Financial Report 2019

of Hamburg Commercial Bank AG

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Combined Management Report

Annual Accounts

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

Basis of the Group

Business activities

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 renamed 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)

- 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:

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.

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 DSGV 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).

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 significantly, 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.

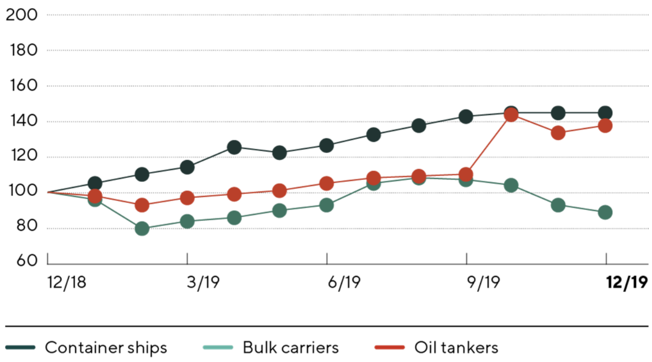
The expansion of **renewable energies** made further progress in the course of 2019, both in Europe and in Germany, although developments varied considerably. The switch to bidding procedures has led to a significant weakening of demand in Germany since 2018: the gross capacity increase in the onshore 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.

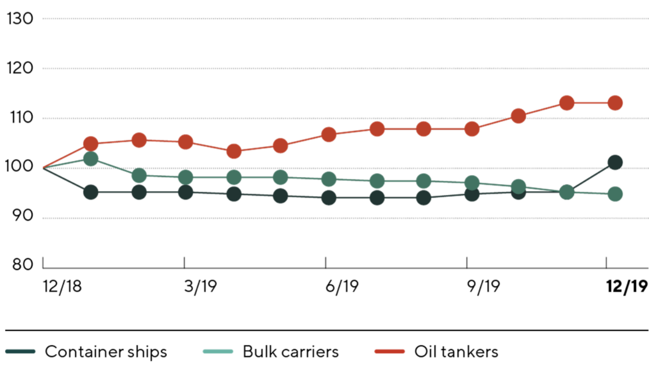
Time charter rates

(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 reinvest, 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 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 2018	2019 forecast	Actual figures 2019
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 Group[1]	**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 (InstitutstsVergV). 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 31.12.2019[1)]

	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 degression. 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 fiures 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 ensuring 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 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 appetiteand 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) Month 1	6.4	>	0.5		–
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.hcob-bank.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 capital[1]

(€ 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 options identified, the selected recovery plan indicators and related processes are reviewed and substantiated in the recovery plan on an annual basis by means of specific stress scenarios.

The 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 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 expected loss with a specified probability (99.9 %) within a specified time period (one year) is described as the unexpected loss. PD, LGD and EaD are also relevant risk parameters in this context. 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 continent 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 category[1)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 category[1)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 region[1]

(€ 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 region[1]

(€ 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 countries[1)]

(€ 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-balance 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 currency translation income and compensation	Currency translation income on loan loss provisions	Compensation 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 currency translation income and compensation	Currency translation income on loan loss provisions	Compensation 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 detemindes 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 steges 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".

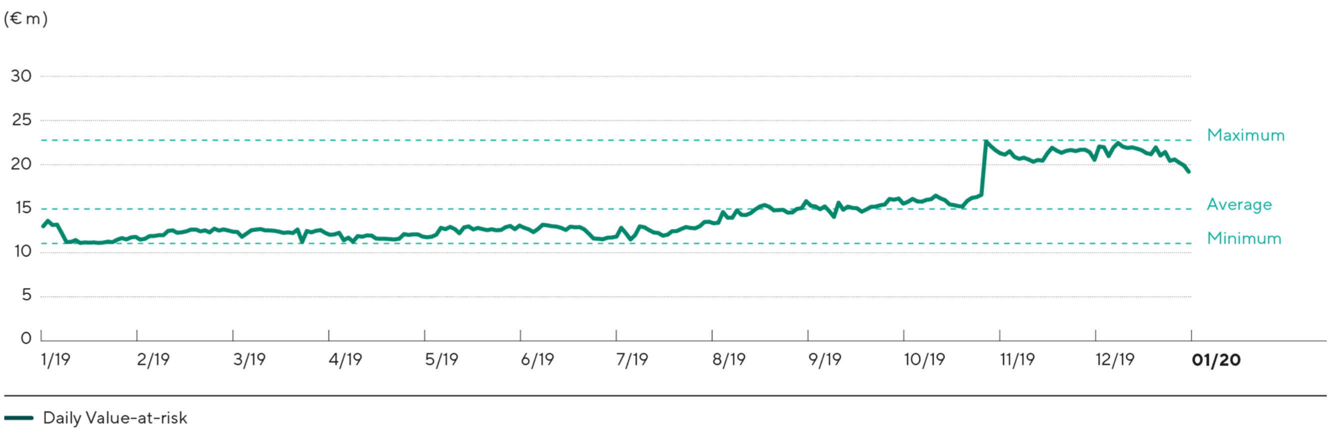
Market risks arising from Hamburg Commercial Bank's lending business and liabilities are transferred to the trading divisions and taken into account in the corresponding risk positions. There they are managed as part of a proactive portfolio management process and hedged through external transactions.

