liabilities to customers	24,390	28,427	-14
Securitised liabilities	9,870	10,399	-5
Trading portfolio	982	1,163	-16
Subordinated debt	1,058	1,055	0
Fund for general banking risks	2,366	2,366	-
Equity capital	1,893	2,641	-28
Other liabilities	2,580	2,533	2
Total assets	48,564	54,596	-11
Contingent liabilities	1,521	1,869	-19
Other obligations	6,694	7,646	-12
Derivatives held in the banking book (credit equivalents)	450	449	0
Total off balance sheet business	8,665	9,964	-13
Business volume	57,229	64,560	-11

Total assets reduced further as planned

In the 2019 financial year, total assets declined considerably again as planned, by around 11% to € 48,564 million (31 December 2018: € 54,596 million). The decline is reflected in all major balance sheet items. On the assets side, this is reflected in particular in the items securities and loans and advances to customers, while on the liabilities side, it is reflected in liabilities to customers. In detail, the developments were as follows:

The cash reserve was down compared with the end of the previous year to € 4,844 million (31 December 2018: € 5,355 million).

Loans and advances to banks also decreased and amounted to € 1,614 million (31 December 2018: € 2,277 million). The decline is mainly attributable to investments with a term of up to three months/more than three months and up to one year.

As at 31 December 2019, the carrying amount of loans and advances to customers was € 29,777 million. As against 31 December 2018 (carrying amount: € 31,521 million), this represents a decrease of around 6%. The drop is attributable to residual maturities of more than one year.

Securities have been reduced significantly from € 10,508 million to € 7,969 million, i.e. by around 24%, as a result of systematic portfolio reduction measures. An increase in own debentures due to the repurchase of own issues partially offset this development within this line item. All in all, developments in this item were characterised by measures for active liquidity management, which are designed to systematically reduce the excess liquidity built up during the privatisation period and take account of the strategic objective of reducing total assets.

Trading portfolio assets decreased to € 1,519 million (31 December 2018: € 2,157 million). The main reason behind this development was a drop in debentures and other fixed-interest securities in the trading book. The carrying amount of derivative financial instruments remained roughly on a par with the previous year's level. The effects of the scheduled reduction in derivative holdings (volume) were neutralised, in terms of the development in the carrying amount, by interest rate developments and a higher netting volume.

On the liabilities side, liabilities to banks fell slightly to € 5,425 million (31 December 2018: € 6,012 million).

The noticeable reduction in the balance sheet volume on the assets side and, as a result, the lower funding requirements had an impact on the liabilities side of the balance sheet, in particular in the form of a significant decline in liabilities to customers to € 24,390 million (31 December 2018: € 28,427 million). In line with the funding strategy, short-term deposits, in particular, were reduced as planned.

The carrying amount of the securitised liabilities was down slightly year-on-year to € 9,870 million (31 December 2018: € 10,399 million).

Subordinated liabilities remained at approximately the same level as in the previous year (31 December 2019: € 1,058 million, previous year: € 1,055 million).

At € 1,893 million as at 31 December 2019, reported equity was significantly lower than at the end of the previous year (31 December 2018: € 2,641 million). In addition to the net loss for the 2019 financial year, this is due to the loss participation of the silent partners, which resulted in a lower carrying amount for these instruments. With regard to the development of the regulatory capital ratios, reference is made to the Risk Report in the combined management report of Hamburg Commercial Bank.

BUSINESS VOLUME DOWN IN LINE WITH TOTAL ASSETS

The business volume decreased in line with the decreasing total assets and amounted to € 57,229 million (31 December 2018: € 64,560 million). Contingent liabilities, which essentially comprise guarantees and warranties, also fell to € 1,521 million (31 December 2018: € 1,869 million). Other commitments, which largely consist of irrevocable loan commitments, also decreased and amounted to € 6,694 million as at 31 December 2019 (31 December 2018: € 7,646 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 exceeded by far during the reporting period. Further details can be found in the combined management report of Hamburg Commercial Bank.

Hamburg, 30 March 2020

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Group statement of income

for the period 1 January to 31 December 2019

(€ m)	Note	2019	2018	Change in %
Interest income from financial assets categorised as AC and FVOCI		861	952 ¹⁾	-10
Interest income from other financial instruments		1,338	1,592	-16
Negative interest on investments categorised as AC and FVOCI		-25	-21	19
Negative interest on other cash investments and derivatives		-181	-227	-20
Interest expenses		-1,671	-1,893	-12
Positive interest on borrowings and derivatives		180	224	-20
Net income/loss from hybrid financial instruments		-181	994	>-100
Net interest income	(8)	321	1,621	-80
Net commission income	(9)	61	35	74
Result from hedging	(10)	-2	-9	78
Result from financial instruments categorised as FVPL	(11)	-19	-136	86
Net income from financial investments	(12)	20	73 ¹⁾	-73
Result from the disposal of financial assets classified as AC	(13)	82	2	>100
Total income		463	1,586	-71
Loan loss provisions	(14)	11	-316	>-100
Hedging effect of credit derivative second loss guarantee		-	-51	100
Total income after loan loss provisions		474	1,219	-61
Administrative expenses	(15)	-413	-402	3
Other operating result	(16)	133	-107	>100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(17)	-51	-89	-43
Net income before restructuring and transformation		143	621	-77
Result from restructuring and transformation	(18)	-66	-366	82
Expenses for government guarantees	(19)	-	-158	-100
Net income before taxes		77	97	-21
Income tax expenses	(20)	-65	-20	>100
Group net result		12	77	-84
Group net result attributable to non-controlling interests		-	7	-100
Group net result attributable to Hamburg Commercial Bank shareholders		12	70	-83

¹⁾ The previous year figure was adjusted. Please refer to Note 3 for more details.

Earnings per Share

(€)	Note	2019	2018
Undiluted	(22)	0.04	0.23
Diluted	(22)	0.04	0.23
Number of shares (millions)		302	302

Group statement of comprehensive income

for the period 1 January to 31 December 2019

Reconciliation with total comprehensive income/loss

(€ m)	2019	2018
Group net result	12	77
Income and expense 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 losses (before taxes)	-33	-115
Gains and losses (before taxes) reclassified to the statement of income	-24	-103
thereof from exchange rate effects	-	1
Income taxes recognised	18	70
	-39	-148
Differences resulting from currency translation	11	19
	11	19
Subtotal	-28	-129
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)	-5	-9
Income taxes recognised	2	2
	-3	-7
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	-99	63
Income taxes recognised	32	-19
Reclassification of losses arising from the revaluation of net defined benefit liabilities due to disposal	-	11
	-67	55
Subtotal	-70	48
Other comprehensive income for the period	-98	-81
Total comprehensive income	-86	-4
Total comprehensive income attributable to non-controlling interests	-	7
Total comprehensive income attributable to Hamburg Commercial Bank shareholders	-86	-11

Group statement of financial position

as at 31 December 2019

Assets

(€ m)	Note	2019	2018	Change in %
Cash reserve	(23)	4,850	5,362	-10
Loans and advances to banks	(24)	2,521	3,167	-20
Loans and advances to customers	(25)	30,708	32,791	-6
Loan loss provisions	(26)	-708	-831	-15
Positive fair values of hedging derivatives	(27)	134	175	-23
Positive adjustment item from portfolio fair value hedges		147	200	-27
Trading assets	(28)	2,663	3,094	-14
Financial investments	(29)	6,100	10,100	-40
Intangible assets	(30)	6	8	-25
Property, plant and equipment	(31)	98	139	-29
Investment property	(31)	41	40	3
Non-current assets held for sale and disposal groups	(32)	355	65	>100
Current tax assets	(33)	82	49	67
Deferred tax assets	(34)	658	713	-8
Other assets	(35)	57	49	16
Total assets		47,712	55,121	-13

Liabilities

(€ m)	Note	2019	2018	Change in %
Liabilities to banks	(36)	5,066	5,470	-7
Liabilities to customers	(37)	23,966	28,093	-15
Securitised liabilities	(38)	7,845	9,458	-17
Negative fair value of hedging derivatives	(27)	609	501	22
Negative adjustment item from portfolio fair value hedges		394	460	-14
Trading liabilities	(39)	1,946	2,812	-31
Provisions	(40)	1,699	1,746	-3
Current tax liabilities	(42)	11	12	-8
Other liabilities	(44)	477	518	-8
Subordinated capital	(45)	1,349	1,614	-16
Equity	(46)	4,350	4,437	-2
Share capital		3,018	3,018	-
Capital reserve		75	75	-
Retained earnings		1,016	1,012	-
Revaluation reserve		196	238	-18
Currency conversion reserve		33	22	50
Group net result		12	70	-83
Total before non-controlling interests		4,350	4,435	-2
Non-controlling interests		-	2	-100
Total liabilities		47,712	55,121	-13

Group statement of changes in equity

(€ m)	Note	Share capital	Capital reserve
As at 1 January 2018		3,018	75
Effects from the first-time application of IFRS 9		-	-
Changes due to restatements		-	-
Adjusted amount as at 1 January 2018		3,018	75
Group net result		-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-
Reclassification of losses arising from the revaluation of net defined benefit liabilities due to disposal		-	-
Credit risk-induced changes in the value of liabilities designated at fair value ¹⁾		-	-
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement		-	-
Exchange rate changes		-	-
Other comprehensive income		-	-
Comprehensive income as at 31 December 2018		-	-
Reclassification of losses arising from the revaluation of net defined benefit liabilities due to disposal		-	-
Compensation for the Group net loss for the previous year		-	-
As at 31 December 2018		3,018	75
As at 1 January 2019		3,018	75
Group net result		-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-
Credit risk-induced changes in the value of liabilities designated at fair value ¹⁾		-	-
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement		-	-
Exchange rate changes		-	-
Other comprehensive income		-	-
Comprehensive income as at 31 December 2019		-	-
Compensation for the Group net loss for the previous year		-	-
Transactions with shareholders		-	-
As at 31 December 2019	(47)	3,018	75

¹⁾The reclassification of the credit risk-induced changes in the value of liabilities designated at fair value to retained earnings is due to the repurchase of issues/promissory note loans.

Retained earnings	Currency conversion reserve	Revaluation reserve	Group net result	Total before non-controlling interests	Non-controlling interests	Total
1,701	2	117	-535	4,378	-5	4,373
-175	1	253	-	79	-	79
-23	-	23	-	-	-	-
1,503	3	393	-535	4,457	-5	4,452
-	-	-	70	70	7	77
44	-	-	-	44	-	44
11	-	-	-	11	-	11
-	-	-7	-	-7	-	-7
-	-	-148	-	-148	-	-148
-	19	-	-	19	-	19
55	19	-155	-	-81	-	-81
55	19	-155	70	-11	7	-4
-11	-	-	-	-11	-	-11
-535	-	-	535	-	-	-
1,012	22	238	70	4,435	2	4,437
1,012	22	238	70	4,435	2	4,437
-	-	-	12	12	-	12
-67	-	-	-	-67	-	-67
-	-	-3	-	-3	-	-3
-	-	-39	-	-39	-	-39
-	11	-	-	11	-	11
-67	11	-42	-	-98	-	-98
-67	11	-2	12	-86	-	-86
70	-	-	-70	-	-	-
1	-	-	-	1	-2	-1
1,016	33	196	12	4,350	-	4,350

Group cash flow statement

Cash flow statement

(€ m)	2019		2018	
Net result for the period		12		77
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		11		335
a) Loans and advances to customers and banks	10	-	320	-
b) Financial investments	-9	-	-3	-
c) Property, plant and equipment/intangible assets/investment property	10	-	18	-
Changes in provisions		54		570
Other non-cash expenses/income		-74		436
Profit/loss from disposal of financial investments and property, plant and equipment/investment property		-19		-119
a) Financial investments	-19	-	-102	-
b) Property, plant and equipment/investment property	-	-	-17	-
Other adjustments		-364		-1,620
Subtotal		-380		-321
Changes in loans and advances		2,329		3,078
a) to banks	644	-	679	-
b) to customers	1,685	-	2,399	-
Changes in trading assets		440		327
Changes in other assets from continuing operations		-8		5,974
Changes in liabilities		-4,486		-10,872
a) to banks	-404	-	-2,796	-
b) to customers	-4,082	-	-8,076	-
Changes in securitised liabilities		-1,688		-2,624
Changes in trading liabilities		-715		-763
Changes in other liabilities from continuing operations		-162		-454
Interest and dividends received		2,099		2,381
Interest paid		-1,655		-1,754
Income tax payments		12		-94
Cash flow from operating activities		-4,214		-5,122
Receipts from disposals of		5,244		4,144
a) securities	5,243	-	4,144	-
b) interests in affiliated companies and equity holdings	1	-	6	-
c) property, plant and equipment	-	-	-6	-
Purchases of		-1,194		-265
a) securities	-1,188	-	-368	-
b) interests in affiliated companies and equity holdings	-	-	-8	-
c) property, plant and equipment	-6	-	111	-
Change from the sale/acquisition of consolidated subsidiaries		-		-
Cash flow from investing activities		4,050		3,879

Cash flow statement

(€ m)	2019	2018
Payments made (-) from silent participations	-348	-
Cash flow from financing activities	-348	-
Cash and cash equivalents at the beginning of the period	5,362	6,625
Cash flow from operating activities	-4,214	-5,142
Cash flow from investing activities	4,050	3,879
Cash flow from financing activities	-348	-
Cash and cash equivalents at the end of the period	4,850	5,362

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.

The following cash flows and effects on assets and liabilities resulted from the obtaining or loss of control over subsidiaries during the financial year:

Cash flow

(€ m)	2019		2018	
	Obtaining control	Loss of control	Obtaining control	Loss of control
Amounts paid/received	-1	-	-	-
of which: cash and cash equivalents	-	-	-	-
Amount of cash and cash equivalents	-	-	-	-

Assets

(€ m)	2019		2018	
	Obtaining control	Loss of control	Obtaining control	Loss of control
Loans and advances to customers	-	-	-	2
Non-current assets held for sale and disposal groups	-	-	-	14

Liabilities

(€ m)	2019		2018	
	Obtaining control	Loss of control	Obtaining control	Loss of control
Liabilities to customers	-	22	-	22
Liabilities relating to disposal groups	-	1	-	1

The table below shows a reconciliation of balance sheet values to cash flow from financing activities.

(€ m)	Other subordi- nated capital	Silent partici- pations	Profit participa- tion capital
Balance sheet value as at 1 January 2019	1,067	547	-
Cash changes			-
Payments	-	-348	-
Other changes - interest paid	-16	-	-
Non-cash changes	-	-	-
Changes due to exchange rate fluctuations	-	2	-
Change in fair value	18	79	-
Balance sheet value as at 31 December 2019	1,069	280	-

(€ m)	Other subordi- nated capital	Silent partici- pations	Profit participa- tion capital
Balance sheet value as at 1 January 2018	1,060	1,192	-
Cash changes			-
Other changes - interest paid	-15	-	-
Non-cash changes	-	-	-
Changes due to exchange rate fluctuations	-	13	-
Change in fair value	22	-658	-
Balance sheet value as at 31 December 2018	1,067	547	-

Group explanatory notes

General information

1. Accounting principles

Hamburg Commercial Bank AG, which has its registered office in Hamburg, prepares Group financial statements as the ultimate parent company.

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 draw up 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 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 HGB are taken into account and are shown individually in Notes 60 and 63.

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 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 in millions of euros (€ m).

The reporting year corresponds to the 2019 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 disclosures about financial instruments as permitted by IFRS 7.31 et seqq. predominantly in the Group risk report within the Group management report. Specifically, this relates to the overall qualitative and quantitative risk information disclosed under IFRS 7.33 et seqq. and the total market risk reporting under IFRS 7.40–42 as well as the description of how liquidity risk is managed as required by IFRS 7.39 (c).

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 Governing Bodies.

Apart from the new standards and interpretations stated below, which may have a significant influence on the Group financial statements a number of additional standards and interpretations were adopted which, however, are expected not to have any influence on the Group financial statements.

During the current financial year, the following accounting standards need to be applied for the first time as a matter of principle:

IFRS 16 – Leases

IFRS 16 provides a single model regarding how lessees are to recognise leases in their balance sheets. A lessee recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. Exceptions apply to short-term leases and

leases for low-value assets. Accounting at the level of the lessor is comparable to the previous provisions – i.e. the lessor continues to classify leases as finance or operating leases.

IFRS 16 replaces the previous guidelines on leases (IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC15 Operating Leases – Incentives and SIC27 Evaluating the Substance of Transactions in the Legal Form of a Lease).

Upon the introduction of IFRS 16, Hamburg Commercial Bank did not reassess the existence of a lease as a general rule, making use of the transitional provisions set out in IFRS 16.C3. This excluded what are known as multi-component contracts, for which the assessment criterion has changed significantly in connection with the transition from IAS 17 to IFRS 16 (with regard to the accounting effect). Since this threshold for accounting effects will shift towards the assessment as to whether the matter in question relates to a service or lease relationship or a service or lease component, the multi-component contracts in the Bank's portfolio were reassessed as part of a portfolio analysis. In accordance with the relief provision set out in IFRS 16.C10 (c), the Bank has recognised leases whose term ends within 12 months of 1 January 2019 as short-term leases in accordance with IFRS 16.6 when switching to IFRS 16. Hamburg Commercial Bank applied the modified retrospective method, pursuant to IFRS 16.C5 (b), to the leases identified, according to which the cumulative effects resulting from the first-time application of the standard are recognised as an adjustment to the opening balance sheet value for retained earnings. In accordance with this method, the comparative figures for previous periods were not adjusted. The total effect from the first-time application of the standard to retained earnings as at 1 January 2019 amounts to € 0 million.

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. Leasing transactions in which Hamburg Commercial Bank acts as the lessee are used to lease real estate (mainly Group business premises), technical equipment and machinery for operating and office equipment, as well as motor vehicles.

Taking into account materiality aspects and making use of the simplified provisions for low-value and short-term leases (IFRS 16.5), as well as the option of not applying the provisions to intangible assets (IFRS 16.4), the Group recognised lease liabilities for real estate leases (Group business premises) previously classified as operating leases under IAS 17 as at 1 January 2019. These liabilities were measured at the net present value of the remaining lease payments as at 1 January 2019.

In the absence of sufficient information on the inherent interest rate of each lease, the Bank applies an incremental borrowing rate that is commensurate with the term of the lease based on the Bank's liquidity costs for the purposes of calculating the net present value. The weighted average incremental borrowing rate applied to the lease liabilities as at 1 January 2019 was 0.6585 %.

Payments for leases that Hamburg Commercial Bank excludes from the scope of IFRS 16 are recognised through profit or loss in other operating income in the reporting period in which they arise.

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 property leases that are relevant, for the purposes of 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) cannot be regarded as sufficiently certain without a specific Management Board resolution, which is why the calculation is based exclusively on the contractually agreed term.

In line with the lease liabilities resulting from real estate leases in which Hamburg Commercial Bank is the lessee, the Group capitalised right-of-use assets from leases amounting to € 11 million as at 1 January 2019. This corresponds to the amount of the lease liability as at 1 January 2019 (IFRS 16.C8 (b) (ii)). The right-of-use assets are subject to depreciation on a straight-line basis over the contractual useful life.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The adjustments relate to a minor adjustment to the assessment criteria relevant to the classification of financial assets. Financial assets with a negative prepayment penalty ("prepayment feature with negative compensation") can be recognised, subject to certain requirements, at amortised cost or at fair value through other comprehensive income, instead of at fair value through profit or loss.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 relate to plan amendment, curtailment or settlement. In accordance with IAS 19.99, the net defined benefit liability has to be remeasured in such cases, taking current actuarial assumptions into account.

In accordance with the amendments, the current service cost and the net interest for the period after the remeasurement also have to be determined based on the updated actuarial assumptions. In addition, the remeasured net liability (taking into account the adjusted benefits resulting from the intervention) is to be used to determine the net interest expense after the intervention.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that IFRS 9 is to apply to long-term interests in associates and joint ventures to which the equity method is not applied.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for uncertainties with regard to the treatment of an item for income tax purposes. The clarification covers the determination of the item, the consideration of the probability of its approval, the concrete assessment of the tax values on which the accounting is based and the consideration of new information.

The clarification confirms the previous approach of Hamburg Commercial Bank, which is why it does not have an impact on the Bank's statement of financial position. In principle, the income tax assessment is carried out at the level of the individual item, taking into account potential correlations. If the approval of the tax treatment is probable, current and deferred taxes are to be recognised on this basis. If, on the other hand, there is any uncertainty with respect to the approval (not probable), the amount most probable to meet tax approval will generally be used, unless the expected value for a specific scenario leads to a more meaningful result. It is always assumed that the tax authorities have complete knowledge of the circumstances. Finally, the assumptions and decisions made are reviewed on each reporting date and adjusted if necessary on the basis of new information.

Improvements to IFRS 2015–2017

The Annual Improvements to IFRS 2015–2017 amended four IFRSs.

IFRS 3 clarifies that, when an entity obtains control over a business operation in which it previously held an interest as part of a joint operation, the principles governing successive business combinations are to be applied. The interest previously held by the acquirer is to be remeasured.

IFRS 11 states that a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 is amended in such a way that a company is to account for all income tax consequences of dividend payments in the same way as the income on which the dividends are based.

Finally, IAS 23 states that, in connection with the calculation of the capitalisation rate, if a company has generally borrowed funds to purchase qualifying assets, the costs associated with debt taken out specifically in connection with the qualifying assets are not to be included until the asset is completed.

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 and IAS 8 Definition of Material

The amendments create a uniform and more precise definition in IFRS of the materiality of the information provided in financial statements, and supplement it to include corresponding examples.

The amendments need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2020.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

The first phase amendments provide for a temporary exemption from the application of specific hedge accounting requirements for hedging relationships directly affected by the IBOR reform. As a result of the facilitations, the IBOR reform should not generally lead to the termination of hedge accounting. However, any ineffectiveness must still be recognised in the income statement in accordance with both IAS 39 and IFRS 9. In addition, the amendments contain conditions for an end to the applicability of the facilitations, including in particular the end of the uncertainty resulting from the IBOR reform.

The amendments are mandatory for financial years beginning on or after 1 January 2020.

The changes do not materially affect the Group financial statements of Hamburg Commercial Bank.

EU endorsement still pending:

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

The amendments to IAS 1 concern the classification of liabilities as non-current or current. If an entity has a right at the balance sheet date to defer settlement of the liability for at least 12 months after the balance sheet date, the liability is classified as non-current. The mere existence of a right is considered sufficient. If the right is dependent on the existence of certain conditions, the decisive factor is whether these conditions have been met on the balance sheet 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 mandatory for financial years beginning on or after 1 January 2022. Early application is permitted.

Amendment to IFRS 3 Business Combinations

The amendments to IFRS 3 relate to the definition of a business. Under IFRS 3, acquisitions are only classified as business combinations pursuant to IFRS 3 (Business Combinations) if the conditions for definition as a business are met. If there is no business involved, the transaction is treated as an asset purchase for accounting purposes. The accounting applied to the acquisition of businesses and that applied to asset purchases differs, among other things, in the recognition of goodwill, the recognition and measurement of contingent consideration, the recognition of transaction costs and deferred taxes.

In order to be considered a business, an acquisition must include inputs and substantive processes that, together, contribute significantly to the ability to produce outputs. Essentially, the changes to the definition of a business relate specifically to the creation of a framework for assessing when a substantive process exists, and to the narrower use of the term "outputs". In addition, companies can opt to perform what is known as a "concentration test". This involves examining whether the entire fair value of the acquired gross assets is

largely concentrated in one asset or a group of similar assets. If such a concentration is identified, it is concluded, without any further assessment being performed, that the acquisition does not relate to a business.

The amendments are applicable – subject to adoption into EU law, which is still pending – for the first time to acquisition transactions whose acquisition date falls on or after the start of the first annual reporting period beginning on or after 1 January 2020. Early application is permitted.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address a known inconsistency between the provisions in IFRS 10 and those in IAS 28 (2011) in the event of the sale of assets to an associate or joint venture and/or the contribution of assets to an associate or joint venture.