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 FVOCIR 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.

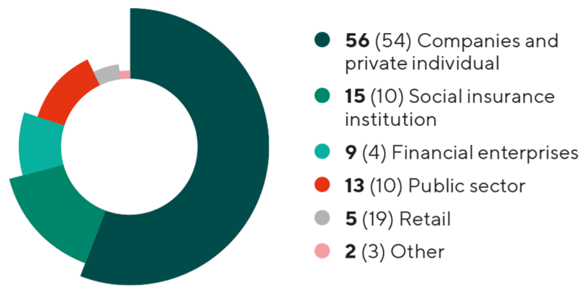
Hamburg Commercial Bank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors), maturities (original and residual maturities).

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)



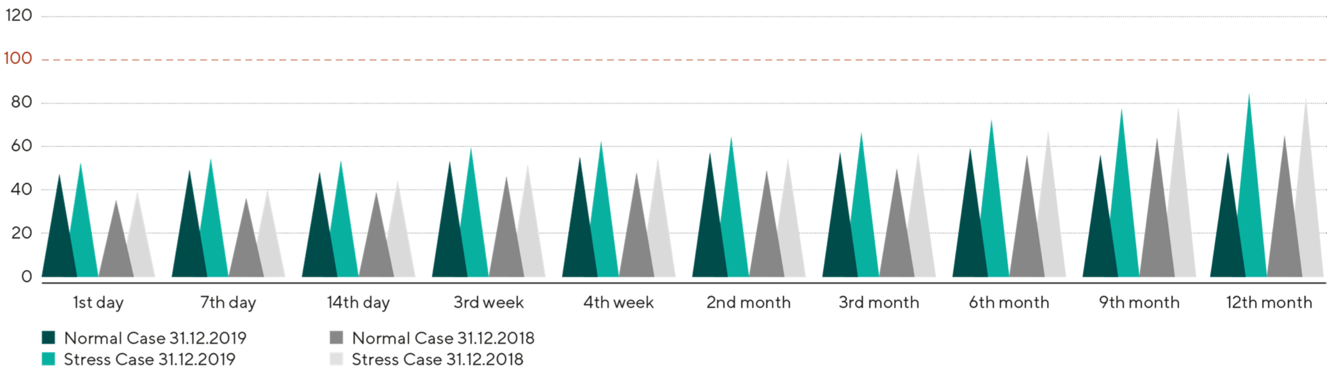
In addition to the analysis of the depositor structure with regard to existing depositor concentrations, risk concentrations are examined with regard to the US dollar asset/liability position. For the purposes of analysing the dependency on the US dollar, a US dollar liquidity maturity profile is additionally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

Stefan Ermisch Ulrik Lackschewitz

Ian Banwell Dr Nicolas Blanchard

Christopher Brody Oliver Gatzke

Annual financial statements of Hamburg Commercial Bank AG

Balance sheet of Hamburg Commercial Bank AG

as at 31 December 2019

Assets

(€ k)	(Note)				31.12.2019	31.12.2018
1. Cash reserve						
a) Cash on hand				6		826
b) Balances with central banks				4,773,672		5,292,704
thereof:					**4,773,678**	**5,293,530**
with Deutsche Bundesbank		4,769,326				
		(previous year: 5,289,089)				
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks						
a) Treasury bills, discounted treasury notes and similar debt instruments issued by public institutions				70,573		61,647
					70,573	**61,647**
3. Loans and advances to banks	(5, 6, 23-26)					
a) Payable on demand				373,724		409,149
b) Other loans and advances				1,239,844		1,867,690
					1,613,568	**2,276,839**
4. Loans and advances to customers	(5, 6, 23-26)				**29,776,996**	**31,521,343**
thereof:						
secured by mortgages		10,495,451				
		(previous year: 9,814,741)				
public-sector loans		2,858,051				
		(previous year: 3,810,967)				
secured by ship mortgages		3,928,751				
		(previous year: 3,754,336)				
5. Debentures and other fixed-interest securities	(8, 23-28, 31)					
a) Money market instruments						
aa) from other issuers			-			8,405
				-		
b) Bonds and debentures						
ba) from public-sector issuers			2,733,679			5,073,244
thereof:						
eligible as collateral at the Deutsche Bundesbank		2,662,487				
		(previous year: 5,000,869)				
bb) from other issuers			3,035,621			4,698,544
thereof:				5,769,300		
eligible as collateral at the Deutsche Bundesbank		2,837,600				
		(previous year: 4,493,945)				
c) Own debentures				2,188,312		718,572
Nominal value		2,183,637			**7,957,612**	**10,498,765**
		(previous year: 706,717)				
To be carried forward					**44,192,427**	**49,652,124**