Under IFRS 10 a parent must recognise total profit or loss from the sale of a subsidiary on the statement of income when control is lost. In contrast, the currently applicable IAS 28.28 requires that the sale proceeds in the case of sales transactions between an investor and an equity holding measured at equity – whether it is an associate or a joint venture – are only recognised in the amount of the share of the other shareholders in this entity.

In future, the entire profit or loss on a transaction is only to be recognised if the sold or received assets constitute a business operation as defined in IFRS 3. This applies regardless of whether the transaction is structured as a share or asset deal. Conversely, if the assets do not constitute a business operation, it is only permissible to recognise proportionate net income.

Initial application of the amendments has been postponed for an indefinite period of time by the IASB.

The above-mentioned standards do not materially affect the Group financial statements of Hamburg Commercial Bank.

Going concern assumption

Accounting and valuation are based on the assumption that the Bank is a going concern. The Bank's corporate planning forms the basis for the going concern assumption.

2. Events after the reporting period

In December 2019, Hamburg Commercial Bank AG concluded sale agreements for loans and advances to customers with two different banks. These refer to loans and advances to public-sector debtors that are being sold in connection with Hamburg Commercial Bank AG's transformation process. The sale was completed in two sales transactions in the first quarter of 2020. Agreements on the sale of eleven Group-owned properties were also concluded in December 2019. The closing of these transactions took place in February 2020.

The aforementioned sales transactions for loans and advances, and properties resulted in income in the mid double-digit million euro range to be received in the 2020 financial year, which will be recognised in net interest income and in other operating income.

The global spread of the novel coronavirus ("COVID 19 pandemic") in 2020 and the fight against its health-related implications have led to a significant reduction in economic activity worldwide. Developments to date indicate potential for a significant negative impact on global economic development in 2020. There is currently considerable uncertainty regarding the duration and intensity of the coronavirus crisis on the one hand, and regarding the economic impact of the crisis, or how it can be mitigated by the assistance programmes that have already been implemented or addressed, on the other.

The economic implications of the coronavirus crisis could have a negative impact on Hamburg Commercial Bank's ability to meet its financial targets, although the uncertainty prevailing means that it is not yet possible to arrive at any concrete forecasts of the effects of the crisis. In principle, Hamburg Commercial Bank could be hit by negative effects on the level of its income, additions to loan loss provisions, non-performing loans and capital ratios/risk-weighted assets.

3. Change in the figures for the previous year

I. Changes in the consolidated income statement the reporting period, the presentation in the income statement was adjusted as follows:

As of this financial year, Hamburg Commercial Bank no longer allocates reversal amounts of the adjustment item for disposals of underlying transactions which contributed to a hedge item in the portfolio fair value hedge to net interest income. The reversal of the adjustment item is now reported in the same consolidated profit and loss item in each case in which the disposal result of the corresponding underlying transaction is also reported (see IAS 39 AG128).

The uniform presentation of all disposal components in the same consolidated profit and loss item provides a better picture of the Group's earnings position.

The aforementioned adjustment affects the presentation in the income statement and the related notes. The change in

presentation in the consolidated income statement was implemented for the first time as of 31. December 2019.

In the reporting period, the expense resulting from this adjustment (for the reversal of the adjustment item in connection with the disposal of securities categorised as FVOCI) in net income from financial investments amounted to € 127 million. For the prior-year period from January 1, 2018 to December 31, 2018, the aforementioned change in presentation results in an increase in net interest income of € 29 million and a reduction in net income from investment investments of € 29 million. The corresponding figures for the previous year have been adjusted (see Note 8 and Note 12).

II. Changes in segment reporting

In the year 2019 the segment structure of Hamburg Commercial Bank was adjusted (see Note 47). The corresponding figures for the previous year have been adjusted.

4. 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 agreement 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 includes ABS conduits and other securitisation and refinancing vehicles as well as investment funds (including private equity funds) within structured entities. Structured entities are included in the scope of consolidation if they are subsidiaries and are material to the presentation of the net assets, financial condition and earnings or to the assessment of the risk situation of the Hamburg Commercial Bank Group. Disclosures of the nature of the risks in connection with shares in consolidated structured entities are included in Note 5. Reference is made to Note 54 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.

The 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 executive 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 executive 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.

Due to agreements ceding control, Hamburg Commercial Bank in individual cases holds equity interests in companies exceeding 50 % which are not tied to any corresponding voting rights and therefore do not result in any controlling influence. In such cases, for purposes of defining the scope of consolidation as well as for purposes of preparing the list of shareholdings, the voting rights ratios were adjusted to the extent deemed reasonable under the special circumstances described above. Conversely, Hamburg Commercial Bank possesses a controlling influence in individual cases 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 5. 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 earnings, net assets and financial position 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 management is present if the partners have to cooperate in order to steer the relevant activities of the joint arrangement and decisions require unanimous approval from the participating partners.

Such a joint arrangement is a joint venture if the partners who exercise joint management 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 through subsidiaries holds 20 % or more of the voting rights. 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 thereafter 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 earnings, net assets and financial position 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 of the reporting date which would allow for the fair value of these interests to be reliably determined, measurement is based on acquisition cost.

5. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg/Kiel, the scope of consolidation includes 26 fully consolidated subsidiaries (previous year: 32).

As at December 31, 2018, 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 portrayal of the earnings, net assets and financial position of the Hamburg Commercial Bank Group can be found in the list of shareholdings (note 62). 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. Information on subsidiaries – changes to the scope of consolidation

I. Disclosures on subsidiaries – Changes in the scope of consolidation

A) ADDITIONS

There were no additions compared with 31 December 2018. CAPCELLENCE Vintage Year 19 Beteiligungen GmbH & Co KG, Hamburg, in which Hamburg Commercial Bank held the majority of voting rights, was added during the year and was included in the group of consolidated companies within the scope of full consolidation. However, due to the accrual of this company to CAPCELLENCE Holding GmbH & Co KG, Hamburg, as of 30 November 2019, CAPCELLENCE Vintage Year 19 Beteiligungen GmbH & Co KG, Hamburg, is no longer represented in the consolidated group as an independent legal entity.

B) DISPOSALS

The following companies are no longer included in the group of fully consolidated companies, in contrast to 31 December 2018:

- Avia Management S.à.r.l., Luxembourg
- Bu Wi Beteiligungsholding GmbH, Hamburg
- Neptune Finance Partner S.à.r.l., Luxembourg
- Neptune Finance Partner II S.à.r.l., Luxembourg
- Next Generation Aircraft Finance 2 S.à.r.l., Findel
- Next Generation Aircraft Finance 3 S.à.r.l., Findel

The above-mentioned subsidiaries are property companies that no longer conduct operating activities or holding companies whose investments no longer conduct operating activities. Due to their immateriality for the net assets, financial position and results of operations of Hamburg Commercial Bank Group, these companies were deconsolidated in the second quarter of 2019. The deconsolidation of these companies had no material effect on earnings, either individually or in total.

C) MODIFICATION OF HOLDINGS IN SUBSIDIARIES

In December 2019, the Hamburg Commercial Bank Group acquired a further 39.9 % of the voting rights and capital shares in the already fully consolidated subsidiary GmbH Altstadt Grundstücksgesellschaft, Mainz, via BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg, for a purchase price of € 0.7 million. Following the acquisition, Hamburg Commercial Bank Group holds 89.9 % of the voting rights and capital shares in GmbH Altstadt Grundstücksgesellschaft. At the time of acquisition by Hamburg Commercial Bank Group, the carrying amount of these non-controlling interests in the IFRS consolidated financial statements was € 2.2 million.

In the IFRS consolidated statement of financial position, the acquisition as a transaction between owners led to an increase in equity (equity before non-controlling interests) attributable to the shareholders of Hamburg Commercial Bank of € 1.2 million, with no effect on income. The increase is reported in retained earnings.

In the period under review, there were no other changes in Hamburg Commercial Bank's ownership interest in subsidiaries that did not result in 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 earnings, net assets and financial position.

III. Information on consolidated structured entities

Hamburg Commercial Bank's scope of consolidation includes seven fully-consolidated structured entities. Four of these companies are controlled by a majority of voting rights. With regard to three of these companies, control is based exclusively on contractual rights.

The following disclosures represent the type of risks in connection with business relationships with consolidated structured entities:

Hamburg Commercial Bank AG sponsors securitisation vehicles whose business purpose is to issue securities on the capital market and to invest the funds received in connection with these issues in silent participations at Hamburg Commercial Bank AG. Hamburg Commercial Bank has provided these consolidated structured entities with a guarantee facility. This guarantee facility serves to hedge the payment obligations of the structured entities in respect of the holders of the securities. These payment obligations arise if payment claims result for the structured entities against Hamburg Commercial Bank AG from the silent participations held by them.

Hamburg Commercial Bank AG has granted liquidity and credit facilities to consolidated structured entities. In terms of the amounts, these are of minor significance for the Group's financial position.

Hamburg Commercial Bank AG has a contractual obligation to bear the operating expenses for three consolidated structured entities.

During the reporting year, Hamburg Commercial Bank did not provide consolidated or unconsolidated structured entities with any non-contractual support.

As of the balance sheet date there is no current intention to provide a consolidated structured entity any financial or other support within the definition of IFRS 12.17.

6. 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 judgments necessary for accounting and measurement according to IFRS were undertaken in accordance with the appropriate standard in each case, 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 (see also the explanatory information under Note 7):

- the level allocation and the determination of the amount of loan loss provisions under the impairment provisions set out in IFRS 9 (see the following explanatory information and Note 7)
- the calculation of the future cash flows from the hybrid financial instruments issued by Hamburg Commercial Bank (see the following explanatory information and Note 7)

- allocations to provisions for litigation risks (see the following explanatory information)
- the recognition and measurement of deferred taxes
- the calculation of fair values
- allocations to provisions for pensions and similar obligations and other provisions (see Note 7)

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:

- the level allocation and the determination of the amount of loan loss provisions under the impairment provisions set out in IFRS 9 (see the following explanatory information and Note 7)
- the calculation of the future cash flows from the hybrid financial instruments issued by Hamburg Commercial Bank (see the following explanatory information and Note 7)
- allocations to provisions for litigation risks (see the following explanatory information)
- the definition of business models and the classification of financial instruments in accordance with IFRS 9 (see the following explanatory information and Note 7)
- determining fair values for certain financial instruments, including a judgement regarding the existence of an active or inactive market;
- use of the fair value option for financial instruments (see the following explanatory information and Note 7);
- assessing whether Hamburg Commercial Bank controls another entity;

Within the context of the impairment provisions set out in IFRS 9, there are both significant estimates and significant discretionary decisions with regard to the level allocation and the calculation of the amount of the loan loss provisions.

The transfer of a financial instrument between levels 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 levels 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 loan loss provision level 3 represents a further estimation process. In particular, the estimates for various scenarios, including associated probabilities of occurrence and the recoverable amount in the respective scenario, involve discretionary decisions in this respect.

The calculation of the future cash flows from the hybrid financial instruments issued by Hamburg Commercial Bank and allocations to provisions for litigation risks in connection with hybrid capital instruments result both in significant estimates and in significant discretionary decisions. With regard to estimates in the context of IFRS 9.B5.4.6, please refer to Note 7.

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 (see also the section entitled "Accounting and measurement principles").

Hamburg Commercial Bank applies the fair value option through profit or loss for financial assets at its own discretion with regard to the avoidance of an accounting mismatch. The designation of financial liabilities using the fair value option to avoid an accounting mismatch, or on the basis of management on a fair value basis, is also at the discretion of the Bank.

7. 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 which 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 which 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 Supervisory Board of Hamburg Commercial Bank AG are responsible for defining these business models. Financial instruments are allocated to the business models at portfolio level.

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 purposes 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 which 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 credit risk distribution.

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.

Reclassification

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 reclassified 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 include 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 measurement categories described below. 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 the Bank’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 purposes 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 HAS FVPL RES	FVPL
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 assets assigned to levels 1 and 2 are recorded, in cases involving fixed income securities under the “Financial investments” balance sheet line item, under “Net income from financial investments”. Gains from the corresponding disposal of level 3 assets are recognised in the result from

loan loss provisions. Interest and prepayment penalties, current results and realised gains on level 1 and level 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.

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:

- Financial assets in the “AC assets” reporting category are allocated to the “Hold to collect” business model and meet the cash flow criterion.
- Those liabilities that neither fall under the trading portfolios nor belong to the FVPL Designated reporting category, are allocated to the “AC liabilities”.
- 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” 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 or 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 the financial position and performance. 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
	AC liabilities	Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
		Other liabilities
		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
		Other assets
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
		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 clients
		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 values of hedging derivatives	
Off-balance-sheet transactions	n/a	Contingent liabilities
		Irrevocable loan commitments
		Other obligations
		Other obligations

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 PROVISION 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 levels:

- a. Level 1: No significant increase in the loan default risk, 12-month expected loss

For financial instruments whose loan default risk is not significantly increased, the portion of expected credit losses that is attributable to defaults within the next twelve months is recognised under loan loss provisions.

- b. Level 2: Significant increase in the 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. Level 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 level 3.

Input parameters, assumptions and methods for calculating expected credit losses at levels 1 and 2

Expected credit losses at levels 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 level 1. At level 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 level 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, ship and aircraft financing. The forward projection of the LGD over the multiannual 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 forecasted 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 (level 1) or over a lifetime horizon (level 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 level 1 is calculated by multiplying the CCF by the line that is open on the reporting date. In order to calculate the EAD at level 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 level 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 relates to current accounts and framework facilities 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 the 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 balance sheet 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 estimated 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 (in particular corporate 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. Regular checks are also performed to see whether other scenarios have a material non-linear impact on the amount of loan loss provisions. Within the context of what are known as model overlays, risk factors relevant to valuation are taken into account if they were not already included in the calculation parameters used in the models. In this case, the loan loss provisions are corrected either directly or indirectly by altering the credit risk parameters to reflect these effects.

Significant increase in the loan default risk

In order to assess a significant increase in the 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 level allocation. 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 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 levels 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 extent giving rise to a significant deterioration in credit quality (significance threshold) is determined for each portfolio or rating category segment in a manner that is specific to the initial rating and on the basis of a quantile assessment. The outcome shows rating changes as of which the credit quality is deemed to have deteriorated significantly.

The rating expected, based on the time at which a financial instrument was recognised for the first time, for the balance sheet 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. If this is the case then the financial instrument in question is allocated to level 2. Otherwise, it remains in level 1.

In addition, financial instruments are allocated to level 2 at the latest if forbearance measures have been applied to the financial instrument or if the default has lasted more than 30 days.

The Bank does not make use of the option set out in IFRS 9.5.5.10, which allows financial instruments with a loss risk of loan default to be assigned to level 1. Nor does it 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 loss for trade receivables, leasing receivables and contract assets.

A financial instrument is transferred from level 2 to level 1 if the loan default risk is no longer significantly increased based on the rating.

Definition of default

The rating models used by Hamburg Commercial Bank have been developed based on the definition of "default" set out in Art. 178 CRR and are validated in this respect on a regular basis. The definition of default is used as standard for internal Credit Risk Management and for supervisory law and IFRS 9 purposes.

The default definition includes the criteria "90 days in arrears" or "unlikeliness to pay".

Based on the "90 days in arrears" criterion, a debtor is deemed to have defaulted if a significant part of its total liabilities is past due on 90 consecutive days. The 90-day period starts on the first calendar day after this is identified. All calendar days are deemed to constitute overdraft days.

The "unlikeliness to pay" criterion is deemed to be satisfied if Hamburg Commercial Bank assumes that there is a high degree of probability that the debtor will not be able to meet his obligations in full unless certain measures are taken. The measures to be taken into account include, in particular, the setting up of loan loss provisions, the opening of, or filing for, insolvency proceedings, the realisation of collateral, deferrals of interest and/or principal payments, restructuring measures.

Financial assets that are credit-impaired within level 3

Differentiating level 3 of the impairment model involves assessing, on each balance sheet 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 that the debt service cannot be paid on the basis of current information and that an improvement of the business performance 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

- At the end of each month of the last 12 months, the market value was at least 10 % below the amortised cost in the respective nominal currency.

or

- The market value at the end of the month in the last 6 months was at least 20% below the amortised cost in the respective nominal currency.

or

- The market price has fallen by at least 10 percentage points between the last assessment point 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 downgrades to the sub-investment grade range

or

- any rating downgrade within the sub-investment grade range

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 amount of the specific loan loss provision, 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.

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 loan loss provision 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 receivable 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 level. 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 level in question. In such cases, however, the calculation method is based on the standard credit risk parameters.

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 as is the case for level 2 cases.

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 a similar financial instrument as at the measurement date. This is generally the case for shares 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 and 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.

VALUE 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 applied for this draw to some extent on unobservable market parameters 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.

Hedge relationships (back-to-back transactions) and corresponding risk-compensating effects are taken into account when determining value adjustments to be made for model risks and uncertainties regarding parameters. 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 IFS 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 applicable market on which the determination of the fair value is to be based differs from the market, in which the transaction was concluded and the valuation model is not based to any great extent on observable parameters, such differences (so-called day one profits and losses) are accrued to day one profit and loss reserve. 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 procedure. 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. Where available, observable market information such as transaction prices or attributes of valuation parameters are also used in the internal price validation. 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) HYBRID FINANCIAL INSTRUMENTS

The term "hybrid financial instruments" covers silent participations and bonds issued by consolidated subsidiaries measured at amortised acquisition cost. A key common feature of these instruments is that their interest depends on profit and they participate in an annual net loss of the Bank.

IFRS 9.B5.4.6 states that for financial instruments, not to be measured at fair value, the carrying amount of financial assets and liabilities must be adjusted and recognised in profit or loss if the estimated future cash flows associated with the instrument change. The new gross carrying amount is given by the present value of the newly estimated future cash flows using the financial instrument's original effective interest rate for discounting.

Application of IFRS 9.B5.4.6 had an effect in the year under review on the valuation of the hybrid financial instruments issued by Hamburg Commercial Bank, as the actual and the estimated future cash flows differ from the contractual cash flows that were originally intended.

The future cash flows, whose amount and payments dates have to be estimated, are payments of interest and principal which take into account loss participations by investors, where these will not be made up for by the expected redemption date of an instrument.

The loss situation of the reporting period is not viewed in isolation on the measurement of hybrid instruments in accordance with IFRS 9.B5.4.6. Specifically, it involves more than assigning the prorated loss in the period under review. In addition, the possible effects of possible future assignment of loss and the cancellation or postponement of future interest payments must be recognised in profit or loss in the period in which the estimate is changed. This can mean that in future loss-making periods no further loss participations will be recognised in profit or loss, if these future losses correspond to the estimates made previously. The loss participation recognised in profit or loss is accordingly anticipated at present value, rather than being left to the period in which the loss arises. Future loss-related reductions in interest also do not result in full relief to interest expenses, if the reduction in interest has already been taken into account in the estimate. Instead, the reversal of the effect of discounting applied in the year the estimate was changed is recognised in expenses (write-up of the liability due to the passage of time).

The estimation of future cash flows from hybrid financial instruments required in applying IFRS 9.B5.4.6 requires material assumptions which are associated with uncertainties. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary. The main sources of estimation uncertainty are the assumptions and results of Hamburg Commercial Bank's business planning.

Net income from hybrid financial instruments is shown as a separate item under Net interest income, and in addition to current interest expenses it includes the effects of applying IFRS 9.B5.4.6 (see Note 8). Deferred taxes arise because of the difference between valuation for tax purposes and measurement in the Group financial statements. The associated effects on net income are recognised under income taxes. Hybrid financial instruments are shown either as securitised liabilities or as subordinated capital (see Notes 38 and 45).

G) 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 in 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 in 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 interest rate and cross currency 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. In the case of portfolio fair value hedge for interest rate risks, portfolios of assets and liabilities hedged for interest rate risks are taken into account. This involves an iterative procedure. At the start of a 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 hedge 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 underlyings 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 and proceeds from the closing of the underlying transactions which contributed to reconciliation items are reported as part of the Net interest income.

H) 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. 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 or liability are altered, this also results in a derecognition.

I) 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. The emphasis in repo transactions is on bonds from German public sector issuers and from bank issuers and the Bank's own bonds. 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.

J) 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 debentures. 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

This item shows the market value of derivatives which have a positive or negative fair value and which 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 (debentures and equities) and equity holdings under commercial law. The equities and equity holdings 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 assets 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 balance sheet 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

Shares in associates included in the Group financial statements under the equity method are reported in this item. 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 IFRS 9 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 7.III.01.).

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. Silent participations are structured as so-called hybrid financial instruments without exception and so are some profit-sharing certificates (cf. Note 7.I.E). 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.

Based on their contractual structure and financial character, the participations of the typical silent partner represent debt, which is why they are stated under subordinated capital.

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.

Valuation results resulting from subordinated capital in the "FVPL Designated" reporting category are recognised in the Result from financial instruments categorised as FVPL.

Current gains and losses from measuring subordinated capital categorised as DFV are stated under the revaluation reserve.

See Note 7.I.E. with regard to the treatment of hybrid financial instruments in the year under review.

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 re-measured 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 these 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 an own 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 inflows 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 made.

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

The Investment property item comprises property (including rights of use related to property rented under a lease agreement that conforms to the definition of investment property) held to generate lease income or for the purpose of value enhancement but is not used in own operations. This item includes land and buildings, including rights of use from land and buildings leased under a lease, operating and office equipment and leased assets from operating leases in which Hamburg Commercial Bank acts as lessor. With the exception of rights of use in accordance with IFRS 16, property, plant and equipment are 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 acquisition or production costs are capitalised if they increase the economic benefit of the corresponding assets. Interest on borrowings to finance the acquisition costs of property, plant and equipment is recognised as an expense in the respective period.

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	3-15
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

The Investment property item comprises property (including rights of use related to property rented under a lease agreement that conforms to the definition of investment property) held to generate lease income or for the purpose of value enhancement but is not used in own operations. 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 balance sheet 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 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 with Provinzial NordWest Lebensversicherung AG for direct insurance policies partly financed by employees exist. 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 amount 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 no 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

	2019	2018
Discount rate		
Domestic	1.43%	2.13%
Foreign (weighted)	2.13%	2.13%
Salary growth (weighted)	2.00%	2.00%
Adjustment rate for pensions		
Domestic		
Employment contract 1 / old pension provision rules	individual	individual
New pension provision rules (weighted)	2.00%	2.00%
Employment contract 4 (weighted)	2.00%	2.00%
Mortality, disability, 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).

Plan assets are measured at fair value and recognised in the statement of financial position as reducing provisions.

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 (7.1.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 the Bank will lose the action is presumed to be greater than 50 %. Provisions include only payments for probable 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 TAXES

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 created for all deductible timing differences between the value of an asset or liability as measured by IFRS standards and its assigned value in tax terms, provided it is probable that taxable income will be available against which such differences can be utilised. Deferred tax liabilities are created for all taxable temporary differences. Deferred taxes on tax loss carryforwards are stated as the amount likely to be used in future. Deferred taxes 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 amendment. 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 deferred tax asset impairment. 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 disclosed 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 and 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 or Other liabilities. These include accrued expenses and income amongst other things.

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.

Hamburg Commercial Bank's business volume in the form of leases - both those in which Hamburg Commercial Bank acts as lessee and lessor - is of very minor significance 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 in 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).

The determination of the amount of lease liability and the right of use of a lease implies estimates with regard to the term of a lease, particularly in view of possible termination or extension 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 Board of Managing Directors cannot be regarded as sufficiently certain, which is why (until a specific resolution is available) only the contractually agreed term is used for calculation.

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 or not the main risks and rewards are transferred to the lessee.

A finance lease exists if the economic risks and rewards lie with the lessee in accordance with the criteria of IAS 17; consequently, the lessee recognises the leased asset in its statement of income. All other leasing relationships are classified as operating leases. The classification is made at the beginning of the 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 instalments due are divided into a repayment portion recognised in equity and an interest portion recognised in the income statement. The interest component is disclosed under net interest income.

Impairment losses on finance lease receivables due to changes in creditworthiness are recognised in risk provisions. Impairment losses that are not credit rating-related, such as impairment losses on the non-guaranteed residual value of a lease receivable, are recognised in other operating expenses.

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 stated in Administration expenses. Hamburg Commercial Bank reports rental expenses from contracts where Hamburg Commercial Bank acts as lessee as rental expenses under administration expenses.

V. Currency translation

The consolidated financial statements of Hamburg Commercial Bank are drawn up in euros. 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 which do not draw up their accounts in euro.

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. 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.

Notes on the Group statement of income

8. Net interest income

Net interest income

(€ m)	2019	2018
Interest income from		
Lending and money market transactions categorised as AC and FVOCI	747	596
Fixed-interest securities categorised as AC and FVOCI	88	129
Impaired financial assets	26	227
Interest income from financial assets categorised as AC and FVOCI	861	952
thereof attributable to financial assets measured at AC	821	829
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	40	123
Interest income from		
Other lending and money market transactions	49	209
Other fixed-interest securities	17	24
Trading transactions	7	6
Derivative financial instruments	1,258	1,339
Current income from		
Equities and other non-fixed-interest securities	-	6
Equity holdings	7	8
Interest income from other financial instruments	1,338	1,592
Negative interest on investments categorised as AC and FVOCI	-25	-21
thereof attributable to financial assets measured at AC	-25	-21
Negative interest on other cash investments and derivatives	-181	-227
Interest expenses for		
Liabilities to banks	70	91
Liabilities to customers	345	382
Securitised liabilities	93	146
Subordinated capital	16	15
Other liabilities	20	19
Derivative financial instruments	1,127	1,240
Interest expenses	1,671	1,893
thereof attributable to financial liabilities not measured at fair value through profit or loss	283	414
Positive interest on borrowings and derivatives	-180	-224
thereof attributable to financial liabilities not measured at fair value through profit or loss	-12	-16
Net income from reestimating interest and repayment cash flows	-146	1,085
Net income from discounting and compounding	-35	-91
Net income/loss from hybrid financial instruments	-181	994
thereof attributable to financial liabilities not measured at fair value through profit or loss	-181	994
Total	321	1,621

Regarding the adjusted prior-year net interest income figures, see Note 3 Adjustments to the prior-year figures.

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. The negative interest on cash investments and derivatives results in full from derivative financial instruments.

The positive interest results primarily from derivative financial instruments.

The term hybrid financial instruments covers silent participations, profit participation capital and bonds measured at amortised cost, the return on which is profit-related and which participate in the net loss for the year and accumulated losses of the Bank.

Hamburg Commercial Bank repurchased a significant volume of hybrid capital instruments in the year under review as part of the restructuring and optimisation of its capital structure (Liability Management Exercise). This applies both to hybrid instruments contracted bilaterally with institutional investors and hybrid instruments placed on the international capital market.

Towards the end of the 2018 financial year, the Bank had called in all instruments outstanding at that time with a total nominal value of approximately € 2,300 million. Partly in this context, individual or groups of investors in hybrid instruments had filed lawsuits against the Bank.

In December 2019, the Bank concluded an out-of-court settlement (private settlement) with a large group of plaintiffs, so that capital market-listed hybrid instruments with a nominal value of approximately € 1,150 million were transferred from the group of plaintiffs to Hamburg Commercial Bank against payment of a settlement price plus reimbursement of costs and a settlement fee. The complaint was withdrawn in early 2020.

In addition, Hamburg Commercial Bank published a public tender offer in December 2019, which was directed at the remaining creditors of capital market-listed hybrid instruments, and was completed in January 2020. The Bank subsequently repurchased further hybrid instruments with a nominal value of approximately € 383 million after the balance sheet date. In total, approximately 90 % of the hybrid instruments listed on the capital market had thus been repurchased up to the time the financial statements were prepared.

In addition, in the year under review and up to the date of preparation of the financial statements, significant portions of the bilateral silent participations were also repurchased. Approximately € 221 million was acquired at the balance sheet date and approximately € 60 million after the balance sheet date. In total, therefore, some 53 % of the outstanding bilateral silent partnership contributions were repurchased.

The total of current participation in losses (not allowing for reversals of impairment losses) relating to the 2019 financial year was € 236 million (previous year: € 327 million).

The net income from hybrid financial instruments includes the effects on earnings resulting from the application of IFRS 9 B5.4.6.

The difference between the valuation for tax purposes and measurement under IFRS 9 B5.4.6 results in deferred tax income of € 27 million (previous year: € 113 million in deferred tax expenses).

9. Net commission income

Net commission income

(€ m)	2019	2018
Commission income from		
Lending business	36	37
Securities business	4	5
Guarantee business	10	10
Payments and account transactions as well as documentary business	21	23
Other commission income	6	7
Commission income	77	82
Commission expense from		
Lending business	4	4
Securities business	2	2
Guarantee business	-	26
Payments and account transactions as well as documentary business	4	5
Other commission expenses	6	10
Commission expenses	16	47
Total	61	35

Financial instruments that are not measured at fair value through profit or loss account for € 65 million of Net commission income. In the previous year, € 42 million of Net commission income was attributable to financial instruments not categorised as HfT or DFV.

A securitisation transaction terminated in December 2018 is included in the previous year's period with € 26 million premium in guarantee business.

10. 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)	2019	2018
Fair value changes from hedging transactions	-146	-18
Micro fair value hedge	-100	-11
Portfolio fair value hedge	-46	-7
Fair value changes from underlyings	144	9
Micro fair value hedge	97	12
Portfolio fair value hedge	47	-3
Total	-2	-9

11. 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 Net interest income.

Gains and losses arising from currency translation are generally disclosed in this statement of income line item. In derogation of the above, the results from the translation of loan loss provisions denominated in foreign currency are disclosed in the Loan loss provisions.

Other products comprises the income from foreign exchange transactions, credit derivatives and commodities.

Result from financial instruments categorised as FVPL

(€ m)	2019	2018
Bonds and interest rate derivatives		
FVPL Held For Trading	-108	-4
FVPL Designated	63	31
FVPL Other	16	-178
Total	-29	-151
Equities and equity derivatives		
FVPL Held For Trading	3	3
FVPL Designated	-3	1
FVPL Other	7	-40
Total	7	-36
Other products		
FVPL Held For Trading	-2	2
FVPL Designated	-	1
FVPL Other	5	-32
Total	3	-29
Compensation under the second loss guarantee	-	80
Total	-19	-136

The Result from financial instruments categorised as FVPL includes net income from foreign currency of € -2 million (previous year: € -10 million).

During the reporting period € 7 million (previous year: € -4 million) of the changes in fair value of the financial assets categorised as FVPL Designated related to changes in the credit spread rather changes in market interest rates. In cumulative terms, a total of € -2 million (previous year: € -8 million) is attributable to changes in the credit spread.

12. Net income from financial investments

This item shows the realised results from financial assets categorised as FVOCI including the reversal amounts from portfolio fair value hedges.

Regarding the adjusted prior-year figures, see Note 3 Adjustments to the prior-year figures.

Net income from financial investments

(€ m)	2019	2018
Realised results from financial assets categorised as FVOCI	20	73
Total	20	73
Total	20	73

13. Result from the disposal of financial assets classified as AC

This item includes all realised results from the sale and premature repayment of, as well as substantial modifications to, financial assets categorised at amortised cost.

The disposals in the reporting period relate exclusively to pre-payment penalties in connection with premature repayments.

(€ m)	2019	2018
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	82	8
Total gains	82	8
Losses from the disposal of financial assets classified as AC		
Loans and advances to customers	-	6
Total losses	-	6
Total	82	2

14. 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 provision

(€ m)	2019	2018
Loans to banks		
insignificant increase in the loan default risk (level 1/12-month ECL)	-	1
Ergebnis aus der Veränderung der Wertberichtigungen bei Forderungen an Kreditinstitute	-	1
Loans and advances to customers		
Insignificant increase in the loan default risk (level 1/12-month ECL)	44	-32
thereof AC	41	-32
thereof FVOCI	3	-
Significant increase in the loan default risk (level 2/lifetime ECL)	-87	-46
thereof AC	-85	-46
thereof FVOCI	-2	-
Impaired credit rating (level 3/lifetime ECL)	51	-224
Result from the change in loan loss provisions on loans and advances to customers	8	-302
Financial investments		
Significant increase in the loan default risk (level 2/lifetime ECL)	4	2
thereof FVOCI	4	2
Result from the change in loan loss provisions for financial investments	4	2
Off-balance-sheet business		
Insignificant increase in the loan default risk (level 1/12-month ECL)	6	2
Significant increase in the loan default risk (level 2/lifetime ECL)	-1	-4
Impaired credit rating (level 3/lifetime ECL)	2	-8
Provisions in lending business in accordance with IAS 37	1	11
Result from changes in provisions in the lending business	8	1
- Direct write-downs	18	19
+ Payments received on loans and advances previously written down	10	30
+ Result of non-substantial modifications	1	-
Result from other changes to loan loss provisions	-7	11
Result from changes in loan loss provisions before currency translation gains or losses and compensation	13	-287
Currency translation gains or losses on loan loss provisions denominated in foreign currency	-2	1
Compensation under the second loss guarantee	-	-30
Total loan loss provisions	11	-316

As part of the allocation to loan loss provisions for loans and advances to customers in accordance with the expected credit loss model, adjustments were also made as at 31 December 2018 in the form of model overlays (for a definition, see Note 7). These relate to risk factors relevant to valuation that are not already included in the credit-risk-based calculation parameters used in the expected credit loss models/the expert estimates.

On the one hand, these risk factors relate to the need for a stronger weighting of downside scenarios given the current

economic uncertainties with a potential impact on the sectors relevant to the Bank.

On the other hand, they relate to the impact, as estimated by Hamburg Commercial Bank, of the emission requirements for ships that will apply from 2020.

15. Administrative expenses**Administrative expenses**

(€ m)	2019	2018
Personnel expenses	218	198
Operating expenses	185	186
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	10	18
Total	413	402

Personnel expenses

(€ m)	2019	2018
Wages and salaries	179	165
Social security contributions	24	25
thereof employer contributions to government-sponsored pension plans	11	13
Expenses for pensions and support	15	8
Total	218	198

Operating expenses

(€ m)	2019	2018
IT costs	86	78
Costs for information services	9	9
Costs for external services and project work	27	37
Legal service costs	23	14
Expenses for land and buildings	10	11
Obligatory contributions and expenses related to corporate law	-	1
Costs of advertising, PR and promotional work	2	5
Expenses on plant and equipment	-	1
Other expenses	28	30
Total	185	186

Depreciation on property, plant and equipment and amortisation on intangible assets are broken down as follows:

Depreciation

(€ m)	2019	2018
Scheduled depreciation on		
Plant and equipment	2	3
Property	1	3
Acquired software	3	3
Software developed in-house	1	2
Right-of-use-assets from leasing	2	-
Unscheduled depreciation on		
Property	1	-
Assets held for sale and disposal groups	-	7
Total	10	18

Of the scheduled depreciation on property €1 million is attributable to investment properties.

16. Other operating income

Other operating income

(€ m)	2019	2018
Income		
from reversal of other provisions and release of liabilities	131	16
from legal disputes	30	5
from cost allocations and reimbursement of expenses	24	29
from interest on receivables from the tax office	4	7
from investment property (rental income)	4	4
from the disposal of property, plant and equipment	-	18
from leasing transactions	-	5
Other income	35	33
Total income	228	117
Expenses		
from additions to other provisions	56	167
from expenses paid in advance for transaction fees, legal fees, servicing	18	25
For interest expenses pursuant to Section 233 AO	-	8
for investment property	1	1
Other expenses	20	38
Total expenses	95	239
Income/loss arising on the deconsolidation of companies	-	15
Total	133	- 107

The income from the reversal of other provisions and liabilities mainly relates to income from the reversal of provisions for litigation risks.

17. Expenses for regulatory affairs, deposit guarantee fund and banking associations

Expenses for regulatory affairs, deposit guarantee fund and banking associations

(€ m)	2019	2018
Expenses for European bank levy	29	31
Expenses for deposit guarantee fund	16	50
Expenses for banking supervisory authority	5	4
Expenses for banking associations	1	4
Total	51	89

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.

In the previous year, provisions for expected one-off payments to the German banking association "Bundesverband deutscher Banken" related to the planned transfer to their deposit guarantee scheme were recognised in the Expenses for deposit guarantee fund item, which led to a temporary increase. These provisions were adjusted slightly upwards in the financial year.

18. Result from restructuring and transformation

Result from restructuring and transformation

(€ m)	2019	2018
Personnel expenses due to restructuring	18	259
Operating expenses due to restructuring	28	46
Income from reversals of provisions	22	5
Result from restructuring	-24	-300
Expenses from privatisation	14	66
Expenses from transformation	28	-
Result from restructuring and transformation	-66	-366

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 support the transformation of the Bank. In December 2019, an additional programme designed to further reduce costs was decided upon, which will also involve a further reduction in the number of employees.

Furthermore, this item includes the expenses incurred in connection with the privatisation. This mainly concerns measures that were started in the previous year and completed in the year under review.

At the end of the 2019 financial year, the item was re-named Result from restructuring and transformation. This takes account of the fact that as the transformation of the Bank progresses, privatisation expenses will fade into the background and instead expenses for the transformation programme will become more significant. These expenses result in particular from measures introduced to achieve the Bank's strategic goals that will enable a seamless transition to the deposit guarantee system of private banks by 2022.

19. Expenses for government guarantees

Expenses for government guarantees

(m €)	2019	2018
HSH Finanzfonds AöR	-	158
Total	-	158

The guarantee granted by the Federal state of Schleswig Holstein and the Free and Hanseatic City of Hamburg in the amount of € 10 billion was cancelled with the closing of the privatisation process on 28 November 2018. Expenses in 2018 include a one-time payment of € 100 million for the premature cancellation of the guarantee.

20. Income tax expense

Income tax expense

(€ m)	2019	2018
Corporate tax and solidarity surcharge		
Domestic	2	1
Trade income tax		
Domestic	-	-
Current income taxes	2	1
Income tax from previous years	-45	-15
Subtotal current income tax	-43	-14
Income from deferred tax		
from temporary differences	35	202
from losses carried forward	72	-168
from consolidation	1	-
Subtotal deferred income tax	108	34
Income tax expense (+)/income (-)	65	20

Income from previous years is mainly attributable to the capitalisation of receivables from tax refunds expected at the level of Hamburg Commercial Bank on the basis of the tax return submitted for the 2017 assessment period. It also includes the adjustment of provisions for tax risks in the statement of financial position due to changes in the risk assessment as a result of the findings of the current tax audit.

Deferred taxes on losses carried forward are measured on the basis of an impairment analysis based on corporate planning. On the basis of this corporate planning, the reversal of deferred taxes on losses carried forward in the Head Office results in expenses of € 53 million in the year under review, and € 10 million for the Luxembourg branch. For the Singapore branch, the reversal of deferred tax assets due to the planned closure of the branch results in expenses of € 10 million. The expense relating to deferred taxes from temporary differences in the year under review is mainly attributable to the decline in temporary differences in the Head Office.

Reconciliation of income taxes

(€ m)	2019	2018
Group net result	12	77
Income taxes	64	20
Income before taxes incl. income from transfer of losses	76	97
Domestic income tax rate to be applied in %	31.98	31.97
Imputed income tax expenses in the financial year	25	31
Tax effects due to		
Appreciation/depreciation of deferred taxes on losses carried forward and temporary differences	110	313
Differing effective tax rates in Germany and abroad	-5	-42
Non-deductible expenses	7	70
Corrections to trade taxes	-9	-11
Taxes for previous years	-54	10
Tax-free income	-10	-21
Appreciation/depreciation of deferred taxes on temporary differences and miscellaneous	1	-330
Total tax expense (+)/income (-)	65	20

In the tax calculation for 2019, a tax rate of 31.98 % (previous year: 31.97 %) was used for domestic taxes.

The main effects in the reconciliation of the arithmetic to the actual tax expense are the lack of recoverability of newly incurred losses carried forward and the change in valuation allowances on existing losses carried forward as well as taxes for previous years. In addition to current tax income for previous years, the taxes for previous years reconciliation item also includes adjustments to deferred taxes on temporary differences based on more recent information on the previous year's items.

In addition, significant reconciliation effects resulted from non-tax-deductible expenses, tax-free income and trade tax corrections at various domestic and foreign Group units.

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 and Net income from financial investments, the hedging effect of the credit derivative under the second loss guarantee (previous year) as

well as loan loss provisions with regard to credit business shown on the statement of financial position.

Neither Net interest nor Net commission income is included in this item.

Net gains and losses from financial instruments

(€ m)	2019	2018
FVPL Held For Trading, Other, Designated	-19	-186
AC assets and liabilities	93	-315
FVOCI Mandatory	19	73
Total	93	-428

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 2019, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

Earnings per share

	2019	2018
Attributable Group net result (€ m) - undiluted/diluted	12	70
Number of shares (millions)		
Average number of ordinary shares outstanding undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.04	0.23
Diluted	0.04	0.23

Notes on the Group statement of financial position

23. Cash reserve

Cash reserve

(€ m)	2019	2018
Cash on hand	-	1
Balances at central banks	4,780	5,299
thereof at the Deutsche Bundesbank	4,769	5,289
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	70	62
Total	4,850	5,362

24. Loans and advances to banks

Loans and advances to banks

(€ m)	2019			2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	740	979	1,719	568	1,216	1,784
Other loans and advances	752	50	802	1,303	80	1,383
Total before loan loss provisions	1,492	1,029	2,521	1,871	1,296	3,167
Loan loss provisions	-	-	-	-	-	-
Total after loan loss provisions	1,492	1,029	2,521	1,871	1,296	3,167

Of loans and advances to banks, holdings in the amount of € 44 million (previous year: € 91 million) have a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 2,078 million (previous year: € 2,356 million).

The development of the carrying amounts of loans and advances to banks is shown in Note 48.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 58.

25. Loans and advances to customers

Loans and advances to customers

(€ m)	2019			2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Retail customers	388	6	394	441	11	452
Corporate clients	14,709	12,769	27,478	16,262	12,173	28,435
Public authorities	2,654	182	2,836	3,732	172	3,904
Total before loan loss provisions	17,751	12,957	30,708	20,435	12,356	32,791
Loan loss provisions	382	326	708	497	334	831
Total after loan loss provisions	17,369	12,631	30,000	19,938	12,022	31,960

Of loans and advances to customers, holdings in the amount of € 21,883 million (previous year: € 24,502 million) have a residual maturity of more than one year.

Loans and advances to customers include money market transactions in the amount of € 772 million (previous year: € 1,114 million).

Loans and advances to customers include receivables under finance lease transactions in the amount of € 57 million (previous year: € 73 million).

The development of the carrying amounts of loans and advances to customers is shown in Note 48.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 58.

26. Loan loss Provisions

Loan loss provisions

(€ m)	2019	2018
Loan loss provisions for loans and advances to customers categorised as AC, incl. Leasing	708	831
Loan loss provisions in the lending business	708	831
Loan loss provisions for items in the statement of financial position	708	831
Provisions in the lending business	53	60
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	761	891

In accordance with IFRS 9, the loan loss provisions item is only set up for business categorised as AC. For information on the

development of the IFRS 9 portfolio of loans and advances to customers, please refer to Note 50.

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. The fol-

lowing 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 euro underlying transactions. 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 used solely for interest rate risks.

II. Effects on cash flow

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 below.

Hedging Instruments¹⁾

(€ m)		2019			2018		
		Nominal value	Carrying amount	Hedge adjustment (ytd)	Nominal value	Carrying amount	Hedge adjustment (ytd)
Hedge type/type of risk	Balance sheet item						
Fair value hedge/interest rate risk							
Interest rate derivatives (assets side)	Positive fair values of hedging derivatives	4,556	134	46	9,577	175	-62
Interest rate derivatives (liabilities side)	Negative fair values of hedging derivatives	4,858	609	174	7,610	501	-41

¹⁾ The portfolios are newly designated/re-designated 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 are reported in the balance sheet item Positive fair values of hedging derivatives and derivatives on the liabilities side are shown in the balance sheet item Negative fair values of hedging derivatives.

Micro fair value hedges

(€ m)	Maturity date		
	2027	2037	2038
Nominal Value of hedging instruments	100	450	200
Average swap rate	3.869	3.694	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, hedge adjustment and the positive and negative fair values of derivatives used in hedge accounting. Only interest rate swaps are currently taken into account as hedging instruments. If a derivative is only designated pro rata in hedge accounting, the item Positive/negative fair value of hedging derivatives contains the corresponding share of the derivative's fair value, nominal value and hedge adjustment. The residual amount is reported under Trading assets/Net trading income

The overall changes in these items are mainly due to changes in the portfolio compositions and movements in interest rates in the euro and US dollar capital markets.

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 (Itd) and since the beginning of the financial year (ytd) for

these financial instruments. The underlying transactions currently include assets (receivables and securities) and liabilities. Hedge accounting is used solely for interest rate risks.

Underlying transactions¹⁾

(€ m)		2019			2018		
Hedge type/type of risk	Balance sheet item	Carrying amount	Cum. Hedge adjustment (ytd)	Hedge adjustment (ytd)	Carrying amount	Cum. Hedge adjustment (ytd)	Hedge adjustment (ytd)
Fair value hedge/interest rate risk							
Portfolio fair value hedge:	Positive adjustment item from portfolio value hedges	5,464	142	-53	9,347	195	-54
Fixed-interest rate loans, debentures, securities							
Micro fair value hedge	Loans and advances to customers	1,099	106	93	1,035	13	13
Portfolio fair value hedge:	Negative adjustment item from portfolio value hedges	10,146	370	-29	13,315	399	-57
Fixed-interest issues							
Portfolio fair value hedge (inactive)	Positive adjustment item from portfolio value hedges	675	5	-	802	5	-1
Portfolio fair value hedge (inactive)	Negative adjustment item from portfolio value hedges	176	24	-37	302	61	-36
Micro fair value hedge (inactive)	Loans and advances to customers	226	55	-19	262	74	-14
Micro fair value hedge (inactive)	Liabilities to customers, securitised liabilities, subordinated capital	56	8	-8	293	16	-10

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 obligations in the FVPL Trading category are reported under Trading liabilities. Mainly included in this category are derivatives with a negative fair value which are either not designated as a hedging derivative or are used as hedging instruments but do not meet the requirements of IFRS 9 for hedge accounting.

Of the trading liabilities, holdings of € 2,430 million (previous year: € 2,843 million) have a residual maturity of more than one year.

Information on collateral transferred is presented in Note 58.

Trading assets

(€ m)	2019	2018
Bonds and debentures		
from public-sector issuers	58	81
negotiable and listed	58	81
from other issuers	-	115
negotiable and listed	-	113
negotiable and not listed	-	2
Debentures and other fixed-interest	58	196
interest		
Debentures and other fixed-interest securities	58	196
Positive fair value of financial derivatives		
Interest rate-related transactions	2,160	2,499
currency-related business	41	72
other business	267	275
Positive fair value of financial derivatives	2,468	2,846
Other, including promissory notes held for trading	42	-
Receivables from syndication transactions	95	52
Total	2,663	3,094

29. Financial investments

In particular, financial instruments not held for trading purposes 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)	2019	2018
Debentures and other fixed-interest securities	6,052	10,046
negotiable and listed	5,369	9,105
negotiable and not listed	683	941
Shares and other non-fixed-interest securities	12	9
negotiable and listed	7	8
negotiable and not listed	5	1
equity holdings	36	44
negotiable and not listed	2	6
Interests in affiliated companies	-	1
Total	6,100	10,100

Of the financial investments, holdings of € 4.723 million (previous year: € 7.985 million) have a residual maturity of more than one year.

The development in the carrying amounts of financial investments for the current year is shown in Note 48.

30. Intangible assets

Intangible assets

(€ m)	2019	2018
Software	5	8
developed in-house	-	1
acquired	5	7
Software in development	1	-
acquired	1	-
Total	6	8

The structure of the target IT platform SAP S/4 Hana is recognised under Software in development. As of the reporting date, a hitherto immaterial amount of € 1 million has been capitalised under this item.