Assets

(€ k)	(Note)			31.12.2019	31.12.2018
	Carried forward			**44,192,427**	**49,652,124**
6. Shares and other non-fixed-interest securities	(8, 27, 28, 31)			**11,847**	**8,958**
6a. Trading portfolio	(9, 29)			**1,518,664**	**2,156,581**
7. Equity holdings in non-affiliated companies	(15, 27, 31, 63)			**11,837**	**7,496**
thereof:					
in banks		8,077			
		(previous year: 3,734)			
8. Interests in affiliated companies	(15, 27, 31, 63)			**658,356**	**646,924**
thereof:					
in banks		82,590			
		(previous year: 82,590)			
9. Trust assets	(30)			**2,464**	**3,220**
thereof:					
trust loans		2,464			
		(previous year: 3,220)			
10. Intangible fixed assets	(16, 31)				
a) Industrial property rights acquired in-house and similar rights and assets			199		570
b) Licences, industrial property rights and similar rights and assets as well as licenses to use such rights and assets purchased			5,542		6,597
				5,741	**7,167**
11. Tangible fixed assets	(17, 31)			**79,089**	**80,404**
12. Other assets	(32)			**1,416,603**	**1,325,128**
13. Prepaid expenses	(5, 19, 33)			**28,475**	**53,441**
14. Deferred tax assets	(18, 34)			**638,815**	**654,827**
Total assets				**48,564,318**	**54,596,270**

Liabilities

(€ k)	(Note)				31.12.2019	31.12.2018
1. Liabilities to banks	(19, 37-39)					
a) Payable on demand				84,696		266,179
b) With agreed maturities or notice periods				5,340,553		5,745,951
					5,425,249	**6,012,130**
2. Liabilities to customers	(19, 37-39)					
a) Savings deposits						
aa) with agreed notice period of three months			9,392			10,721
				9,392		10,721
b) Other liabilities						
ba) Payable on demand			6,935,050			7,933,858
bb) With agreed maturities or notice periods			17,446,014			20,482,580
				24,381,064		28,416,438
					24,390,456	**28,427,159**
3. Securitised liabilities	(19, 39, 67)					
a) Debentures issued				9,869,492		10,398,837
					9,869,492	**10,398,837**
3a. Trading portfolio	(9, 40)				**981,559**	**1,162,845**
4. Trust liabilities	(41)				**2,464**	**3,220**
thereof:						
trust loans		2,464				
		(previous year: 3,220)				
5. Other liabilities	(42)				**783,974**	**815,757**
6. Deferred income	(5, 19, 43)				**76,149**	**71,651**
6a. Deferred tax liabilities	(18, 44)				**17,328**	**14,609**
7. Provisions	(20)					
a) Provisions for pensions and similar obligations				892,414		840,189
b) Tax provisions				16,123		25,388
c) Other provisions	(45)			791,726		761,437
					1,700,263	**1,627,014**
8. Subordinated debt	(46)				**1,057,908**	**1,055,396**
10. Funds for general banking risks	(47)				**2,366,156**	**2,366,156**
of which special items under Section 340e (4) HGB		56,354				
		(previous year: 56,354)				
To be carried forward					**46,670,998**	**51,954,774**

Liabilities

(€ k)	(Note)			31.12.2019	31.12.2018
	Carried forward			**46,670,998**	**51,954,774**
11. Equity capital	(48)				
a) Subscribed capital					
aa) Share capital		3,018,225			3,018,225
ab) Silent participations		193,801			594,017
			3,212,026		3,612,242
b) Capital reserves			76,535		76,535
c) Accumulated loss			−1,395,241		-1,047,281
				1,893,320	**2,641,496**
Total liabilities				**48,564,318**	**54,596,270**

1. Contingent liabilities	(60)				
a) Liabilities from guarantee and indemnity agreements				**1,520,583**	**1,869,321**
2. Other commitments	(60)				
a) Irrevocable loan commitments				**6,693,666**	**7,646,258**