Changes in the carrying amounts of intangible assets are shown below:

Development in intangible assets

(€ m)	Software			Software in development		Total
	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	
2019						
Acquisition costs as at 1. January 2019	171	82	161	-	-	414
Additions	-	-	1	-	1	2
Disposals	-	1	1	-	-	2
Reclassifications	-	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-	-
As at 31. December 2019	171	81	161	-	1	414
Amortisations as at 1. January 2019	171	81	154	-	-	406
Additions	-	1	3	-	-	4
Disposals	-	1	1	-	-	2
Changes in the scope of consolidation	-	-	-	-	-	-
As at 31. December 2019	171	81	156	-	-	408
Carrying amount as at 31. December 2019	-	-	5	-	1	6
Carrying amount as at 1. January 2019	-	1	7	-	-	8

Development in intangible assets

(€ m)	Software			Software in development		Total
	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	
2018						
Acquisition costs as at 1. January 2018	190	98	173	-	1	462
Additions	-	-	3	-	-	3
Disposals	-	16	16	-	-	32
Reclassifications	-	-	1	-	-1	-
Changes in the scope of consolidation	-19	-	-	-	-	-19
As at 31. December 2018	171	82	161	-	-	414
Amortisations as at 1. January 2018	190	95	167	-	-	452
Additions	-	2	3	-	-	5
Disposals	-	16	16	-	-	32
Changes in the scope of consolidation	-19	-	-	-	-	-19
As at 31. December 2018	171	81	154	-	-	406
Carrying amount as at 31. December 2018	-	1	7	-	-	8
Carrying amount as at 1. January 2018	-	3	6	-	1	10

As in the previous year, no research costs were incurred in the year under review in connection with the implementation of software developed in-house.

31. Property, plant and equipment and investment property

Property, plant and equipment

(€ m)	2019	2018
Land and buildings	88	130
Plant and equipment	7	7
Right-of-use assets from leasing	3	-
Assets under construction	-	2
Total	98	139

In the year under review, the Bank reported rights of use for land and buildings rented under leases for the first time in accordance with IFRS 16. Further information on this can be found in the disclosures on "standards applied for the first time in the reporting year" in Note 1.

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 the Bank. Properties leased, in the capacity of lessor, under operating leases are also included in this item.

Investment property

(€ m)	2019	2018
Investment property	39	40
Right-of-use assets from leasing for investment property	2	-
Total	41	40

The fair value of investment property amounts to € 41 million (previous year: € 43 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 in Property, plant and equipment and Investment property in the financial year was as follows:

Development in property, plant and equipment and investment properties

(€ m)	Property, plant and equipment				Investment property	
	Land and buildings	Plant and equipment	Assets under construction	Right-of-use-assets from Leasing	Investment property	Right-of-use-assets from Leasing
2019						
Acquisition costs as at 1 January 2019	142	60	2	-	45	-
First-time adoption of IFRS 16 as at 1 January 2019	-	-	-	5	-	6
Acquisition costs after first-time adoption as at 1 January 2019	142	60	2	5	45	6
Additions	-	3	-	-	-	-
Disposals	-	1	-	-	-	-
Reclassifications	- 44	-	- 2	-	-	-
As at 31 December 2019	98	62	-	5	45	6
Amortisations as at 1 January 2019	12	53	-	-	5	-
Additions	1	2	-	2	1	4
Disposals	-	-	-	-	-	-
Reclassifications	- 3	-	-	-	-	-
As at 31 December 2019	10	55	-	2	6	4
Carrying amount as at 31 December 2019	88	7	-	3	39	2
Carrying amount as at 1 January 2019	130	7	2	-	40	-

In the reporting year, land and buildings in the amount after amortisations of € 41 million were reclassified, while € 2 million were reclassified from assets under construction to assets held for sale.

Further information on depreciation and amortisation is provided under Note 15. Depreciation of investment properties is not included in administrative expenses, but in the result from restructuring and transformation, as it relates to depreciation of investment properties of the former New York branch. Business activities in New York were discontinued in connection with the Bank's restructuring programme.

Development in property, plant and equipment and investment properties

(€ m)	Property, plant and equipment				Investment property	
	Land and buildings	Plant and equipment	Assets under construction	Right-of-use-assets from Leasing	Investment property	Right-of-use-assets from Leasing
2018						
Acquisition costs as at 1. January 2018	232	64	1	-	15	-
Additions	-	1	1	-	-	-
Disposals	-	5	-	-	1	-
Reclassifications	- 90	-	-	-	31	-
As at 31. December 2018	142	60	2	-	45	-
Amortisations as at 1. January 2018	13	52	-	-	2	-
Additions	2	3	-	-	1	-
Disposals	-	2	-	-	-	-
Reclassifications	- 3	-	-	-	2	-
As at 31. December 2018	12	53	-	-	5	-
Carrying amount as at 31. December 2018	130	7	2	-	40	-
Carrying amount as at 1. January 2018	219	12	1	-	13	-

In the previous year, land and buildings in the amount of € 34 million were reclassified as investment properties, while € 53 million were reclassified as assets held for sale.

€ 5 million were reclassified from investment properties to assets held for sale.

32. Non-current assets held for sale and disposal groups**Non-current assets held for sale and disposal groups**

(€ m)	2019	2018
Loans and advances to customers	246	8
Financial assets	8	-
Property, plant and equipment	97	53
Investment property	4	4
Total	355	65

Loans and advances to customers, which were reported at € 8 million in the previous year, were completely disposed of in the second half of 2019. Loans and advances to customers were allocated to the IFRS 9 category FVPL.

In December 2019, Hamburg Commercial Bank AG concluded sales agreements for loans and advances to customers in the amount of € 246 million with two institutions. These are loans and advances to public-sector debtors that are being sold as part of the transformation process of Hamburg Commercial Bank AG. The sale was completed in two sales transactions in the first quarter of 2020. All loans and advances to customers classified as held for sale are measured at amortised cost (AC) and attributable to the Diversified Lending & Markets segment.

No risk provisions were created for loans and advances to customers held for sale.

The Bank intends to sell an equity investment. Closing is expected in the first quarter of 2020. The investment to be sold is recognised under "Other and consolidation" in the segment report.

The Bank's transformation programme adopted at the end of 2018 includes a concentration of locations in one building each at the Hamburg and Kiel locations. This item contains the land and buildings (property, plant and equipment) that will no longer be used for the Bank's own purposes in the future and two properties previously held as investments. The increase compared with 31 December 2018 is due to the fact that further properties with a carrying amount of € 44 million met the classification criteria of IFRS 5 in the reporting period. All buildings and land classified as held for sale and investment property as of the reporting date are reported in the segment report under "Other and consolidation".

The assets concerned were sold after the reporting date in two portfolio transactions. After the purchase agreements for both transactions had been signed in December 2019, the closing took place in February 2020.

33. Current tax assets

Current tax assets

(€ m)	2019	2018
Domestic	78	43
Foreign	4	6
Total	82	49

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)	2019	2018
Assets		
Loan loss provisions	149	180
Financial investments	6	17
Other assets	83	41
Liabilities		
Liabilities to banks	96	53
Liabilities to customers	23	48
Securitised liabilities	1	43
Negative fair value of hedging derivatives	195	160
Liabilities-side adjustment item from portfolio fair value hedge	126	147
Trading liabilities	218	289
Subordinated liabilities	154	-
Provisions	244	203
Other liabilities	81	42
Tax losses carried forward	113	185
Subtotal for deferred tax assets	1,489	1,408
of which long-term	-	-
Netting of deferred tax liabilities	-831	-695
Total	658	713

Out of the deferred tax assets after netting, € 652 million are attributable to Germany and € 6 million to other countries.

Deferred taxes were recognised on losses carried forward in the amount of € 113 million (previous year: € 185 million). As at 31 December 2018, € 107 million of this amount were attributable to the Head Office (previous year: € 159 million) and

€ 6 million to the Luxembourg branch (previous year: € 16 million). For the Head Office and the Luxembourg branch, the recoverability of deferred taxes on losses carried forward is determined based on the planned future taxable income. The deferred tax assets on losses carried forward of € 10 million recognised for the Singapore branch in the previous year were reversed in the year under review due to the planned closure of the branch, as no future taxable income is expected to be generated by the Singapore branch.

At the reported date, tax losses carried forward of € 5,104 million (previous year: € 5,190 million) were recognised, for which no deferred tax assets were created.

The increase in deferred tax assets before netting of € 81 million resulted from the reduction in deferred tax assets on losses carried forward as well as from changes in the measurement differences for various items in the statement of financial position. In the year under review, deferred tax assets were particularly impacted by the measurement of subordinated capital, loan loss provisions, trading liabilities, negative fair values of hedge derivatives, provisions and other assets and other liabilities.

The recoverability of deferred tax assets results from the positive future tax results expected based on the tax planning derived from the corporate planning. As in the previous year, the impairment test did not result in any valuation allowances on deferred tax assets for temporary valuation differences at the end of the financial year.

The increase in deferred tax assets includes € 35 million related to deferred taxes on pension obligations recognised directly in equity and € 1 million related to deferred taxes on securitised liabilities recognised directly in equity.

The difference between the tax valuation and the valuation according to IFRS 9 B5.4.6 results in deferred tax income of € 27 million (previous year: deferred tax expense of € 113 million).

35. Other assets

Other assets

(€ m)	2019	2018
Receivables from fund transactions	11	10
Other prepaid expenses	10	15
Receivables from other taxes	5	3
Other assets	31	21
Total	57	49

As in the previous year, there were no other assets have a residual maturity of more than one year.

€ 32 million of the assets reported here relate to financial instruments (previous year: € 34 million).

36. Liabilities to banks

Liabilities to banks

(€ m)	2019			2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	226	195	421	259	217	476
Other term liabilities	4,371	274	4,645	4,660	334	4,994
Total	4,597	469	5,066	4,919	551	5,470

Of liabilities to banks, holdings in the amount of € 3,832 million (previous year: € 4,047 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated as FVPL and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2019 to € - 6 million (previous year: € -4 million). Changes in value caused by credit

risk account for € 1 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 58.

37. Liabilities to customers

Liabilities to customers by customer group

(€ m)	2019	2018
Corporate clients	13,667	15,743
Public authorities	9,045	8,365
Retail customers	1,254	3,985
Total	23,966	28,093

Liabilities to customers

(€ m)	2019			2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Savings deposits with agreed notice periods of						
3 months	9	-	9	11	-	11
Other liabilities						
Payable on demand	5,661	1,365	7,026	6,599	1,504	8,103
Term liabilities	15,324	1,607	16,931	18,553	1,426	19,979
Total	20,994	2,972	23,966	25,163	2,930	28,093

Of liabilities to customers, holdings in the amount of € 8,427 million (previous year: € 7,258 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated as FVPL and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2019 to € -20 million

(previous year: € -69 million). Changes in value caused by credit risk account for € 0 million of this amount (previous year: € 4 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 58.

38. Securitised liabilities

Securitised liabilities

(€ m)	2019	2018
Debentures issued	7,845	9,458
Total	7,845	9,458

The decrease in this item includes approximately € 192 million related to the restructuring and optimisation of the Bank's capital structure (Liability Management Exercise) (see Note 8).

Of securitised liabilities, holdings of € 6,151 million (previous year: € 6,818 million) have a residual maturity of more than one year. Debentures issued include € 88 million of hybrid financial instruments (31 December 2018: € 180 million).

In the item Securitised liabilities repurchased own debentures in the amount of € 2,487 million (31 December 2018: € 1,341 million) were deducted. The difference between the carrying amount of the securitised liabilities designated as FVPL and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2018 to € -110 million (previous year: € -116 million). Changes in value caused by credit risk for € 4 million (previous year: € 4 million).

39. Trading liabilities

Only financial obligations in the FVPL Trading category are reported under Trading liabilities. Mainly included in this category are derivatives with a negative fair value which are either

not designated as a hedging derivative or are used as hedging instruments but do not meet the requirements of IFRS 9 for hedge accounting.

Trading liabilities

(€ m)	2019	2018
Negative fair value from derivative financial instruments		
Interest rate-related business	1,602	2,417
Currency-related business	30	33
Other business	314	362
Total	1,946	2,812

Of the trading liabilities, holdings of € 1,829 million (previous year: € 2,617 million) have a residual maturity of more than one year.

Information on collateral transferred is presented in Note 58.

40. Provisions**Provisions**

(€ m)	2019	2018
Provisions for pension obligations and similar obligations	1,095	995
Other provisions		
Provisions for personnel expenses	40	28
Provisions in the lending business	55	63
Provisions for restructuring	245	308
Provisions for litigation risks and costs	144	250
Other provisions	120	102
Total	1,699	1,746

The provisions in the lending business shown in the table above include € 2 million (previous year: € 3 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 € 1,320 million (previous year: € 1,398 million) have a residual maturity of more than one year.

Further details on provisions in the lending business can be found in Note 26.

€ 182 million of the provisions for restructuring (previous year: € 271 million) relate to personnel expenses and € 62 million (previous year: € 37 million) to operating expenses. The provisions were mainly set up in connection with the current restructuring programme resulting from the 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, provisions for expenses from the transformation, provisions from onerous contracts and provisions for 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 balance sheet 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 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.

A major portion of the provisions for litigation risks relates to the legal proceedings mentioned below. The current status of the proceedings and the expected outcome of the proceedings are taken into account for accounting purposes. It is not currently possible to predict how long the individual legal disputes will last or, as a result, the time at which the provisions will be used. Depending on the actual outcome of the proceedings, the actual amounts used may vary from the amounts set up as a provision.

Since 2005, Hamburg Commercial Bank AG has been involved in legal proceedings with a Turkish shipping group and up to now had to pay a total amount of 54 million US dollars in 2013 due to decisions of Turkish courts.

Later on, the plaintiffs filed suits with Turkish courts asserting further claims for damages due to a loss of profit and due to third-party liabilities in connection with realisation measures relating to loan collateral furnished in favour of the Bank in respect of a loan.

Furthermore, Hamburg Commercial Bank AG is being sued for payment by a former borrower. The claims were increased and filed by the plaintiff in the 4th quarter 2018. The plaintiff is asserting various claims, particularly claims for payment of compensation and for unjustified enrichment in connection with measures taken by the Bank concerning a non-performing loan. Judgments in the first instance in the second quarter of 2019 dismissed the action predominantly in favour of Hamburg Commercial Bank. Appeals were lodged.

At the time of preparing the financial statements, positive agreements, from the Bank's point of view, have already been concluded with a significant majority of investors in hybrid financial instruments who had filed lawsuits against the Bank. In addition to having the termination to be declared invalid, the objective of these lawsuits was in particular a write-up to the nominal value, or a compensation for lost interest payments. The agreements have already led to the withdrawal of lawsuits.

The reduction in provisions for litigation risks and costs results from the release of a provision following a court ruling. Further information on the Bank's legal risks is provided in the Risk Report under "Operational Risk".

Other provisions changed as follows:

Changes in other provisions

(€ m)	For personnel expenses	In the lending business (nonfinancial instruments)	For restructuring	For litigation risks and costs	Other	Total
2019						
As at 1. January 2019	28	3	308	250	102	691
Additions	37	13	53	50	55	208
Reversals	1	14	11	128	14	168
Other changes	-	-	-	-	-	-
Reclassifications	-18	-	-94	-	-	-112
Changes in exchange rates	-	-	-	-	-	-
Utilisation in the financial year	6	-	11	28	23	68
As at 31. December 2019	40	2	245	144	120	551

For information on the development of loan loss provisions for financial instruments reported under contingent liabilities in

the current year, please refer to Note 48 (Schedule of loan loss provisions).

Changes in other provisions

(€ m)	For personnel expenses	In the lending business (nonfinancial instruments)	For restructuring	For litigation risks and costs	Other	Total
2018						
As at 1. January 2018	24	14	45	98	101	282
Additions	21	2	282	164	165	634
Reversals	4	13	3	7	8	35
Other changes	-	-	-	-	-	-
Reclassifications	-	-	-9	-	1	-8
Changes in exchange rates	-	-	-	-	-1	-1
Utilisation in the financial year	13	-	7	5	156	181
As at 31. December 2018	28	3	308	250	102	691

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)	2019	2018
Net present value of obligations, wholly or partly financed through funds	45	13
Net present value of obligations not financed through funds	1,090	990
Net present value of pension obligations and similar obligations	1,135	1,003
Fair value of plan assets	40	8
Pension plan net liability (provisions for pension obligations and similar obligations)	1,095	995

The net present value of defined benefit pension obligations has changed as follows:

Changes in net present value

(€ m)	2019	2018
Net present value as at 1 January	1,003	1,112
As at 1 January after adjustment	1,030	1,112
Actuarial losses/gains (-)	-	-
due to changed financial assumptions	118	-56
due to experience-based adjustments	-15	-18
due to demographic adjustments	-	11
Interest expenses	20	19
Past service cost	5	-1
Plan settlements	-	-27
Current service cost	8	8
Benefits paid	-51	-50
Reclassifications	20	5
Net present value as at 31 December	1,135	1,003

The change in actuarial gains and losses was mainly attributable to an increase of the discount rate.

Early retirement arrangements were negotiated as part of the restructuring and associated reduction in staff and the corresponding provisions were transferred from restructuring to pension provisions.

The fair value of plan assets has changed as follows:

Changes in fair value of plan assets

(€ m)	2019	2018
Fair value of plan assets as at 1 January	8	9
	36	9
Employer contributions	1	-
Expected return on plan assets	1	-
Actuarial gains	2	-1
Fair value of plan assets as at 31 December	40	8

The total actuarial gains for the financial year before deferred taxes amounted to € -99 million (previous year: € 63 million). Allowing for deferred taxes, this results in a profit of € 67 million (previous year: € 44 million), which is recognised in Other comprehensive income and disclosed in retained earnings on an accumulated basis. As at 31 December 2019, the balance of actuarial gains/losses in retained earnings before tax amounted to € -232 million (previous year: € -122 million) and to € -158 million after tax (previous year: € -83 million).

Breakdown of plan assets

(€ m)	2019	2018
Qualified insurance policies	8	7
Debentures and other fixed-interest securities	1	1
Other assets	31	-
Total	40	8

The debentures and other fixed-interest securities included in the plan assets are traded on an active market.

Expenses of € 33 million were incurred for defined benefit pension plans in the 2019 reporting year (previous year: € 26 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 (see Note 6) would have had the following impact on the present value of pension obligations as at 31 December 2019:

Sensitivity of pension obligations

(€ m)	Increase	Decrease
2019		
Discount rate (+/-0.25%)	-45	47
Inflation trend ¹⁾ (+/-0.25%)	41	-39
Life expectancy (+1 year)	51	

Sensitivity of pension obligations

(€ m)	Increase	Decrease
2018		
Discount rate (+/-0.5%)	-40	43
Inflation trend ¹⁾ (+/-0.25%)	35	-33
Life expectancy (+1 year)	42	

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 2019 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 € 53 million to beneficiaries under defined benefit pension plan commitments for the 2019 financial year (previous year: € 51 million).

The weighted average duration of the defined benefit obligation is 18.2 years as at 31 December 2018 (previous year: 17.4 years).

Expenses for defined contribution plans came to € 13 million in the 2018 reporting period (previous year: € 15 million). Payments to statutory pension schemes in the amount of € 11 million (previous year: € 13 million) are included in this figure.

42. Current tax liabilities

Current tax liabilities

(€ m)	2019	2018
Provisions for income taxes	11	12
Total	11	12

Provisions for income taxes include tax liabilities for which no legally binding tax assessment notice has been received as at the balance sheet date.

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)	2019	2018
Assets		
Loans and advances to banks	148	169
Loans and advances to customers	12	17
Financial investments	64	253
Trading assets	292	92
Positive fair value of hedging derivatives	43	56
Asset-side adjustment item from portfolio fair value hedges	47	64
Property, plant and equipment	2	-
Liabilities		
Liabilities to banks	80	10
Liabilities to customers	1	13
Securitised liabilities	63	-
Trading liabilities	-	-
Provisions	5	1
Other liabilities	74	20
Subtotal	831	695
Netting off deferred tax assets	-831	-695
Total	-	-

€ 19 million of the total change is attributable to reductions recognised directly in equity relating to the measurement of receivables, liabilities and financial investments.

Deferred tax liabilities of € 3 million (previous year: € 2 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.

The increase in deferred tax liabilities before netting mainly results from the change in existing temporary differences on the credit derivative from trading assets, financial investments, loans and advances to banks, liabilities to banks, securitised liabilities and other liabilities.

44. Other Liabilities

Other liabilities

(€ m)	2019	2018
Collateral provided for liabilities assumed	331	423
Liabilities for outstanding invoices	52	49
Other tax liabilities	44	5
Personnel liabilities	11	8
Deferred liabilities	9	11
Liabilities for restructuring	7	5
Other tax liabilities	6	-
Other	17	17
Total	477	518

Other liabilities in the amount of € 338 million (previous year: € 431 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.

€ 407 million of the liabilities reported here relate to financial instruments (previous year: € 498 million).

45. Subordinated capital

Subordinated capital

(€ m)	2019	2018
Subordinated liabilities	1,069	1,067
Maturing in less than two years	132	104
Silent participations	280	547
Total	1,349	1,614

The decline in this item is related to the restructuring and optimisation of the Bank's capital structure (Liability Management Exercise) (see Note 8).

Hamburg Commercial Bank reports subordinated liabilities and silent participations under subordinated capital.

Subordinated capital of € 1,345 million (previous year: € 1,540 million) has a residual maturity of more than one year. In addition to hybrid instruments disclosed here, hybrid instruments are also disclosed in the line item Securitised liabilities (cf. Note 38).

46. Equity

Equity

(€ m)	2019	2018
Share capital	3,018	3,018
Capital reserve	75	75
Retained earnings	1,016	1,012
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-232	-122
thereof: Deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	74	39
Revaluation reserve	196	238
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	-2	1
thereof: Valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	198	237
Currency conversion reserve	33	22
Group net result	12	70
Total before non-controlling interests	4,350	4,435
Non-controlling interests	-	2
Total	4,350	4,437

Share capital

The share capital of Hamburg Commercial Bank is divided into 301,822,453 registered shares each representing a notional of € 10.00 of share capital. All the issued shares have been fully paid up.

As at 31 December 2019, several funds launched by Cerberus Capital Management L.P., New York, indirectly held a total of 42.50 % of the voting rights via three acquisition companies (Promontoria Holding 221 B.V. 9.89 %, Promontoria Holding 231 B.V. 13.88 % and Promontoria Holding 233 B.V. 18.73 %). Funds advised by J.C. Flowers & Co LLC, New York, indirectly hold a 35.00 % 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 12.50 % 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 7.50 % via Chi Centauri LLC as an acquisition company.

The remaining 2.5 % stake is held by BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft, Vienna.

JCF IV Neptun Holdings S.à r.l., Luxembourg, informed us in November 2018 that it directly owned more than one quarter of the shares of Hamburg Commercial Bank AG pursuant to Section 20 (1) of the German Stock Corporation Act (AktG). In addition, the following companies and natural persons notified us in November 2018 that they 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) AktG.

- 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 AktG.

Changes in ordinary shares

(Number of shares)	2019	2018
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 and dividends

The item Retained earnings mainly shows amounts allocated from previous year profits and the profits of the current year. There are no statutory reserves or legal reserves within the meaning of Section 150 (2) of the German Stock Corporation Act (AktG).

As was the case for the previous financial year 2018, no dividend payments were made for previous years during the current financial year 2019.

Capital reserve

There were no withdrawals from the capital reserve either in the year under review or in the previous year.

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.

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 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 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 capital base is reported to the regulatory authorities quarterly. The capital ratios required under supervisory law were complied with on each reporting date in the course of the year under review.

Regulatory figures¹⁾

(%)	2019	2018
Overall capital ratio	23.5	23.3
Tier 1 capital ratio	18.5	18.4
CET1 capital ratio	18.5	18.4

¹⁾ Values before adoption of the Group financial statements of Hamburg Commercial Bank.

The regulatory capital commitment was monitored closely both at Bank and division level in the course of the financial year.

Hybrid instruments determined in 2018 with effect from 31 December 2020 regulatory recognition as AT1/T2 capital for the regulatory capital ratios under the CRR and SREP requirements no longer applies.

Segment reporting

47. Segment report

(€ m/%)	Corporates & Structured Finance		Real Estate		Shipping		Diversified Lending & Markets	
	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	163	210	169	168	94	95	2	73
Net commission income	39	49	15	14	17	13	-7	-9
Result from hedging	-	-	-	-	-	-	-	-
Result from financial instruments categorised as FVPL	-9	11	9	4	5	-	75	66
Net income from financial investments including other income items ¹⁾	6	4	73	3	-	-	26	36
Total income	199	274	266	189	116	108	96	166
Loan loss provisions ²⁾	-63	-54	-25	-55	84	-205	10	16
Administrative expenses	-147	-180	-117	-91	-71	-61	-66	-59
Other operating result	-14	7	53	3	-	-	3	1
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-11	-8	-16	-8	-5	-4	-10	-7
Net income before restructuring and transformation	-36	39	161	38	124	-162	33	117
Result from restructuring and transformation	-	-	-	-	-	-	-	-
Expenses for government guarantees	-	-12	-	-5	-	-20	-	-4
Net income before taxes	-36	27	161	33	124	-182	33	113
Cost Income Ratio (CIR)	79%	64%	37%	47%	61%	56%	67%	35%
Return on equity	-2%	2%	16%	4%	18%	-29%	7%	21%
Average equity	1,459	1,503	1,024	884	700	625	483	548

(€ bn)	2019	2018	2019	2018	2019	2018	2019	2018
Segment assets	12.3	13.6	12.5	12.4	4.6	4.5	12.8	17.2

1) Inclusive the result from the disposal of financial assets classified as AC.

2) Previous year: Summary of "Loan loss provisions" and "Hedging effect of credit derivative under the second loss guarantee"

(€ m/%)	Other		Reconciliation		Total Other and Reconciliation		Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	-156	1,080	49	-5	-107	1,075	321	1,621
Net commission income	-	-28	-3	-4	-3	-32	61	35
Result from hedging	-	-	-2	-9	-2	-9	-2	-9
Result from financial instruments categorised as FVPL	-24	-170	-75	-47	-99	-217	-19	-136
Net income from financial investments including other income items ¹⁾	-6	33	3	-1	-3	32	102	75
Total income	-186	915	-28	-66	-214	849	463	1,586
Loan loss provisions ²⁾	3	9	2	-78	5	-69	11	-367
Administrative expenses	-12	-11	-	-	-12	-11	-413	-402
Other operating result	88	-119	3	1	91	-118	133	-107
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-7	-63	-2	1	-9	-62	-51	-89
Net income before restructuring and transformation	-114	731	-25	-142	-139	589	143	621
Result from restructuring and transformation	-	-	-66	-366	-66	-366	-66	-366
Expenses for government guarantees	-	-118	-	1	-	-117	-	-158
Net income before taxes	-114	613	-91	-507	-205	106	77	97
Cost/income ratio (CIR)	-	-	-	-	-	-	69.3%	27.2%
Return on equity before taxes	-	-	-	-	-	-	1.8%	2.2%
Average equity	473	770	204	-	677	770	4,343	4,330

(€ bn)	2019	2018	2019	2018	2019	2018	2019	2018
Segment assets	5.2	7.4	0.3	0.0	5.5	7.4	47.7	55.1

¹⁾ Inclusive the result from the disposal of financial assets classified as AC.

²⁾ Previous Year: Summary of "Loan loss provisions" and "Hedging effect of credit derivative under the second loss guarantee"

Segment reporting is in accordance with the provisions of IFRS 8. The segments result from the Bank'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.

In 2019, segment reporting was changed in accordance with the requirements set out in IFRS 8 (Management Approach). Following the disposal of the Non-Core Bank portfolios as part of the portfolio transaction in November 2018, the Non-Core Bank segment and the Core Bank (as the sum of its four operating segments) no longer exist. The small number of remaining transactions, which are immaterial in terms of amount, and the prior-year results of the former Non-Core Bank are shown under "Other". In addition, the segment structure was adjusted to reflect the changes to the internal organisational structure made in the year under review. This mainly resulted in changes to the names of the Corporates & Structures Finance (formerly: Corporate Customers) and Diversified Lending & Markets (formerly: Treasury & Markets) segments

and slight shifts between these two segments. The cost allocation within the Group was also changed. The previous year's figures have been adjusted accordingly.

In addition, the shift between net interest income and net income from financial investments in the previous year in the Diversified Lending & Markets segment (see Note 3) was taken into account.

Hamburg Commercial Bank comprises the segments Corporates & Structured Finance, Shipping, Real Estate and Diversified Lending & Markets as well as "Total Others and Reconciliation". The business activities of the Corporates & Structured Finance, Shipping and Real Estate segments focus on providing financing solutions in the lending business.

In the Corporates & Structured Finance segment, the strategic focus is mainly on the business areas Corporate Banking & Advisory and project financing in the energy and infrastructure sectors. In addition, this segment includes the advisory areas and products of structured finance, leveraged buyouts, mergers & acquisitions, syndication business, factoring, leasing and transaction banking for all the Bank's clients, as well as support for institutional clients. The Real Estate segment com-

prises national and international business with real estate customers, while the Shipping segment includes business with shipping customers.

The Diversified Lending & Markets segment comprises the capital market activities restructured as part of the transformation, which 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 management of the cover pool and issuer activities. In addition, the lending business with international corporates, which is currently being developed, will be reported in future. This portfolio will contribute to the diversification of the Bank's portfolio.

The administrative expenses incurred by the segments comprise the direct personnel and operating costs attributable to the segments, as well as the allocation of the Bank's overhead costs. In 2019 an adjustment of the cost allocation was made. The Bank's overhead costs are now allocated in full to the Bank's divisions on the basis of internal standard processing costs. This results in a higher burden on the operating segments. The previous year's figures have been adjusted accordingly.

Loan loss provisions are shown in the segments in which they originated. The expenses for regulatory affairs, the deposit guarantee fund and banking associations are allocated to the segments.

The "Total other and consolidation" column corresponds to the sum of the "Other" and "Consolidation" columns. In the "Other" column, overall bank positions, as well as corporate and service functions, are shown as non-reportable segments. Overall bank positions include the liquidity buffer to be maintained in accordance with the Minimum Requirements for Risk Management (MaRisk) and the effects of equity.

The column "Reconciliation" contains effects from divergent accounting policies between internally reported figures and the presentation in the consolidated financial statements. In accordance with IFRS 8.28, the reconciliation effects contained in the individual income items are presented separately and explained in more detail below.

Net interest income is calculated using the market interest rate method for internal reporting to management. The planned investment and financing success is distributed to the segments on the basis of the economic capital commitment. The transformation contribution mainly includes the results from the liquidity management of the banking book and, as a result, the temporary effects resulting from the increase in liquidity during the privatisation phase, in particular. The transformation contribution is reported centrally under Other in

line with the internal management and is not allocated to the segments.

Reconciliation effects relating to Net interest income in the amount of € 49 million are due largely to valuation differences. These are largely the result of the use of internal transactions within the framework of internal interest rate and liquidity management/the consideration of imputed interest rate margins (fund transfer pricing, FTP)) instead of gross interest in the lending business. Further reconciliation effects result, in particular, from the use of what are, in some cases, different calculation and amortisation methods within the context of internal reporting. 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 Net interest income.

The reconciliation effects of the Result from financial instruments categorised as FVPL (€ -75 million) 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.

In addition, Net income from restructuring and privatisation is also shown in full under Consolidation as an item for reconciliation with the internally managed values.

Total income recognised in the segments is exclusively generated from business conducted with external customers.

Geographical information as well as information on income from external clients for each product and service is not collected for management reporting due to a lack of management relevance and disproportionately high costs, whereby disclosures in accordance with IFRS 8.32 and 8.33 are not made.

The cost/income ratio (CIR) and return on equity (RoE) are shown in the segment report for the four segments and the Group.

The allocation key for the allocation of the average reported equity capital to the segments is the regulatory capital commitment due to its management relevance.

The CIR is calculation as the ratio of Administrative expenses to Total income plus Other operating income. Return on equity is the ratio of net income before taxes to average equity capital.

Disclosures on financial instruments

48. 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 balance sheet items "Loans and advances to banks", "Loans and advances to customers", "Financial investments", "Assets held for sale" 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)	2019				Total
	Insignificant increase in the loan default risk (12-month-ECL)	Significant increase in the loan default risk (LECL Level 2)	Credit-impaired (LECL Level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts as at 1 January 2019	3,166	-	-	-	3,166
thereof AC	3,000	-	-	-	3,000
thereof FVOCI	166	-	-	-	166
New additions and increases	936	1	-	-	937
thereof AC	935	1	-	-	936
thereof FVOCI	1	-	-	-	1
Repayments, disposals and sales	1,583	-	-	-	1,583
thereof AC	1,471	-	-	-	1,471
thereof FVOCI	112	-	-	-	112
Exchange rate changes	1	-	-	-	1
thereof AC	1	-	-	-	1
Carrying amounts as at 31 December 2019	2,520	1	-	-	2,521
thereof AC	2,465	1	-	-	2,466
thereof FVOCI	55	-	-	-	55

Development in gross carrying amounts for loans and advances to banks

(€ m)	2018				Total
	Insignificant increase in the loan default risk (12-month-ECL)	Significant increase in the loan default risk (LECL Level 2)	Credit-impaired (LECL Level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts as at 1 January 2018	3,761	5	-	-	3,766
thereof AC	3,556	5	-	-	3,561
thereof FVOCI	205	-	-	-	205
New additions and increases	861	12	-	-	873
thereof AC	861	12	-	-	873
Repayments, disposals and sales	1,451	17	-	-	1,468
thereof AC	1,416	17	-	-	1,433
thereof FVOCI	35	-	-	-	35
Exchange rate changes	1	-	-	-	1
thereof AC	2	-	-	-	2
thereof FVOCI	-1	-	-	-	-1
FV changes	-3	-	-	-	-3
thereof FVOCI	-3	-	-	-	-3
Changes in the scope of consolidation	-3	-	-	-	-3
thereof AC	-3	-	-	-	-3
Carrying amounts as at 31 December 2018	3,166	-	-	-	3,166
thereof AC	3,000	-	-	-	3,000
thereof FVOCI	166	-	-	-	166

Development in loan loss provisions for loans and advances to banks

There were no significant loan loss provisions to banks in the year under review.

Development in loan loss provisions for loans and advances to banks

(€ m)	2018			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit impaired (LECL level 3)	
Loan loss provisions on 1 January 2018	1	-	-	1
Reversals due to disposals, repayments and other reductions	1	-	-	1
Loan loss provisions on 31 December 2018	-	-	-	-

Development in gross carrying amounts for loans and advances to customers

(€ m)	2019				Total
	Insignificant increase in the loan default risk (12-month-ECL)	Significant increase in the loan default risk (LECL Level 2)	Credit-impaired (LECL Level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts as at 1 January 2019	28,152	3,017	955	-	32,124
thereof AC	26,094	3,008	955	-	30,057
thereof FVOCI	1,985	9	-	-	1,994
thereof receivables under finance leases	73	-	-	-	73
Transfer to LECL level 2	-1,085	1,238	-153	-	-
thereof AC	-1,085	1,238	-153	-	-
Transfer to LECL level 3	-75	-194	269	-	-
thereof AC	-75	-194	269	-	-
Transfer to 12-month ECL	547	-547	-	-	-
thereof AC	536	-536	-	-	-
thereof FVOCI	11	-11	-	-	-
New additions and increases	9,529	437	91	-	10,057
thereof AC	9,501	437	91	-	10,029
thereof FVOCI	28	-	-	-	28
Utilisation and impairment	-	-	148	-	148
thereof AC	-	-	148	-	148
Repayments, disposals and sales	10,492	1,271	370	-	12,133
thereof AC	10,007	1,271	370	-	11,648
thereof FVOCI	468	-	-	-	468
thereof receivables under finance leases	17	-	-	-	17
Changes in carrying amounts due to non-substantial modification	-1	2	-	-	1
thereof AC	-1	2	-	-	1
Exchange rate changes	53	66	5	-	124
thereof AC	48	66	5	-	119
thereof FVOCI	4	-	-	-	4
thereof receivables under finance leases	1	-	-	-	1
FV changes	44	2	-	-	46
thereof FVOCI	44	2	-	-	46
Carrying amounts as at 31 December 2019	26,672	2,750	649	-	30,071
thereof AC	25,011	2,750	649	-	28,410
thereof FVOCI	1,604	-	-	-	1,604
thereof receivables under finance leases	57	-	-	-	57

Development in gross carrying amounts for loans and advances to customers

(€ m)	2018				
	Insignificant increase in the loan default risk (12-month- ECL)	Significant increase in the loan default risk (LECL Level 2)	Credit-impaired (LECL Level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2018	28,441	2,743	1,700	-	32,884
thereof AC	26,095	2,724	1,700	-	30,519
thereof FVOCI	2,270	19	-	-	2,289
thereof receivables under finance leases	76	-	-	-	76
Transfer to LECL level 2	-1,067	1,293	-226	-	-
thereof AC	-1,067	1,293	-226	-	-
Transfer to LECL level 3	-36	-423	459	-	-
thereof AC	-36	-423	459	-	-
Transfer to 12-month ECL	482	-149	-333	-	-
thereof AC	482	-149	-333	-	-
New additions and increases	10,274	520	262	-	11,056
thereof AC	10,274	520	262	-	11,056
Utilisation and impairment	-	-	492	-	492
thereof AC	-	-	492	-	492
Repayments, disposals and sales	10,089	1,016	445	-	11,550
thereof AC	9,853	1,005	445	-	11,303
thereof FVOCI	229	11	-	-	240
thereof receivables under finance leases	7	-	-	-	7
Exchange rate changes	207	48	30	-	285
thereof AC	199	48	30	-	277
thereof FVOCI	4	-	-	-	4
thereof receivables under finance leases	4	-	-	-	4
FV changes	-60	1	-	-	-59
thereof FVOCI	-60	1	-	-	-59
Carrying amounts as at 31 December 2018	28,152	3,017	955	-	32,124
thereof AC	26,094	3,008	955	-	30,057
thereof FVOCI	1,985	9	-	-	1,994
thereof receivables under finance leases	73	-	-	-	73

Development in loan loss provision for loans and advances to customers

(€ m)	2019			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit impaired (LECL level 3)	
Loan loss provisions on 1 January 2019	94	241	496	831
Transfer to LECL level 2	- 25	25	-	-
thereof AC	- 25	25	-	-
Transfer to LECL level 3	- 1	- 19	20	-
thereof AC	- 1	- 19	20	-
Transfer to 12-month-ECL	30	- 30	-	-
thereof AC	27	- 27	-	-
thereof FVOCI	3	- 3	-	-
Reversals due to disposals, repayments and other reductions	76	131	111	318
thereof AC	73	131	111	315
thereof FVOCI	3	-	-	3
Additions due to new additions and other increases	33	218	60	311
thereof AC	33	216	60	309
thereof FVOCI	-	2	-	2
Utilisation	-	-	134	134
thereof AC	-	-	134	134
Change in line with effective interest rate	-	-	8	8
thereof AC	-	-	8	8
Exchange rate changes	2	4	4	10
thereof AC	2	4	4	10
Loan loss provisions on 31 December 2019	57	308	343	708

Development in loan loss provision for loans and advances to customers

(€ m)	2018			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit impaired (LECL level 3)	
Loan loss provisions on 1 January 2018	61	216	700	977
Transfer to LECL level 2	-12	12	-	-
Transfer to LECL level 3	-	-21	21	-
Transfer to 12-month-ECL	12	-12	-	-
Reversals due to disposals, repayments and other reductions	49	134	149	332
Additions due to new additions and other increases	81	180	373	634
Utilisation	-	-	474	474
Change in line with effective interest rate	-	-	13	13
Exchange rate changes	1	-	12	13
Loan loss provisions on 31 December 2018	94	241	496	831

Development in gross carrying amounts for financial investments

(€ m)	2019			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)		
Carrying amounts as at 1 January 2019	9,413	55		9,468
thereof AC	114	-		114
thereof FVOCI	9,299	55		9,354
Transfer to LECL level 2	-58	58		-
thereof FVOCI	-58	58		-
New additions and increases	1,147	-		1,147
thereof AC	19	-		19
thereof FVOCI	1,128	-		1,128
Repayments, disposals and sales	5,188	70		5,258
thereof AC	21	-		21
thereof FVOCI	5,167	70		5,237
Exchange rate changes	1	-		1
thereof FVOCI	1	-		1
FV changes	127	8		135
thereof FVOCI	127	8		135
Carrying amounts as at 31 December 2019	5,442	51		5,493
thereof AC	112	-		112
thereof FVOCI	5,330	51		5,381

Development in gross carrying amounts for financial investments

(€ m)	2018		Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	
Carrying amounts as at 1 January 2018	12,664	250	12,914
thereof AC	103	-	103
thereof FVOCI	12,561	250	12,811
Transfer to 12 month ECL	53	- 53	-
thereof FVOCI	53	- 53	-
New additions and increases	519	4	523
thereof AC	31	3	34
thereof FVOCI	488	1	489
Repayments, disposals and sales	3,771	152	3,923
thereof AC	20	3	23
thereof FVOCI	3,751	149	3,900
Exchange rate changes	- 1	-	- 1
thereof FVOCI	- 1	-	- 1
FV-Changes	- 51	6	- 45
thereof FVOCI	- 51	6	- 45
Carrying amounts as at 31 December 2018	9,413	55	9,468
thereof AC	114	-	114
thereof FVOCI	9,299	55	9,354

Development in loan loss provision for financial instruments

(€ m)	2019			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit impaired (LECL level 3)	
Loan loss provisions on 1 January 2019	-	5	-	5
Reversals due to disposals and other reductions	-	4	-	4
Loan loss provisions on 31 December 2019	-	1	-	1

Development in loan loss provision for financial instruments

(€ m)	2018			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit impaired (LECL level 3)	
Loan loss provisions on 1 January 2018	-	7	-	7
Reversals due to disposals and other reductions	-	5	-	5
Additions due to new additions and other increases	-	3	-	3
Loan loss provisions on 31 December 2018	-	5	-	5

In the reporting and prior year period, changes in financial investments relate only to transactions categorised as FVOCI.

Development in gross carrying amounts of non-current assets held for sale and disposal groups

(€ m)	2019				Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts on 1 January 2019	-	-	-	-	-
New additions and increases	245	-	-	-	245
thereof AC	245	-	-	-	245
Carrying amounts on 31 December 2019	245	-	-	-	245
thereof AC	245	-	-	-	245

The new additions to the gross carrying amounts of assets and disposal groups held for sale result from a transfer or disposal of loans and advances to customers

Development in gross carrying amounts of non-current assets held for sale and disposal groups

(€ m)	2018				Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts on 1 January 2018	2	-	-	-	2
thereof AC	2	-	-	-	2
Changes in the scope of consolidation	-2	-	-	-	-2
thereof AC	-2	-	-	-	-2
Carrying amounts on 31 December 2018	-	-	-	-	-
thereof AC	-	-	-	-	-

Carrying amounts of off-balance sheet business

(€ m)	2019			Total
	Insignificant increase in the loan default risk (12-month-ECL)	Significant increase in the loan default risk (LECL level 2)	Credit impaired (LECL level 3)	
Carrying amounts as at 1 January 2018	8,110	386	77	8,573
Transfer to LECL level 2	-204	204	-	-
Transfer to LECL level 3	-25	-11	36	-
Transfer to 12-month ECL	101	-101	-	-
New joiners	4,694	110	20	4,824
Disposals	5,782	277	39	6,098
Exchange rate changes	12	-	-	12
Carrying amounts as at 30 June 2019	6,906	311	94	7,311

Carrying amounts of off-balance sheet business

(€ m)	2018			Total
	Insignificant increase in the loan default risk (12-month-ECL)	Significant increase in the loan default risk (LECL Level 2)	Credit impaired (LECL level 3)	
Carrying amounts as at 1 January 2018	7,152	252	199	7,603
Transfer to LECL level 2	-92	95	-3	-
Transfer to LECL level 3	-6	-1	7	-
Transfer to 12-month ECL	23	-23	-	-
New joiners	7,972	280	40	8,292
Disposals	6,971	219	167	7,357
Exchange rate changes	32	2	1	35
Carrying amounts as at 30 June 2019	8,110	386	77	8,573

Development in loan loss provisions for off-balance-sheet business

(€ m)	2019			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit impaired (LECL level 3)	
Loan loss provisions as at 1 January 2019	6	6	48	60
Transfer to LECL level 3	-	-1	1	-
Transfer to 12-month ECL	4	-4	-	-
Reversals due to disposals, repayments and other reductions	13	1	40	54
Additions due to new additions and other increases	7	3	37	47
Loan loss provisions on 31 December 2019	4	3	46	53
Thereof provisions for contingent liabilities	-	-	11	11
Thereof provisions for irrevocable loan commitments	4	3	10	17
Thereof other loan provisions	-	-	25	25

Development in loan loss provisions for off- balance- sheet business

(€ m)	2018			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit impaired (LECL level 3)	
Loan loss provisions on 1 January 2018 (after adjustment)	8	2	46	56
Reversals due to disposals, repayments and other reductions	9	2	18	29
Additions due to new additions and other increases	7	6	27	40
Utilities	-	-	8	8
Change in line with effective interest rate	-	-	1	1
Loan loss provisions on 31 December 2018	6	6	48	60
Thereof provisions for contingent liabilities	1	-	9	10
Thereof provisions for irrevocable loan commitments	5	6	19	30
Thereof other loan provisions	-	-	20	20

49. Residual maturity breakdown of financial instruments

When determining the residual maturities of financial liabilities for purposes of presenting liquidity risk, the contractually agreed maturity dates of non-discounted cash flows are used as the basis.

(€ m) 2019	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	430	292	563	2,399	1,535	5,219
Liabilities to customers	6,965	5,060	5,002	5,149	2,840	25,016
Securitised liabilities	1	291	1,440	5,883	553	8,168
Negative fair value of hedging derivatives	-	33	65	235	266	599
Trading liabilities	6	181	223	1,008	999	2,417
thereof derivatives	6	181	223	1,008	999	2,417
Other liabilities	3	73	65	332	6	479
Subordinated capital	-	2	421	247	1,077	1,747
Contingent liabilities	1,438	-	-	-	-	1,438
Irrevocable loan commitments	6,485	-	-	-	-	6,485
Total	15,328	5,932	7,779	15,253	7,276	51,568

(€ m) 2018	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	442	615	370	2,330	1,843	5,600
Liabilities to customers	8,095	6,653	6,202	4,783	3,840	29,573
Securitised liabilities	1	418	2,265	6,278	726	9,688
Negative fair value of hedging derivatives	-	32	80	259	228	599
Trading liabilities	9	275	486	1,505	1,229	3,504
thereof derivatives	9	275	486	1,505	1,229	3,504
Other liabilities	3	58	27	425	6	519
Subordinated capital	-	2	56	943	1,168	2,169
Contingent liabilities	1,748	-	-	-	-	1,748
Irrevocable loan commitments	7,627	-	-	-	-	7,627
Total	17,925	8,053	9,486	16,523	9,040	61,027

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 section of the Group management report.

50. Disclosures of fair value in accordance with IFRS 7 and IFRS 13

I. Fair Values of financial instruments

The section below 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) 2019	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVOCI Mandatory	7,039	7,039	3,764	3,255	20
Loans and advances to banks	55	55	-	55	-
Loans and advances to customers	1,604	1,604	-	1,604	-
Financial investments ¹⁾	5,380	5,380	3,764	1,596	20
FVPL Designated	218	218	-	218	-
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	131	131	-	131	-
Financial investments	87	87	-	87	-
FVPL Held For Trading	2,663	2,663	58	2,260	345
Trading assets	2,663	2,663	58	2,260	345
FVPL Other	1,035	1,035	11	607	417
Loans and advances to customers	506	506	-	133	373
Financial investments	521	521	11	474	36
Non-current assets held for sale and disposal groups	8	8	-	-	8
AC assets	35,407	36,265	-	9,207	27,058
Cash reserve	4,850	4,850	-	4,850	-
Loans and advances to banks	2,466	2,470	-	1,796	674
Loans and advances to customers	27,702	28,554	-	2,202	26,352
Financial investments	112	114	-	82	32
Non-current assets held for sale and disposal groups	245	245	-	245	-
Other Assets	32	32	-	32	-
No IFRS 9 category	338	333	-	134	-
Positive fair values of hedging derivatives	134	134	-	134	-
Receivables under finance leases	57	57	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	147	142 ¹⁾	n.r.	n.r.	n.r.
Total assets	46,700	47,553	3,833	15,681	27,840

¹⁾ The fair value is that part of the item value adjustments from the portfolio fair value hedge which is attributable to financial investments, loans and advances to banks and loans and advances to customers in the FVOCI holding category. The remaining € 5 million is attributable to receivables 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) 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVOCI Mandatory	11,510	11,705	8,169	3,326	15
Loans and advances to banks	167	167	-	167	-
Loans and advances to customers	1,994	1,994	-	1,994	-
Financial investments ¹⁾	9,349	9,544	8,169	1,165	15
FVPL Designated	216	216	-	216	-
Loans and advances to customers	120	120	-	120	-
Financial investments	96	96	-	96	-
FVPL Held For Trading	3,094	3,094	147	2,656	291
Trading assets	3,094	3,094	147	2,656	291
FVPL Other	1,096	1,096	8	579	509
Loans and advances to customers	547	547	-	136	411
Financial investments	541	541	8	443	90
Non-current assets held for sale and disposal groups	8	8	-	-	8
AC assets	37,735	38,359	-	11,462	26,897
Cash reserve	5,362	5,362	-	5,362	-
Loans and advances to banks	3,000	3,007	-	2,956	51
Loans and advances to customers	29,226	29,843	-	3,020	26,823
Financial investments	114	114	-	91	23
Other Assets	33	33	-	33	-
No IFRS 9 category	448	248	-	175	-
Positive fair values of hedging derivatives	175	175	-	175	-
Receivables under finance leases	73	73	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	200 ¹⁾	-	n.r.	n.r.	n.r.
Total assets	54,099	54,718	8,324	18,414	27,712

¹⁾The difference between the carrying amount and fair value of the financial investments classified as FVOCI as a mandatory requirement amounts to € 195 million. This amount is offset by the separately reported reconciling item from the portfolio fair value hedge in the amount of € 200 million, € 195 million of which is attributable to FVOCI financial investments. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

Fair values of financial instruments**Liabilities**

(€ m) 2019	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	1,788	1,788	-	980	808
Liabilities to banks	122	122	-	11	111
Liabilities to customers	633	633	-	290	343
Securitised liabilities	1,033	1,033	-	679	354
FVPL Held For Trading	1,946	1,946	-	1,859	87
Trading liabilities	1,946	1,946	-	1,859	87
AC liabilities	36,845	37,662	-	37,212	450
Liabilities to banks	4,944	4,931	-	4,900	31
Liabilities to customers	23,333	23,954	-	23,768	186
Securitised liabilities	6,812	6,911	-	6,801	110
Other liabilities	407	407	-	407	-
Subordinated capital	1,349	1,459	-	1,336	123
No IFRS 9 category	1,003	609	-	609	-
Negative fair value of hedging derivatives	609	609	-	609	-
Value adjustments from the portfolio fair value hedge	394	-	n.r.	n.r.	n.r.
Total liabilities	41,582	42,005	-	40,660	1,345

Fair values of financial instruments**Liabilities**

(€ m) 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVPL Designated	2,181	2,181	-	1,323	858
Liabilities to banks	124	124	-	16	108
Liabilities to customers	746	746	-	362	384
Securitised liabilities	1,311	1,311	-	945	366
FVPL Held For Trading	2,812	2,812	-	2,719	93
Trading liabilities	2,812	2,812	-	2,719	93
AC liabilities	42,953	44,079	-	43,158	921
Liabilities to banks	5,346	5,258	-	5,203	55
Liabilities to customers	27,347	28,104	-	27,859	245
Securitised liabilities	8,147	8,351	-	8,248	103
Other liabilities	499	499	-	499	-
Subordinated capital	1,614	1,867	-	1,349	518
No IFRS 9 category	961	501	-	501	-
Negative fair value of hedging derivatives	501	501	-	501	-
Value adjustments from the portfolio fair value hedge	460	-	n.r.	n.r.	n.r.
Total liabilities	48,907	49,573	-	47,701	1,872

In the period under review financial instruments measured at fair value were transferred from one hierarchy level to another. These transfers are shown below together with the

carrying amounts at the time of transfer for each class of financial instruments.

Transfer, assets

(€ m) 2019	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)	44	-6	15	-45	1	-9
Financial investments						
thereof FVOCI Mandatory	454	-1,235	1,235	-454	-	-
Total	498	-1,241	1,250	-499	1	-9

Transfer, assets

(€ m) 2018	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Loans and advances to customers						
thereof FVPL Other	-	-	-	-19	19	-
Credit derivative under the second loss guarantee	-	-	969	-	-	-969
Trading assets (FVPL Trading)	25	-64	67	-27	2	-3
Financial investments						
thereof FVOCI Mandatory	536	-1,079	1,079	-536	-	-
thereof FVPL Other	-	-	23	-	-	-23
Total	561	-1,143	2,138	-582	21	-995

There were no liability transfers in the year under review.

Transfer, liabilities

(€ m) 2018	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 liabilities (HfT)	-	-	-	1	-	-1
Total	-	-	-	1	-	-1

IFRS 13 and IDW RS HFA 47 specify the principles for determining fair value. This also includes the guidelines for allocating input factors to the levels of the fair value hierarchy. At Hamburg Commercial Bank, prices from price service agencies such as Bloomberg or Reuters are used to measure interest-bearing securities for which the OTC market is the relevant market. Within the meaning of IFRS 13 or IDW RS HFA 47, average prices calculated on the basis of binding offers or transaction-based prices are level 2 input factors. Accordingly, there were reclassifications from Level 1 to Level 2 and vice versa for interest-bearing securities in

the reporting period, depending on the prices used for valuation.

The reconciliation for all assets and liabilities that are recognised at fair value and allocated to Level 3 in the fair value hierarchy is presented below. The presentation is made from the beginning of the period to the end of the period and takes into account all movements in assets and liabilities that were or are allocated to Level 3 within the reporting period.

Reconciliation, assets

(€ m)	Change in balance affecting income			Quantitative change in balance	
	1 January 2019	Realised net income (income statement)	OCI reserve	Purchases	Sales
2019					
Balance sheet item/ category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	411	53	-	173	-223
Trading assets (FVPL Trading)	291	-24	-	99	-
Financial investments					
thereof FVOCI Mandatory	15	-	1	4	-
thereof FVPL Other	90	-1	-	-	-1
Non-current assets held for sale and disposal groups					
thereof FVPL Other	8	-	-	-	-8
Total	815	28¹⁾	1	276	-232

¹⁾ Of the net income in the income statement recognised in profit or loss, € 32 million relates to the result from financial instruments categorised as FVPL and € -4 million to net interest income.

Quantitative change in balance			Transfers			Exchange rate changes	31 December 2019	Net income from assets held as at 31 December 2019
Issues	Settlements	From Level 3	To level 3	Transfer/recategorisation				
-	-44	-	-	-	3	373	1	
-	-14	-9	1	-	1	345	-5	
-	-	-	-	-	-	20	1	
-	-44	-	-	-8	-	36	-2	
-	-	-	-	8	-	8	-	
-	-102	-9	1	-	4	782	-5	

Reconciliation, assets

(€ m)	Change in balance affecting income			Quantitative change in balance	
	1 January 2018	Realised net income (income statement)	OCI reserve	Purchases	Sales
2018					
Balance sheet item/ category/ instrument type					
Loans and advances to banks					
thereof FVPL Other	43	-	-	-	-
Loans and advances to customers					
thereof FVOCI Mandatory	135	-2	-33	-	-
thereof FVPL Other	491	36	-	71	-103
Credit derivative under the second loss guarantee	1,014	-45	-	-	-
Trading assets (FVPL Trading)	331	-28	-	53	-63
Financial investments					
thereof FVOCI Mandatory	-	-	-	15	-
thereof FVPL Other	150	-10	-	-	-24
Non-current assets held for sale and disposal groups					
thereof FVPL Other	12	-	-	-	-
Total	2,176	-49¹⁾	-33	139	-190

¹⁾ Of the net income in the income statement recognised in profit or loss, € -65 million relates to the result from financial instruments categorised as FVPL and € 16 million to net interest income.

Quantitative change in balance			Transfers			Exchange rate changes	31 December 2018	Net income from assets held as at 31 December 2018
Issues	Settlements	From Level 3	To level 3	Transfer/recategorisation				
-	-43	-	-	-	-	-	-	-
-	-100	-	-	-	-	-	-	-
-	-103	-	19	-	-	-	411	-11
-	-	-969	-	-	-	-	-	-
-	-	-3	2	-	-1	-	291	-37
-	-	-	-	-	-	-	15	-
-	-	-23	-	-	-3	-	90	-1
-	-4	-	-	-	-	-	8	-
-	-250	-995	21	-	-4	-	815	-49

Reconciliation, liabilities

(€ m)	Change in balance affecting income			Quantitative change in balance	
	1 January 2019	Realised net income (income statement)	OCI reserve	Purchases	Sales
2019					
Balance sheet item/ category/ instrument type					
Liabilities to banks					
FVPL Designated	108	2	1	-	-
Liabilities to customers					
FVPL Designated	384	-13	4	-	-23
Securitised liabilities					
FVPL Designated	366	-8	-2	-2	2
Trading liabilities (FVPL Trading)	93	-6	-	-	-
Total	951	-25¹⁾	3	-2	-21

¹⁾ Of the net income in the income statement recognised in profit or loss, € -21 million relates to the result from financial instruments categorised as FVPL and € -4 million to net interest income.

Reconciliation, Liabilities

(€ m)	Change in balance affecting income			Quantitative change in balance	
	1 January 2018	Realised net income (income statement)	OCI reserve	Purchases	Sales
2018					
Balance sheet item/ category/ instrument type					
Liabilities to banks					
FVPL Designated	107	2	-1	-	-
Liabilities to customers					
FVPL Designated	421	-10	3	14	-13
Securitised liabilities					
FVPL Designated	360	-16	2	-	-
Trading liabilities (FVPL Trading)	167	-17	-	-	-56
Total	1,055	-41	4	14	-69

¹⁾ Of the net income in the income statement recognised in profit or loss, € -27 million relates to the result from financial instruments categorised as FVPL and € -14 million to net interest income.

Quantitative change in balance			Transfers				31 December 2019	Net income from assets held as at 31 December 2019
New business	Settlements	From level 3	To Level 3	Transfer/recategorisation	Exchange rate changes			
-	-	-	-	-	-	111	2	
-	-9	-	-	-	-	343	-6	
-	-12	-	-	-	10	354	-9	
-	-	-	-	-	-	87	7	
-	-21	-	-	-	10	895	-6	

Quantitative change in balance			Transfers				31 December 2018	Net income from assets held as at 31 December 2018
New business	Settlements	From level 3	To Level 3	Transfer/recategorisation	Exchange rate changes			
-	-	-	-	-	-	108	1	
-	-31	-	-	-	-	384	-6	
-	-2	-	-	-	22	366	-14	
-	-	-1	-	-	-	93	-23	
-	-33	-1	-	-	22	951	-42	

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)		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin
2019						
Loans and advances to customers	FVPL Other	373		DCF method	Spread (bps)	61 - 1327
				Option pricing model	Interest rate FX correlation	-31% - 12%
				Price	Price	2 - 106
Trading assets /trading liabilities	FVPL Held for Trading	345	87	DCF method	Spread	61 - 1327
				Option pricing model	Interest rate volatility	8% - 28%
					Interest rate FX correlation	-31% - 12%
					FX correlation	22% - 68%
Financial investments	FVPL Other	36		Option pricing model	Interest rate volatility	8% - 28%
				Price	Price	2 - 11.900
				DCF method	Capital costs	7% - 9%
	Mandatory FVOCI	20		DCF method	Spread (bps)	61 - 1327
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Capital costs	7% - 9%
Liabilities to banks	FVPL Designated		111	Option pricing model	Interest rate volatility	8% - 28%
					Interest rate FX correlation	-31% - 12%
Liabilities to customers	FVPL Designated		343	Option pricing model	Interest rate volatility	8% - 28%
					Interest rate FX correlation	-31% - 12%
Securitised liabilities	FVPL Designated		354	Option pricing model	Interest rate volatility	8% - 28%
					Interest rate FX correlation	22% - 68%
Total		782	895			

Fair Value

(€ m)					Significant unobservable inputs (level 3)	
2018		Assets	Liabilities	Measurement procedures		Margin
Loans and advances to customers	FVPL Other	411		DCF method	Spread (bps)	71 - 1447
				Option pricing model	Interest rate FX correlation	-33% - 26%
				Price	Price	
Trading assets / trading liabilities	FVPL Held for Trading	291	93	DCF method	Spread	71 - 1447
				Option pricing model	Interest rate volatility	4% - 24%
					Interest rate FX correlation	-33% - 26%
					FX correlation	31% - 56%
Financial investments	FVPL Other	90		Option pricing model		
					Interest rate volatility	4% - 24%
				Price	Price	1 - 12.000
				DCF method	Capital costs	7% - 9%
	Mandatory FVOCI	15		DCF method	Spread (bps)	71 - 1447
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Spread	71 - 1447
Liabilities to banks	FVPL Designated		108	Option pricing model	Interest rate volatility	4% - 24%
					Interest rate FX correlation	-33% - 26%
Liabilities to customers	FVPL Designated		384	Option pricing model		
					Interest rate volatility	4% - 24%
					Interest rate FX correlation	-33% - 26%
				Price	Price	30 - 95
Securitised liabilities	FVPL Designated		366	Option pricing model		
					Interest rate volatility	4% - 24%
					FX correlation	31% - 56%
Subordinated capital	FVPL DFP		-	Option pricing model	Interest rate volatility	17% - 87%
Total		815	951			

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 values in relation to unobservable inputs

The following describes how the fair values of financial instruments can change as a result of fluctuations in significant unobservable inputs.

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") 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 not required therefore. 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 exist 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 € 26 million (previous year: € 22 million). € 25 million out of this amount are recognised as income/expense in the income statement and € 1 million in the revaluation reserve (previous year: € 22 million income statement).

III. Day One Profit and Loss

The day one profit and loss reserve developed as follows:

(€ m)	2019	2018
Holdings as at 1 January	2	2
Additions not recognised in profit or loss	4	1
Reversals recognised in profit or loss	-	1
Holdings as at 31 December	6	2

The day one profit and loss reserve is solely attributable to financial instruments classified as FVPL Trading.

51. Offsetting of financial instruments

Financial assets and financial liabilities are netted and disclosed as a net amount on the balance sheet, 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.

Set out below are the financial instruments on the balance sheet 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 balance sheet. Master agreements for securities repurchase transactions as well as for ISDA master agreements and the Master Agreement for Financial Derivative Transactions (DRV) are the master agreements customarily used by Hamburg Commercial Bank for OTC transactions. These only provide for the netting of reciprocal claims and obligations in the event of the termination of all individual transactions under a master agreement that is based on specific events and therefore do

not permit netting of the assets and liabilities on the balance sheet. Hamburg Commercial Bank has entered into clearing agreements with brokers for certain OTC derivatives enabling the Bank to access central counterparties (clearing houses). The contractual provisions for these transactions include the legal right to offset financial assets and financial liabilities, which can be enforced at any time, and thus, in accordance with IAS 32.42, result in the positive and negative fair values of derivative financial instruments and cash collateral provided and received in loans and advances to banks and customers or liabilities to banks and customers being offset in the statement of financial position.

In addition, receivables from other banks and customers that are actually netted based on netting agreements and liabilities to other banks and customers from genuine securities repurchase agreements are shown.

Financial assets

(€ m)	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
2019						
Loans and advances to banks	1,631	321	1,310	-	1,057	253
Loans and advances to customers	433	27	406	-	353	53
Derivatives	2,766	522	2,244	1,036	497	711

Of the net amount of derivatives disclosed on the balance sheet positive market values of hedging derivatives account for € 132 million and trading assets for € 2,112 million.

Financial liabilities

(€ m)	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
2019						
Liabilities to banks	416	73	343	-	331	12
Liabilities to customers	192	24	168	-	166	2
Derivatives	3,321	773	2,548	1,036	1,410	102

Of the net amount of derivatives disclosed on the balance sheet negative market values of hedging derivatives account for € 609 million and trading liabilities for € 1,939 million.

Financial assets(€ m)	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
2018						
Loans and advances to banks	1,409	68	1,341	-	1,205	136
Loans and advances to customers	407	-	407	-	372	35
Derivatives	3,699	978	2,721	1,568	400	753

Of the net amount of derivatives disclosed on the balance sheet positive market values of hedging derivatives account for € 175 million and trading assets for € 2,546 million.

Financial liabilities

(€ m)	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
2018						
Liabilities to banks	272	12	260	-	257	3
Liabilities to customers	409	207	202	-	191	11
Derivatives	4,088	827	3,261	1,568	1,577	116

Of the net amount of derivatives disclosed on the balance sheet negative market values of hedging derivatives account for € 501 million and trading liabilities for € 2,760 million.

52. Credit risk analysis of financial assets

I. Credit quality

The following table contains information on the credit quality of all financial instruments held by the Bank. The following ta-

ble 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)					
2019	1(AAA) to 1(AA+)	1(AA) to 1(A-)	2 to 5	6 to 9	
Cash reserve					
thereof AC assets	4,850	-	-	-	
Loans and advances to banks					
thereof AC assets	1,020	950	392	103	
thereof FVOCI Mandatory	55	-	-	-	
Loans and advances to customers					
thereof AC assets	1,233	6,086	9,055	8,507	
thereof FVOCI Mandatory	1,483	121	-	-	
Financial investments					
thereof AC assets	-	56	56	-	
thereof FVOCI Mandatory	3,185	1,808	338	-	
Assets held for sale and disposal groups					
thereof AC assets	245	-	-	-	
Other assets					
thereof AC assets	-	32	-	-	
No holding category					
Receivables under finance lease transactions	-	57	-	-	
Contingent liabilities	32	207	269	195	
Irrevocable loan commitments	145	693	3,071	2,291	
Loans and advances to customers					
thereof AC assets	-	-	580	711	
Loans and advances to banks					
thereof AC assets	-	-	1	-	
Financial investments					
thereof FVOCI Mandatory	-	-	-	51	
No holding category					
Contingent liabilities	-	-	31	12	
Irrevocable loan commitments	-	-	89	144	
Loans and advances to customers					
thereof AC assets	-	-	-	13	
No holding category					
Irrevocable loan commitments	-	-	-	7	
	12,248	10,010	13,882	12,034	

Credit quality

(€ m)				
2019		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12-month 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	119	5	6
	thereof FVOCI Mandatory	-	-	-
	Financial investments			
	thereof AC assets	-	-	-
	thereof FVOCI Mandatory	-	-	-
	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	3	-	-
Financial instruments with a significant deterioration in credit quality (LECL level 2)				
	Loans and advances to customers			
	thereof AC assets	949	474	36
	thereof FVOCI Mandatory	-	-	-
	Financial investments			
	thereof AC assets	-	-	-
	thereof FVOCI Mandatory	-	-	-
	No holding category			
	Contingent liabilities	1	6	-
	Irrevocable loan commitments	5	23	-
Credit-impaired (LECL level 3)				
	Loans and advances to customers			
	thereof AC assets	119	-	517
	thereof FVOCI Mandatory	-	-	-
	Financial investments			
	thereof AC assets	-	-	-
	thereof FVOCI Mandatory	-	-	-
	No holding category			
	Contingent liabilities	8	-	66
	Irrevocable loan commitments	5	-	7
Total		1,209	508	632

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)					
2018		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 (12-month ECL)					
	Cash reserve				
	thereof AC assets	5,362	-	-	-
	Loans and advances to customers				
	thereof AC assets	1,927	5,051	10,221	8,100
	thereof FVOCI Mandatory	1,874	111	-	-
	Loans and advances to banks				
	thereof AC assets	1,306	1,296	270	101
	thereof FVOCI Mandatory	166	-	-	-
	Financial investments				
	thereof AC assets	-	64	50	-
	thereof FVOCI Mandatory	6,574	2,363	362	-
	Other assets				
	thereof AC assets	-	31	-	-
	No holding category				
	Receivables under finance lease transactions	-	73	-	-
	Contingent liabilities	102	173	326	237
	Irrevocable loan commitments	446	709	3,512	2,493
Financial instruments with a significant deterioration in credit quality (LECL level 2)					
	Loans and advances to customers				
	thereof AC assets	-	10	757	621
	thereof FVOCI Mandatory	-	-	9	-
	Financial investments				
	thereof FVOCI Mandatory	-	-	47	-
	No holding category				
	Contingent liabilities	-	-	1	22
	Irrevocable loan commitments	-	-	128	127
Credit impaired (LECL level 3)					
	Loans and advances to customers				
	thereof AC assets	-	-	-	82
	thereof FVOCI Mandatory	-	-	-	-
	No holding category				
	Contingent liabilities	-	-	-	-
	Irrevocable loan commitments	-	-	-	-
Total		17,757	9,881	15,683	11,783

Credit quality

(€ m)			
2018			
Financial instruments without any significant deterioration in credit quality (12-month ECL)	10 to 12	13 to 15	16 to 18
Cash reserve			
thereof AC assets	-	-	-
Loans and advances to banks			
thereof AC assets	27	-	-
thereof FVOCI Mandatory	-	-	-
Loans and advances to customers			
thereof AC assets	547	248	-
thereof FVOCI Mandatory	-	-	-
Financial investments			
thereof AC assets	-	-	-
thereof FVOCI Mandatory	-	-	-
Other assets			
thereof AC assets	-	-	-
No holding category			
Receivables under finance lease transactions	-	-	-
Contingent liabilities	6	-	-
Irrevocable loan commitments	39	66	-
Financial instruments with a significant deterioration in credit quality (LECL level 2)			
Loans and advances to customers			
thereof AC assets	855	760	5
thereof FVOCI Mandatory	-	-	-
Financial investments			
thereof FVOCI Mandatory	8	-	-
No holding category			
Contingent liabilities	12	1	-
Irrevocable loan commitments	38	58	-
Credit impaired (LECL level 3)			
Loans and advances to customers			
thereof AC assets	184	115	575
No holding category			
Receivables under finance lease transactions	-	-	-
Contingent liabilities	-	-	65
Irrevocable loan commitments	-	-	11
Total	1,716	1,248	656

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 48, as well as the nominal value of off-balance sheet liabilities as presented in Note 56

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 an associated collateral

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
2019				
FVPL Designated				
Loans and advances to customers	131	-	-	-
Financial investments	87	-	-	-
FVPL Other				
Loans and advances to customers	506	204	-	-
Financial investments	521	-	-	11
Non-current assets held for sale and disposal groups	8	-	-	-
FVPL Held For Trading				
Trading assets	2,663	352	35	13
No holding category				
Positive fair values of hedging derivatives	134	-	-	-
Value adjustments from the portfolio fair value hedge	147	-	-	-
Total assets	4,197	556	35	24

Financial assets and associated collateral

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
2018				
FVPL Designated				
Loans and advances to customers	120	-	-	-
Financial investments	96	-	-	-
FVPL Other				
Loans and advances to customers	547	370	-	-
Financial investments	541	-	-	-
Non-current assets held for sale and disposal groups	8	8	-	-
FVPL Held For Trading				
Trading assets	3,094	367	16	302
No holding category				
Positive fair values of hedging derivatives	175	-	-	-
Value adjustments from the portfolio fair value hedge	200	-	-	-
Total assets	4,781	745	16	302

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			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
2019				
AC assets				
Loans and advances to customers	649	123	4	16
No holding category				
Contingent liabilities	74	-	2	8
Irrevocable loan commitments	19	-	-	-
Total assets	742	123	6	24

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collaterals
2018				
AC Assets				
Loans and advances to customers	955	282	4	12
No holding category				
Contingent liabilities	65	1	2	8
Irrevocable loan commitments	11	2	-	-
Total assets	1,031	285	6	20

For loans and advances to customers in the amount of € 27 million (31 December 2018: € 199 million), no impairment losses 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 risk. 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.

Significant collateral values are 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 Risk Report in the Default risk section.

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 € 402 million (31 December 2018: € 271 million). The collateral received is split up as follows: € 402 million (31 December 2018: € 271 million) relates to OTC derivatives and structured transactions. The Group did not receive any collateral under genuine repo transactions where it acted as the lender either on the balance sheet date or on the previous year's balance sheet date. Collateral received includes cash collateral in the amount of € 402 million (31 December 2018: € 271 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 triparty 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 Authorisations measure were written off in the amount outstanding under contract law of € 30 million (31 December 2018: € 99 million).

53. Restructured and 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)			
2019	Rating class 1-15	Rating class 16-18	Total
Loans and advances to customers	721	643	1,364
Irrevocable and revocable loan commitments	15	3	18
Total	736	646	1,382

Forbearance-Exposure

(€ m)			
2018	Rating class 1-15	Rating class 16-18	Total
Loans and advances to customers	1,520	736	2,256
Irrevocable and revocable loan commitments	40	2	42
Total	1,560	738	2,298

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 448 million

have already been set up for the portfolios measured at amortised cost (31 December 2018: € 618 million).

54. Information on unconsolidated structured entities

I. Interests in unconsolidated subsidiaries

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.

Hamburg Commercial Bank has a business relationship within the meaning of an interest with a total of 28 unconsolidated structured entities (previous year: 28). 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	
	2019	2018	2019	2018
ABS investments	1	1	8	9
Investment funds	10	11	2,166	2,463
Securitisation and refinancing vehicles	14	12	376	396
Other	3	4	372	355
Total	28	28	2,922	3,223

The purpose of refinancing and securitisation vehicles is to issue securities. These companies are involved in the (revolving) purchase and securitisation of loan, trading and lease receivables, including refinancing with investors. They are mainly financed through issuing debentures (and promissory notes). There is also an ABS investment. ABS structures are financed by the issuance of debentures. Furthermore, investments in the ABS structures are backed 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, make 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.

Type of business relationship

(€ m) 2019	Investment funds	ABS	Securitisation and refinancing vehicles	Other structured entities	Total
Loans and advances to customers	103	-	102	66	271
Positive fair value of hedging derivatives	-	-	-	-	-
Trading assets	-	-	-	-	-
Financial investments	-	-	56	103	159
Total assets	103	-	158	169	430
Liabilities to customers	3	-	6	2	11
Total liabilities	3	-	6	2	11

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 of the balance sheet date.

The following table shows the IFRS carrying amounts of exposures involving unconsolidated structured entities as of 31 December 2019 broken down into the items of financial position.

Type of business relationship

(€ m) 2018	Investment funds	ABS	Securitisation and refinanc- ing vehicles	Other struc- tured entities	Total
Loans and advances to customers	120	-	124	69	313
Positive fair value of hedging derivatives	-	-	-	-	-
Trading assets	1	-	-	-	1
Financial investments	-	-	64	91	155
Total assets	121	-	188	160	469
Liabilities to customers	2	-	1	5	8
Total liabilities	2	-	1	5	8

The above table contains the loans, debentures, deposits and derivatives in respect of unconsolidated structured entities.

In addition, there are maximum potential losses from irrevocable loan commitments amounting to € 33 million (previous year: € 47 million), of which € 0 million results from investment funds (previous year € 1 million) and € 33 million from securitisation and refinancing vehicles (previous year € 46 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.

Details of sponsored entities are only shown, if they are not already included in the disclosures under II (Risks from interests in unconsolidated structured entities). This requirement is satisfied in the case of one structured entity. This company was sponsored by Hamburg Commercial Bank, but there is no interest within the meaning of IFRS 12.

In the case in question, Hamburg Commercial Bank had sponsored a securitisation vehicle since December 2016. The transaction was based on the transfer of default risks. Hamburg Commercial Bank was involved in the establishment process and had transferred default risks relating to a mezzanine tranche to the structured entity in the amount of € 235 million by way of a financial guarantee. The transaction was ended in December 2018.

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.

55. 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 levels 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 level 2, level 3 financial instruments modified in the reporting period before modification		Gains or losses from the modification at level 2, 3 in the reporting period	
	2019	2018	2019	2018
AC				
Loans and advances to customers	69	24	2	-
Total	69	24	2	-

56. Contingent liabilities and irrevocable loan commitments

Contingent liabilities

(€ m)	2019	2018
Contingent liabilities from guarantees and warranty agreements		
Loan guarantees	189	200
Letters of credit	104	210
Other guarantees	1,145	1,338
Total	1,438	1,748

Loan commitments

(€ m)	2019	2018
Loan commitments for		
Open account loans to banks	-	232
Open account loans to customers	6,418	7,308
Guarantees	47	47
Other	20	40
Total	6,485	7,627

Information on collateral transferred is presented in Note 58.

In addition to the values shown in the table, there are other contingent liabilities arising from litigation. These relate to a litigation risk explained under Provisions. The legal dispute covered by this litigation risk includes several matters in dispute. Provisions have been set up for litigation risks for some of these matters, while contingent liabilities are in place for others. The Bank does not present the disclosures required by IAS 37, including the disclosure required by IAS 37.86 (a) regarding the estimated financial impact of contingent liabilities, due to the fact that this could adversely affect the Bank's position in the underlying litigation.

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 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.

Please also refer to the note on Provisions and the explanations set out in the Risk Report, which forms part of the Management Report, with respect to existing uncertainties regarding risks arising from legal disputes.

Other disclosures

57. Report on the derivatives business

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. Volumes

Derivatives transactions with interest rate risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2019	2018	2019	2018	2019	2018
Interest rate swaps	47,927	114,456	2,511	3,160	2,054	2,861
FRAs	-	937	-	-	-	-
Swaptions						
Long positions	3,321	3,258	25	62	12	16
Short positions	3,301	4,109	11	9	102	118
Caps, floors	11,124	13,152	16	24	41	45
Exchange-traded contracts	419	764	-	-	-	-
Other forward interest rate transactions	352	159	15	14	21	19
Total	66,444	136,835	2,578	3,269	2,230	3,059

Derivatives transaction with interest rate risks and foreign exchange rate risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2019	2018	2019	2018	2019	2018
Cross-currency interest rate swaps	4,068	6,588	49	58	49	72
Total	4,068	6,588	49	58	49	72

Derivatives transaction with foreign exchange risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2019	2018	2019	2018	2019	2018
Forward exchange transactions	5,101	3,448	38	65	30	31
Currency options						
Long positions	66	178	3	7	-	-
Short positions	9	128	-	-	-	2
Total	5,176	3,754	41	72	30	33

Derivates transactions with equity and other price risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2019	2018	2019	2018	2019	2018
Equity options						
Long positions	9	7	-	-	-	-
Exchange-traded contracts	12	10	-	-	-	-
Equity/index-based swaps	26	54	10	10	-	-
Total	47	71	10	10	-	-

Credit derivatives

(€ m)	Nominal values		Positive market values		Negative market values	
	2019	2018	2019	2018	2019	2018
Guarantor position	28	48	-	1	-	-
Collateral taker position	68	55	10	13	-	-
Total	96	103	10	14	-	-

Derivatives transactions with structured products

(€ m)	Nominal values		Positive market values		Negative market values	
	2019	2018	2019	2018	2019	2018
Structured products	2,412	3,813	246	251	311	362
Total	2,412	3,813	246	251	311	362

Derivatives transactions in fair value hedge accounting

(€ m)	Nominal values		Positive market values		Negative market values	
	2019	2018	2019	2018	2019	2018
Interest rate swaps	9,414	17,188	190	326	708	614
Total	9,414	17,188	190	326	708	614

II. Counterparty classification**Counterparty classification**

(€ m)	Nominal values		Positive market values		Negative market values	
	2019	2018	2019	2018	2019	2018
OECD banks	50,439	68,350	1,465	1,561	2,463	2,616
Non-OECD banks	59	56	1	1	1	-
Non-banks ¹⁾	33,461	95,514	1,406	2,205	531	1,175
Public authorities	3,698	4,432	252	233	333	349
Total	87,657	168,352	3,124	4,000	3,328	4,140

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	
	2019	2018	2019	2018	2019	2018	2019	2018
Residual maturity								
Up to 3 months	54	107	-	-	76	100	-	-
3 months to 1 year	92	107	-	17	53	122	9	4
1 year to 5 years	439	775	152	214	484	877	117	148
Over 5 years	2,349	2,685	38	95	2,007	2,427	582	462
Total	2,934	3,674	190	326	2,620	3,526	708	614

58. Disclosures on collateral transferred and financial assets transferred with retention of rights and/or obligations

I. Collateral transferred

As at 31 December 2019, Hamburg Commercial Bank had transferred assets as collateral which 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. Notes on repurchase agreements are separately disclosed below. A small amount of collateral has been transferred in the course of securities lending business.

Carrying amounts of transferred collateral

(€ m)	2019	2018
Receivables	7,834	8,304
Loans and advances to banks	2,078	2,356
Loans and advances to customers	5,756	5,948
Trading assets/Financial investments	7	92
Total	7,841	8,396

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. Promissory notes and other receivables from lending are not

pledged to the European Central Bank or other banks, but are assigned without this being disclosed. It is not possible to re-sell 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. At the end of the reporting period, the carrying amount of the securities transferred as collateral in the framework of repo transactions was € 0 million (previous year: € 104 million). The fair value amounts to € 0 million (previous year: € 104 million). The corresponding liabilities are recognised in the amount of € 0 million (previous year: € 101 million) with the fair value corresponding to the carrying amount. Taking into account the netting of receivables and liabilities with our business partners, a net position of € 0 million arose from the fair values of the assets transferred and the associated liabilities (previous year: € 3 million). Collateral transferred under repo transactions can be resold or repledged.

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 tri-party repo transactions between Hamburg Commercial Bank and its counterparties accordingly. The transactions are executed via a triparty 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 de-recognition. 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 relating to the sale of an equity holding, which the Bank, however, can only exercise based on the occurrence of certain biometric events. The option has a time value of € 0; it entails no risk.

59. Trust transactions

The table below shows the volume of trust transactions not recognised in the statement of financial position:

Trust transactions

(€ m)	2019	2018
Loans and advances to customers	2	3
Trust assets	2	3
Liabilities to customers	2	3
Trust liabilities	2	3

60. 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 the Bank.

Furthermore, business relations 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. Entities with a significant influence over the Bank

The transactions with entities with significant influence over the bank are shown below:

Significant influence - assets

(€ m)	2019	2018
Loans and advances to customers	84	-
Total	84	-

Significant influence - income statement

(€ m)	2019	2018
Net interest income	1	-
Total	1	-

In addition to the transactions listed in the table above, some of the transactions sold as part of the portfolio transaction in 2018 are still being serviced by the Bank. Furthermore, cash sub-participations and back-to-back transactions remain in connection with transactions of the portfolio transaction whose legal transfer has not been completed.

There were also some minor business relations maintained with a business partner that are related to payment services on a nostro account basis.

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

Subsidiaries – assets

(€ m)	2019	2018
Loans and advances to banks	-	1
Loan loss provisions	-	-1
Total	-	-

Subsidiaries – liabilities

(€ m)	2019	2018
Other liabilities	1	9
Total	1	9

Subsidiaries – income statement

(€ m)	2019	2018
Result from financial instruments categorised as FVPL	-	2
Other operating result	-	4
Total	-	6

Other financial liabilities to subsidiaries as at the balance sheet date amount to € 0 million (previous year: € 3 million).

III. Associates

The following tables show the transactions with associates:

Associates – income statement

(€ m)	2019	2018
Result from financial instruments categorised as FVPL	-1	-
Total	-1	-

IV. Joint ventures

The following tables show the transactions with joint ventures:

Joint ventures – assets

(€ m)	2019	2018
Loans and advances to customers	15	15
Total	15	15

Joint ventures – liabilities

(€ m)	2019	2018
Liabilities to customers	3	2
Total	3	2

Joint ventures – income statement

(€ m)	2019	2018
Result from financial instruments categorised as FVPL	1	1
Total	1	1

V. Other related parties and companies

The following transactions had 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 balance sheet date:

Other related parties and companies – liabilities

(€ m)	2019	2018
Liabilities to customers	1	1
Total	1	1

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 COMPENSATION 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).

40 % of the payment of the cash bonus and the transfer of the shares will be made in the year following the performance period in question, with 60 % subject to a deferral period of up to seven years.

The Bank'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 the Bank.

Following disclosures do not reflect that the Management Board has decided in 2020 against the background of the development of the corona crisis to waive 30 % of its variable remuneration for the financial year 2019.

The following table shows the remuneration of persons in key management positions. Remuneration of the Supervisory Board consists of additions to provisions for the activities of the Supervisory Board carried out during the financial year excluding value-added tax.

Remuneration of persons in key management positions

(€ k)	Management Board		Supervisory Board		Total	
	2019	2018	2019	2018	2019	2018
Short-term benefits	10,825	2,560	3,173	461	13,998	3,021
Termination benefits	-	167	-	-	-	167
Other long-term benefits	3,413	133	-	-	3,413	133
Post-employment benefits	1,280	473	-	-	1,280	473
Share-based payment	3,413	133	-	-	3,413	133
Total remuneration	18,931	3,466	3,173	461	22,104	3,927

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. Several differences compared to the IFRS disclosures should be borne in mind in this regard: termination benefits payable are not included in the total remuneration of the active members of the Management Board. This remuneration is disclosed instead under total remuneration payable to former members of the Management Board. Furthermore, in contrast to the presentation under IFRS, the total remuneration of active members of the Management Board only includes the variable remuneration resulting from share-based payments.

Remuneration of executive bodies

(€ k)	2019	2018
Total remuneration of active members of executive bodies		
Management Board	15,518	3,166
Supervisory Board	3,173	461
Total	18,691	3,627
Total remuneration of former members of executive bodies and their surviving dependants		
Management Board	2,809	2,989

As at 31 December 2018, a total of €k 57,771 (previous year: €k 53,506) was added to provisions for pension obligations relating to former members of the Management Board and their surviving dependants.

As was the case in the previous year, there were no advances, loans and other liabilities to members of the Management Board as at 31 December 2019 or members of the Supervisory Board. In the 2019 reporting year, no new loans were granted to members of the Management Board or the Supervisory Board.

Repayment on loans by members of the Supervisory Board amount to €k 0 (previous year: €k 54).

Disclosure of Supervisory Board remuneration

VIII. Disclose of Supervisory Board remuneration

The members of the Supervisory Board receive remuneration for their activities in the financial year. This is paid after the end of the financial year without further resolution by the Annual General Meeting. The remuneration for the 2018 financial year was therefor paid in in the 2019 reporting year. The annual accounts for 2019 include appropriate provisions for the remuneration for the 2019 reporting year.

The remuneration system for the Supervisory Board was geared to the requirements of the German Corporate Governance Code. In accordance with the resolution of the Annual General Meeting of HSH Nordbank AG on 23 May 2014, the remuneration system in force until 11 March 2019 was as follows and also applied to the term of office of the Supervisory Board in the period from 28 November 2018 up to and including 11 March 2019.

Remuneration system until 11 March 2019

(€)	Executive body	Function	Fixed component	Attendance fee
	Supervisory Board	Chair	25,000	250
		Deputy Chair	18,000	250
		Member	11,000	250
	Risk Committee	Chair	15,000	250
		Member	7,000	250
	Executive Committee	Chair	15,000	250
		Member	7,000	250
	Audit Committee	Chair	15,000	250
		Member	7,000	250
	Compensation Monitoring Committee	Chair	12,000	250
		Member	5,000	250

The Mediation Committee, which had been formed in accordance with the German Co-Determination Act of 1976, did not receive any separate remuneration. With the introduction of one-third employee participation on 12 March 2019, the Mediation Committee was disbanded. In addition, members of the Supervisory Board were also reimbursed for any value-added tax payable and for their expenses.

On 12 March 2019, a new Supervisory Board was appointed. The shareholders approved a new remuneration system for the new Supervisory Board in an Extraordinary General Meeting on 12 March 2019. The new remuneration system has been in force since 12 March 2019:

Remuneration system from 12 March 2019

(€)	Remuneration
Supervisory Board	200,000
additionally	
Chair of Supervisory board	450,000
Chair of a Committee	200,000
Member of a Committee	15,000

The maximum remuneration amounts to €k 850. The remuneration is paid pro rata temporis based on the membership in a committee and is paid directly after the financial year has ended.

In the period under review, €k 546 of the amount set aside in the 2018 financial year (€k 1,000, thereof value added tax: €k 160) was paid out to the members of the Supervisory Board. This amount includes value added tax of €k 85. In the previous year, the amount had been set aside assuming that the change in the remuneration system, which took effect on 12 March 2019, would have already taken effect in 2018.

In the year under review, provisions of € 3,747 thousand (of which value added tax: € 598 thousand) were set aside for Supervisory Board activities. The remuneration (excluding value added tax) paid out at the beginning of 2020 is distributed among the members of the Supervisory Board as follows:

The remuneration (excluding value added tax) paid out at the beginning of 2020 is distributed among the members of the Supervisory Board as follows:

Members of the supervisory board

(€)	Fixed remuneration		Attendance fee		Total	
	2019	2018	2019	2018	2019	2018
Members of the Supervisory Board						
Juan Rodríguez Inciarte, chair (from 28 November 2018)	696,959	4,701	500	1,250	697,459	5,951
Dr Thomas Mirow, chair (until 28 November 2018)	-	53,666	-	5,250	-	58,916
Olaf Behm, deputy chair (until 12 March 2019)	182,205	44,000	500	7,500	182,705	51,500
Klaus Heinemann, deputy chair (from 12 March 2019)	335,411	-	-	-	335,411	-
Simone Graf, deputy chair (from 28 August 2019)	179,521	30,000	500	6,250	180,021	36,250
Geoffrey Adamson ²⁾ (from 28 November 2018)	-	-	-	-	-	-
Peter Axmann (until 12 March 2019)	3,452	18,000	250	2,750	3,702	20,750
Michael Christner ²⁾ (28 November 2018 - 31 August 2019)	-	-	-	-	-	-
Oliver Dircks (from 12 March 2019)	173,767	-	-	-	173,767	-
Bert Ehlers (from 12 March 2019)	173,767	-	-	-	173,767	-
Christopher J. Flowers ²⁾ (from 28 November 2018)	-	-	-	-	-	-
Allen Gibson (from 28 November 2018)	190,301	2,079	250	1,000	190,551	3,079
Manuel González Cid ²⁾ (from 28 November 2018)	-	-	-	-	-	-
Silke Grimm (until 28 November 2018)	-	14,553	-	1,250	-	15,803
Cornelia Hintz (until 12 March 2019)	2,110	11,000	250	2,250	2,360	13,250
Stefan Jütte (until 28 November 2018)	-	23,649	-	3,000	-	26,649
Dr Rainer Klemmt-Nissen (until 28 November 2018)	-	27,288	-	5,250	-	32,538
Chad Leat (from 28 November 2018)	340,397	2,351	250	500	340,647	2,851
Rieka Meetz-Schawaller	177,219	18,000	250	3,500	177,469	21,500
Bert Michels (until 12 March 2019)	3,452	18,000	250	3,250	3,702	21,250
Dr David Morgan ¹⁾ (until 28 November 2018)	-	16,373	-	2,500	-	18,873
Mark Neporent ²⁾ (from 28 November 2018)	-	-	-	-	-	-
Dr Philipp Nimmermann (until 28 November 2018)	-	33,655	-	5,000	-	38,655
Stefan Schlatermund	177,219	18,000	250	3,000	177,469	21,000
Klaus-Dieter Schwettzcher (until 12 March 2019)	2,110	11,000	250	2,250	2,360	13,250
Elke Weber-Braun (until 28 November 2018)	-	23,649	-	2,250	-	25,899
Mark Werner (from 28 November 2018)	178,562	2,260	250	500	178,812	2,760
Stephan Wilcke (from 12 March 2019)	173,767	-	-	-	173,767	-
Paulus de Wilt (from 28 November 2018)	178,753	2,351	250	500	179,003	2,851
Jörg Wohlers (until 28 November 2018)	-	22,740	-	4,250	-	26,990
Peter Yordán ²⁾ (from 1 September 2019)	-	-	-	-	-	-
Total	3,168,972	397,315	4,000	63,250	3,172,972	460,565

¹⁾ Amounts before deduction of Supervisory Council tax and solidarity surcharge

²⁾ Supervisory Board remuneration waived

The members of the Supervisory Board have again not provided any advisory or brokerage services or any other personal services to the Bank in the year 2019. Accordingly, no additional remunerations were granted.

61. Other financial obligations

The transactions listed below include payment obligations under pending contracts or continuing obligations that cannot be recognised in the balance sheet 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 € 36 million (previous year: € 36 million).

Under the German Deposit Protection Act (EinSiG), the guarantee scheme of the German Savings Banks Finance Group is required to meet a statutory target volume by 3 July 2024. For this purpose, the guarantee scheme of the German Savings Banks Finance Group calculates the proportionate target volume allocated to the individual member institution every year, by 31 May of the current year, on the basis of data as at 31 December of the previous year, and arrives at the annual premium per member institution based on this data. The premium is collected before 30 September of each year. In previous years, Hamburg Commercial Bank AG had contributed a portion of its premium obligations as irrevocable payment obligations (total € 6 million, previous year: € 6 million). Special or additional contributions over and above the annual membership fees referred to above may be levied, for instance, as part of a compensation case where support is provided. This means that, until it leaves the guarantee scheme of the German Savings Banks Finance Group at the end of 2021 and until the planned subsequent seamless transition of Hamburg Commercial Bank AG to the deposit guarantee fund for private banks, the Bank is obliged to pay any special or additional contributions potentially levied by the guarantee scheme of the German Savings Banks Finance Group, and these represent a risk with regard to the financial position of Hamburg Commercial Bank AG.

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. The target amount of the EU-wide Single Resolution Fund (SRF) is to be achieved by 1 January 2024 through contributions paid by European banks. The current levy is determined by the supervisory authorities as at 31 May of each year and is payable by 30 June. Subsequent assessments are not provided for.

Obligations amounting to € 42 million (previous year: € 77 million) result from leasing agreements for IT services.

Under a sale of an equity holding the Bank has undertaken to purchase fund units at the market price up to a nominal amount of € 8 million (previous year: € 8 million).

As part of its former guarantor function the Bank also has a general liability towards Deka Bank Deutsche Girozentrale together with other former shareholders. It applies to liabilities entered into until 18 July 2001 regardless of their term.

There exist no material other financial obligations apart from those listed above.

62. List of shareholders

The following information is based on German commercial law.

Consolidated subsidiaries with a share of voting rights of the Bank 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	100.00	100.00	EUR	244,900.67	- 8,595.83
2	CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg ¹⁾	100.00	100.00	EUR	2,462,752.86	2,414,441.52
3	CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg ¹⁾	100.00	100.00	EUR	854,271.23	252,547.14
4	CAPCELLENCE Holding GmbH & Co. KG, Hamburg ¹⁾	100.00	100.00	EUR	114,315,226.11	2,434,102.98
5	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.91	EUR	- 1,056.95	88,494.90
6	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.99	EUR	1,457,581.02	381,959.21
7	CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.99	EUR	3,325,462.74	- 782,016.09
8	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.47	EUR	- 33,864.76	221,517.54
9	CAPCELLENCE Vintage Year 16 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.99	EUR	14,657,525.21	36,447.17
10	CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg ¹⁾	100.00	100.00	EUR	5,523,646.87	561,046.74
11	GmbH Altstadt Grundstücksgesellschaft, Hamburg ¹⁾¹²⁾	89.90	89.90	EUR	- 137,862.92	102,054.19
12	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,504,117.11	182,431.86
13	HCOB Care+Clean GmbH, Hamburg ¹⁾³⁾	51.00	51.00	EUR	25,000.00	- 119,580.74
14	HCOB Facility Management GmbH, Hamburg ²⁾	100.00	100.00	EUR	205,600.00	- 8,022,657.66
15	HCOB Gastro+Event GmbH, Hamburg ¹⁾³⁾	100.00	100.00	EUR	25,000.00	- 2,611,195.94
16	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	409,491.00	63,327.00
17	HCOB Funding II, George Town, Cayman Islands ⁸⁾¹²⁾	56.33	100.00	USD	654,305,988.00	36,276,800.00
18	HCOB Move+More GmbH, Kiel ¹⁾³⁾	51.00	51.00	EUR	25,000.00	162,819.47
19	HCOB Private Equity GmbH, Hamburg ²⁾	100.00	100.00	EUR	550,000.00	- 6,473,506.74
20	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	3,984,199.00	61,168.00
21	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	198,500,000.00	0.00
22	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong ¹⁾¹²⁾	0.01	100.00	USD	- 1,448,153.00	- 5,276.00
23	RESPARCS Funding II Limited Partnership, St. Helier, Jersey ¹⁾¹²⁾	0.01	100.00	EUR	134,803.00	26,224.00

Consolidated subsidiaries with a share of voting rights of the Bank of 50 % or less

- of which subsidiaries due to a principal-agent relationship

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
24	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz ¹²⁾	0.00	0.00	EUR	- 333,740.13	55,569.86
25	OCEAN Funding 2013 GmbH, Frankfurt am Main ¹²⁾	0.00	0.00	EUR	31,201.72	1,222.74
26	Senior Assured Investment S.A., Luxemburg, Luxembourg ¹²⁾	0.00	0.00	EUR	31,000.00	0.00

Unconsolidated subsidiaries with a share of voting rights of the Bank of more than 50 %

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
27	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong ¹⁾	51.00	51.00	USD	114.00	0.00
28	Avia Management S.à.r.l., Luxemburg, Luxembourg	100.00	100.00	EUR	-39,762.86	-34,116.44
29	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	26,294.51	5,091.65
30	CAPCELLENCE Vintage Year 16 Beteiligungen GmbH, Hamburg ¹⁾	100.00	100.00	EUR	226.47	- 10,514.88
31	European Capital Investment Opportunities Limited, St. Helier, Jersey ¹⁾	51.00	51.00	EUR	124.00	- 101.00
32	HCOB Structured Situations Limited, St. Helier, Jersey ⁷⁾	100.00	100.00	USD	346,449.00	-68.00
33	Neptune Finance Partner S.à.r.l., Luxemburg, Luxembourg	100.00	100.00	USD	73,894.70	0.00
34	Neptune Finance Partner II S.à.r.l., Luxemburg, Luxembourg ¹⁰⁾	100.00	100.00	USD	62,763.63	0.00
35	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		4)	4)
36	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	33,934.75	2,743.94

Unconsolidated subsidiaries with a share of voting rights of the Bank of 50 % or less

- of which subsidiaries due to a principal-agent relationship

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
37	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland ^{1) 8)}	49.00	49.00	USD	20,674.00	-21,122.00
38	Next Generation Aircraft Finance 2 S.à.r.l., Findel, Luxembourg ^{1) 12)}	49.00	49.00	EUR	350,483.00	5,999,150.00
39	Next Generation Aircraft Finance 3 S.à.r.l., Findel, Luxembourg ^{1) 12)}	49.00	49.00	EUR	194,992.00	6,937,986.00

- of which subsidiaries due to contractual rights

Se- rial no,	Name/place	Share	Voting rights	Cur- rency code	Equity capital in re- spective currency	Income/loss in respective currency
40	Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart ^{1) 6)}	80.00	0.00	EUR	-240,902.29	0.00

Unconsolidated joint ventures

Se- rial no,	Name/place	Share	Voting rights	Cur- rency code	Equity capital in re- spective currency	Income/loss in respective currency
41	Infrastructure Holding S.à.r.l., Luxembourg, Luxembourg ⁵⁾	0.00	0.00	EUR	12,500.00	0.00

Unconsolidated associates

Se- rial no,	Name/place	Share	Voting rights	Cur- rency code	Equity capital in re- spective currency	Income/loss in respective currency
42	FSP CAPCELLENCE Beteiligungs GmbH, Hamburg ¹⁾	100.00	40.00	EUR	14,919,001.00	- 218,685.20
43	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,949,701.82	1,609.10
44	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg ⁸⁾¹¹⁾	56.44	56.44	EUR	10,674,163.21	- 448,692.74
45	KAIACA LLC, New York, USA ¹¹⁾	55.30	55.30	USD	20,206.69	0.00
46	MORATIM Produktions GmbH & Co. KG, Pullach	20.71	20.71	EUR	- 1,013,118.04	808,770.46
47	4Wheels Management GmbH, Düsseldorf ^{1) 9)}	68.75	40.00	EUR	3,421,251.39	- 1,801,378.92

Equity holdings

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
48	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	1.33	1.33	EUR	246,672,103.15	12,040,000.00
49	CapVis Equity III L.P., St. Helier, Jersey ¹⁾ ⁸⁾	2.50	0.00	EUR	266,051,522.00	59,349,078.00
50	CVC European Equity Partners V (A) L.P., St. Helier, Jersey ¹⁾	0.45	0.00	EUR	1,554,494,446.00	13,387,706.00
51	Deutsche WertpapierService Bank AG, Frankfurt am Main	2.51	2.51	EUR	195,780,239.38	17,077,943.19
52	EDD AG, Düsseldorf	0.89	0.89	EUR	22,491,403.37	- 5,300,916.61
53	GB Deutschland Fund GmbH & Co. KG, Hamburg ¹⁾	4.69	0.00	EUR	17,615,131.70	5,578,503.15
54	GLB GmbH & Co. OHG, Frankfurt am Main	15.77	15.77	EUR	2,891,543.84	- 61,301.09
55	GLB-Verwaltungs-GmbH, Frankfurt am Main	15.80	15.80	EUR	55,665.10	1,957.27
56	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekte Hamburg und Potsdam KG, Hamburg	5.15	5.16	EUR	5,146,250.55	- 5,057,235.16
57	HGA Objekt München GmbH & Co. KG, Hamburg	5.23	5.23	EUR	3,627,083.87	51,073,030.04
58	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	11,290,663.07	2,426,005.62
59	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg	5.10	5.09	EUR	6,998,855.32	485,747.52
60	Hines European Development Fund Limited Partnership, Wilmington, USA ¹⁾	9.90	9.90	EUR	61,417,000.00	- 475,000.00
61	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	1,953,973.40	- 66,026.60
62	Next Commerce Accelerator GmbH, Hamburg	16.67	16.67	EUR	95,219.58	57,910.50
63	RSU Rating Service Unit GmbH & Co KG, Munich	13.60	13.60	EUR	11,330,787.18	- 2,244,749.73
64	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T. SCRL), La Hulpe, Belgium	0.03	0.03	EUR	407,529,000.00	33,513,000.00
65	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,615,567.94	- 28,767.74
66	Vofü-Fonds I Hamburgische Grundbesitz und Anlage GmbH & Co. KG, Hamburg	5.10	5.09	EUR	693,471.57	1,534,158.51

¹⁾ Indirect holding.

²⁾ A profit transfer agreement with the company is in place.

³⁾ There is a profit transfer agreement with HCOB Facility Management GmbH.

⁴⁾ No data available.

⁵⁾ Only data as at 31 December 2015 is available.

⁶⁾ Only data as at 29 February 2016 is available.

⁷⁾ Only data as at 31 December 2016 is available.

⁸⁾ Only data as at 31 December 2017 is available.

⁹⁾ Only data as at 31 July 2018 is available.

¹⁰⁾ Only data as at 9 December 2018 is available.

¹¹⁾ This is not a subsidiary due to the requirement for a qualified voting majority for important decisions.

¹²⁾ Structured entity.

Foreign exchange rates for € 1 as at 31 December 2019

USA	USD	1.1234
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63. Other disclosures in accordance with German commercial law

I. Basic principles

Under the terms of Section 315e (1) 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.com. The complete list of equity holdings is set out in Note 62.

HCOB Facility Management GmbH, Hamburg, and its subsidiaries HCOB Care+Clean GmbH, Hamburg, HCOB Gastro+Event GmbH, Hamburg, and HCOB Move+More GmbH, Kiel, make use of the exemption from disclosure obligations in accordance with Section 264 (3) HGB.

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

	2019		2018	
	Male	Female	Total	Total
Full-time employees	939	331	1,270	1,390
Part-time employees	79	388	467	542
Total	1,018	719	1,737	1,932
Apprentices/trainees	12	9	21	30

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 2019 and conducted various audits of annual financial statements at subsidiaries. In addition, the review of the half-year financial report as at 30 June 2019, 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 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)	2019	2018
Audits of financial statements PWC GmbH	4	4
Other certification and valuation services PWC GmbH	1	-
Tax advisory services PWC GmbH	-	1
Total	5	5

Seats on supervisory bodies

On the reporting date, the following seats are held by members of the Management Board on statutory supervisory bodies of major corporations or financial institutions:

IAN BANWELL

HCOB Securities S.A., Luxembourg
Chair of the Supervisory Board

ULRIK LACKSCHEWITZ

HCOB Securities S.A., Luxembourg
Member of the Supervisory Board

64. Names of Board members and directorships held

I. The Supervisory Board of the Hamburg Commercial Bank Group

JUAN RODRÍGUEZ INCIARTE, MADRID

Chair
CEO Sareema Inversiones S.A.

BERT EHLERS, SEEVETAL

Employee of Hamburg Commercial Bank AG
(since 12 March 2019)

SIMONE GRAF, ALTENHOLZ

Deputy Chair since 28 August 2019
Employee of Hamburg Commercial Bank AG

JAMES CHRISTOPHER FLOWERS, NEW YORK

Founder and Managing Director J.C. Flowers & Co. LLC

OLAF BEHM, HAMBURG

Deputy Chair until 12 March 2019
Employee of Hamburg Commercial Bank AG

ALLEN GIBSON, COLUMBUS

Chief Investment Officer Centaurus Capital LP

KLAUS HEINEMANN, PALMA DE MALLORCA

Deputy Chair since 12 March 2019 until 28 August 2019
Founding Partner and Managing Director HH Kapital B.V.
(since 12 March 2019)

GEOFFREY ADAMSON, NEW YORK

Partner GoldenTree Asset Management

PETER AXMANN, HAMBURG

Employee of Hamburg Commercial Bank AG
(until 12 March 2019)

MICHAEL CHRISTNER, ANDORRA

Managing Director J.C. Flowers & Co. UK LLP
(until 31 August 2019)

OLIVER DIRCKS, KIEL

Employee of Hamburg Commercial Bank AG
(since 12 March 2019)

MANUEL GONZÁLEZ CID, MADRID

Senior Advisor Cerberus Global Investment Advisors, LLC

CORNELIA HINTZ, DORTMUND

Federal state secretary ver.di district North Rhine-Westphalia
(until 12 March 2019)

CHAD LEAT, NEW YORK

Financial Advisor

RIEKA MEETZ-SCHAWALLER, KIEL

Employee of Hamburg Commercial Bank AG

BERT MICHELS, HAMBURG

Employee of Hamburg Commercial Bank AG
(until 12 March 2019)

MARK NEPORENT, ARMONK

Chief Operating Officer, Senior Legal Officer and
Senior Managing Director Cerberus Capital Management, L.P.

STEFAN SCHLATERMUND, HAMBURG

Employee of Hamburg Commercial Bank AG

KLAUS-DIETER SCHWETTSCHER, REINBEK

Representative of ver.di's-federal management board
(until 12 March 2019)

MARK WERNER, NEW YORK

Financial Advisor

STEPHAN WILCKE, LONDON

Independent professional Supervisory Board member
(since 12 March 2019)

PAULUS DE WILT, BREUKELEN

Chief Executive Officer NIBC Bank NV

PETER YORDÁN, LONDON

Managing Director J.C. Flowers & Co. LLC
(since 1 September 2019)

II. Members of the Risk Committee**CHAD LEAT**

Chair

GEOFF ADAMSON**OLAF BEHM**

(until 12 March 2019)

MICHAEL CHRISTNER

(until 31 August 2019)

ALLEN GIBSON**BERT EHLERS**

(since 12 March 2019)

SIMONE GRAF

(since 12 March 2019)

STEFAN SCHLATERMUND**MARK WERNER****PETER YORDÁN**

(since 1 September 2019)

III. Members of the Audit Committee**KLAUS HEINEMANN**

Chair
(since 12 March 2019)

PAULUS DE WILT

Chair
(until 12 March 2019)

PETER AXMANN

(until 12 March 2019)

OLAF BEHM**OLIVER DIRCKS**

(since 12 March 2019)

MANUEL GONZÁLEZ CID**BERT MICHELS**

(until 12 March 2019)

MARK WERNER

(until 12 March 2019)

**IV. Members of the General/
Nominating Committee****JUAN RODRÍGUEZ INCIARTE**

Chair

OLAF BEHM

(until 12 March 2019)

MICHAEL CHRISTNER

(until 31 August 2019)

MANUEL GONZÁLEZ CID**SIMONE GRAF**

(since 12 March 2019)

PETER YORDÁN

(since 1 September 2019)

V. Members of the Compensation Monitoring Committee**JUAN RODRÍGUEZ INCIARTE**

Chair

MICHAEL CHRISTNER

(until 12 March 2019)

ALLEN GIBSON**SIMONE GRAF**

(until 12 March 2019)

RIEKA MEETZ-SCHAWALLER

(since 12 March 2019)

STEPHAN WILCKE

(since 12 March 2019)

VI. Members of the Mediation Committee

(until 12 March 2019; the Committee has ceased to exist since 12 March 2019 because of application of one-third employee participation)

JUAN RODRÍGUEZ INCIARTE

Chair

OLAF BEHM**MICHAEL CHRISTNER****RIEKA MEETZ-SCHAWALLER****VII. The Management Board of the Hamburg Commercial Bank Group****STEFAN ERMISCH**

Born in 1966

Chief Executive Officer (CEO)

ULRIK LACKSCHEWITZ

Born in 1968

Chief Risk Officer (CRO)

Deputy CEO

IAN BANWELL

Born in 1963

(since 1 April 2019)

Chief Operation Officer (COO)

DR NICOLAS BLANCHARD

Born in 1968

Chief Clients and Products Officer (CCO)

CHRISTOPHER BRODY

Born in 1968

(since 1 July 2019)

Chief Investment Officer (CIO)

OLIVER GATZKE

Born in 1968

Chief Financial Officer (CFO)

Chief Technical Officer (CTO)

Annex to the Group financial statements

Country by Country Reporting 2019

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 turnover in Other operating income.

The profit or loss before tax 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 of 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 2019, calculated as the quotient of net profit (Group net result after taxes) and total assets, is 0.03%.

Reporting

Country-specific details of turnover, profit or loss and taxes as well as employee numbers

(€ m/number) 2019 Country	Turnover	Profit or loss before tax	Tax on profit (+) or loss (-)	Number of employees
EU				
Germany	695	58	60	1,655
Luxembourg	32	12	- 6	47
Greece	2			
Third countries				
Singapore	15		10	27
British Channel Islands	2			
Cayman Islands	36	36		

Nature of activities and geographical location of the branches and fully consolidated subsidiaries

Serial no.	Name of the company	Place	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, Singapore branch	Singapore	Singapore	Bank
4	Hamburg Commercial Bank AG, Athens branch	Athens	Greece	Bank
5	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Mainz	Germany	Miscellaneous activities
6	BINNENALSTER-Beteiligungsgesellschaft mbH	Hamburg	Germany	Financial Institution
7	CAPCELLENCE Dritte Fondsbeteiligung GmbH	Hamburg	Germany	Financial Institution
8	CAPCELLENCE Erste Fondsbeteiligung GmbH	Hamburg	Germany	Financial Institution
9	CAPCELLENCE Holding GmbH & Co. KG	Hamburg	Germany	Financial Institution
10	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG	Hamburg	Germany	Financial Institution
11	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG	Hamburg	Germany	Financial Institution
12	CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG	Hamburg	Germany	Financial Institution
13	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG	Hamburg	Germany	Financial Institution
14	CAPCELLENCE Vintage Year 16 Beteiligungen GmbH & Co. KG	Hamburg	Germany	Financial Institution
15	CAPCELLENCE Zweite Fondsbeteiligung GmbH	Hamburg	Germany	Financial Institution
16	GmbH Altstadt Grundstücksgesellschaft	Mainz	Germany	Miscellaneous activities
17	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	Germany	Financial Institution
18	HCOB Care+Clean GmbH	Hamburg	Germany	Miscellaneous activities
19	HCOB Facility Management GmbH	Hamburg	Germany	Provider of ancillary services
20	HCOB Finance (Guernsey) Limited	St. Peter Port	Guernsey	Financial Institution
21	HCOB Funding II	George Town	Cayman Islands	Financial Institution
22	HCOB Gastro+Event GmbH	Hamburg	Germany	Miscellaneous activities
23	HCOB Move+More GmbH	Kiel	Germany	Miscellaneous activities
24	HCOB Private Equity GmbH	Hamburg	Germany	Financial Institution
25	HCOB Residual Value Ltd.	Hamilton	Bermudas	Insurance company
26	HCOB Securities S.A.	Luxembourg	Luxembourg	Financial Institution
27	OCEAN Funding 2013 GmbH	Frankfurt/M	Germany	Miscellaneous activities
28	RESPARCS Funding II Limited Partnership	St. Helier	Jersey	Financial Institution
29	RESPARCS Funding Limited Partnership I	Hong Kong	Hong Kong	Financial Institution
30	Senior Assured Investments S.A.	Luxembourg	Luxembourg	Miscellaneous activities

Date of release for publication

The Management Board of Hamburg Commercial Bank has prepared the Group financial statements on 30 March 2019 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, 30 March 2020

Stefan Ermisch

Ulrik Lackschewitz

Ian Banwell

Dr Nicolas Blanchard

Christopher Brody

Oliver Gatzke

Independent Auditor's Report

To 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 2019, the Group statement of income, the Group statement of comprehensive income, the Group statement of changes in equity, the Group cash flow statement for the financial year from 1 January to 31 December 2019 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 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handels-gesetzbuch: German Commercial Code] and § 315d HGB.

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. [paragraph] 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 2019 and of its financial performance for the financial year from 1 January to 31 December 2019, 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 judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. 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:

- 1 Provisions for restructuring in the context of the "Reset & Go" strategic program

- ② Accounting issues in connection with hybrid capital instruments
- ③ Loan loss provisions in the customer lending business

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:

① Provisions for restructuring in the context of the "Reset & Go" strategic program

- ① In the financial year 2019, Hamburg Commercial Bank AG continued to implement the "Reset & Go" transformation agenda, with the overriding goal of increasing the Bank's profitability. As part of the new strategy, the Company is focusing on future customer requirements, structuring overarching business models at the bank and using new IT solutions. To that end, a target operating model on a reduced cost basis was defined which calls for significant staff cuts, among other measures. A social plan was adopted at the beginning of 2019 and severance and early retirement agreements were reached with the employees affected.

In December 2019, the employees of the bank were informed of a further reduction in staff. The Group recognized further expenses for the restructuring provision in 2019 in connection with the additional planned transformation measures. As of 31 December 2019, total restructuring provisions amount to € 245 million, of which € 182 million relates to provisions for staff reductions. In our view, this matter was of particular significance for our audit, as the restructuring provisions are significant in terms of their amount, and the measurement is based on estimates and assumptions made by the executive directors.

- ② The requirement for recognizing a provision for restructuring is first of all that the definition of restructuring measures pursuant to IAS 37.10 has been met. Following this, the general recognition and measurement criteria for provisions and the further criteria from IAS 37.72 have to be assessed. If the provision is a provision for termination benefits, the requirements of IAS 19 apply. In the context of our audit, we assessed whether the individual recognition criteria were met

and whether the measurement of the restructuring provision was appropriate. For that purpose, we obtained and evaluated relevant evidence from the executive directors of the Company. We were able to satisfy ourselves that the matter as well as the estimates and assumptions made by the executive directors in connection with the recognition and measurement of a restructuring provision were sufficiently documented and substantiated. The measurement occurred within ranges considered by us to be reasonable.

- ③ The Company's disclosures relating to the provisions are contained in the notes to the financial statements in Note 7 "Accounting and measurement principles", in Note 18 "Net income from restructuring and transformation" and in Note 40 "Provisions".

② Accounting issues in connection with hybrid capital instruments

- ① Hamburg Commercial Bank AG is party to several agreements concerning the establishment of silent partnerships, through which investors participate in the bank's commercial activities as silent partners ("hybrid capital investors"). These are hybrid capital instruments that are either entered into bilaterally with institutional investors or placed on the capital market – partly via special purpose vehicles (SPVs) – in the form of bonds. As a measure to restructure and optimize capital (so-called "liability management exercise"), the bank terminated all existing silent contributions in 2018 with effect from 31 December 2020. As a result of this, these silent contributions will be repaid by no later than financial year 2021 in accordance with the contractual terms and conditions. The bank has pointed out that the amounts to be repaid are likely to be significantly lower than the nominal amounts. In this context, claims are being asserted against the Company in and out of the courts, calling for the instruments to be recovered, profit participations to be paid in arrears and the terminations to be invalid, among other things. During the financial year as well as after the balance sheet date, the bank reached agreements with the majority of hybrid capital investors regarding the termination of the silent contributions and the repurchase of the hybrid capital instruments, respectively. In return, the claims asserted were withdrawn by the corresponding hybrid capital investors.

The aforementioned measures have an impact on the subordinated capital, securitised liabilities and provisions balance sheet line items. The effect resulting from the re-estimation of cash flows from hybrid capital in-

struments (including the compounding effect) reported in net interest income amounts to € -181 million. In this context, recognition and measurement issues have arisen which are based to a large extent on assumptions and discretionary decisions by the executive directors. These issues were therefore of particular significance for our audit.

- ② As part of our audit, we, among other things, assessed the process established by the Company for the recording and risk assessment of the legal disputes in the financial statements. This assessment also included an examination of the bank's corporate planning relevant for the re-estimation of cash flows resulting from these instruments as well as the significant legal risks including the legal disputes in connection with the hybrid capital investors. Our assessment took into account the knowledge gained in the course of our regular meetings with the bank's legal department as well as from the assessments provided to us in writing on the outcomes of the respective proceedings. In addition, we have obtained confirmations from external lawyers.

On the basis of the audit procedures we performed, we were able to satisfy ourselves as of the appropriateness and effectiveness of the internal control system set up for recording and assessing the risks of litigation and for the re-estimation of cash flows. In our opinion, the assumptions and estimates made by the executive directors are comprehensible and reasonable for the presentation of the factual circumstances and the associated accounting effects.

- ③ The reestimation of cash flows and the provisions for legal risks are discussed in the notes to the financial statements in section 7 "Accounting and measurement principles". In addition, the provisions for litigation risks and expenses are discussed in greater detail in note 40 "Provisions".

③ **Loan loss provisions in the customer lending business**

- ① In the Company's consolidated financial statements loan receivables amounting to € 30,708 million are reported under the "Loans to customers" balance sheet item. As at 31 December 2019, the risk provision recognized amounts to € 708 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 levels 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 depends in particular on how 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. Estimating the aforementioned parameters and factoring in future-oriented macroeconomic information have 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 appropriateness of the design of the controls in the Company's relevant internal control systems and tested the controls' effectiveness. In doing so, we considered the business organization, the IT systems and the relevant measurement models. Moreover, we evaluated the measurement 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. 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. In addition, we examined the assumptions and derivation of the applied parameters for classification of the financial instruments and for calculating the expected credit loss. We assessed the appropriateness of the inclusion of additional valuation-relevant risk factors based on the current economic uncertainties. Based on our audit procedures, we were able to satisfy ourselves that overall the assumptions made by the executive directors for the purpose of testing the recoverability of

the loan portfolio are appropriate, and that the processes 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 6 "Management estimates and discretionary decisions" and section 7 "Accounting and measurement principles" under 7.I.D) and in sections 14 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.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB.

The other information comprises further the 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, and the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB.

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 other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or 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 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 judgment and maintain professional skepticism 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 control.
- 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, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor in the annual general meeting on 23 May 2019. We were engaged by the supervisory board on 28 May 2019. 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).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Lothar Schreiber.

Hamburg, 1 April 2019
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber	ppa. Tim Brücken
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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, 30 March 2020

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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 16 April 2020 and is available for download from www.hcob-bank.com.

This is an English translation of the original German version of the Annual Report.

Forward-looking Statements

This Annual Report includes certain forwardlooking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forwardlooking statement involves information that does not simply reflect historical facts, information relating to possible or anticipated future growth and future economic development. Such forwardlooking 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.

Therefore actual events may differ from those forecast in the forwardlooking statements. In view of this, you are advised never to rely to an inappropriate degree on forwardlooking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this Annual Report. Furthermore, we are not obliged 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 AG

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