Income statement of Hamburg Commercial Bank AG

for the period 1 January to 31 December 2019

(€ k)	(Note)				2019	2018
1. Interest income from	(49, 50)					
a) lending and money market transactions			2,157,200			2,237,822
negative interest resulting from loan and money market transactions			-106,151	2,051,049		-141,406
b) fixed-interest securities and book-entry securities			138,352			211,968
negative interest resulting from securities and book-entry securities			-	138,352		-
				2,189,401		**2,308,384**
2. Interest expenses	(50)					
from the banking business			1,980,981			1,928,000
positive interest resulting from the banking business			-57,015			-75,878
				1,923,966		1,852,122
					265,435	**456,262**
3. Current income from	(49)					
a) shares and other non-fixed-interest securities				8		296
b) equity holdings in non-affiliated companies				226		9,479
c) Interest in affiliated companies				32,657		31,515
					32,891	**41,290**
4. Commission income	(49, 51)			76,973		82,975
5. Commission expenses	(51)			18,555		215,275
					58,418	**-132,300**
6. Net income/Net expenses from the trading portfolio	(49)				**-3,782**	**33,410**
7. Other operating income	(49, 52)				**284,458**	**171,068**
8. General administrative expenses						
a) Personnel expenses						
aa) Wages and salaries			168,341			153,804
ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits			28,388			26,742
				196,729		180,546
thereof:						
for retirement pensions		6,530				
		(previous year: 3,857)				
b) Other administrative expenses	(57)			262,029		297,003
					458,758	**477,549**
9. Depreciation, amortisation and impairments on intangible fixed assets and tangible fixed assets	(31)				**6,928**	**7,674**
10. Other operating expenses	(53)				**230,448**	**269,177**
11. Depreciation and impairments on loans and advances and certain securities and additions to provisions in the lending business					**-**	**328,056**
To be carried forward					**-58,714**	**-512,726**

(€ k)	(Note)		2019	2018
Carried forward			**-58,714**	**-512,726**
12. Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business			**7,449**	**-**
13. Income from additions to equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets			**28,891**	**57,653**
14. Expenses from the transfer of losses			**7,708**	**16,592**
15. Profit on ordinary activities			**-30,082**	**-471,665**
16. Extraordinary income	(54)	19,368		5,197
17. Extraordinary expenses	(54)	591,408		345,348
18. Extraordinary result	(54)		**-572,040**	**-340,151**
19. Income tax expenses	(55)	-19,165		-193,859
20. Other taxes not shown under item 10		1,116		2,715
			-18,049	**-191,144**
21. Income from the assumption of losses	(56)		**236,337**	**327,303**
22. profit discharged based on profit-pooling agreements			**224**	**-**
23. Annual net loss			**-347,960**	**-293,369**
24. Loss carried over from the previous year			**-1,047,281**	**-753,912**
25. Accumulated loss			**-1,395,241**	**-1,047,281**

Notes for the 2019 financial year

General information and notes

1. Hamburg Commercial Bank AG and its shareholders

Hamburg Commercial Bank AG, formerly HSH Nordbank AG, with its registered offices in Hamburg, was established by the merger of the Hamburgische Landesbank – Girozentrale –, Hamburg, and the Landesbank Schleswig-Holstein Girozentrale, Kiel, on 2 June 2003. For accounting and tax purposes, the merger took effect retroactively as of 1 January 2003. Since 28 November 2018, the Bank has had shareholders who are independent of each other: Cerberus Capital Management, L.P., J. C. Flowers & Co. LLC, GoldenTree Asset Management LP, Centaurus Capital LP and BAWAG P.S.K and/or funds initiated by these shareholders. Since 4 February 2019, the Bank has been operating under the name Hamburg Commercial Bank AG.

Hamburg Commercial Bank AG is entered in the Hamburg commercial register under HRB 87366.

Hamburg Commercial Bank AG prepares Group financial statements as the ultimate parent company.

The following overview shows Hamburg Commercial Bank AG and its shareholders with their respective direct and indirect holdings of voting capital as at 31 December 2019.

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 %**

2. Events after the balance sheet date

As part of the restructuring and optimisation of its capital structure (Liability Management Exercise), the Bank repurchased a significant volume of hybrid capital instruments in the year under review. Parts of the transaction were carried out after the balance sheet date. Details of the repurchase can be found in Note 54 Extraordinary result.

In December 2019, Hamburg Commercial Bank AG concluded sales agreements for several of the Bank's own properties. The sale was completed in February 2020.

In the income statement for the 2020 financial year, the repurchase of the hybrid capital instruments that was completed after the reporting date will, on the one hand, result in repayment losses that will put pressure on the extraordinary result. On the other hand, other operating income will be generated from the reversal of provisions for litigation risks which – together with the other operating income also generated from the sale of the properties – will largely compensate for the negative impact on the extraordinary result.

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 AG'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 AG 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. Deposit guarantee fund, guarantee obligation (Gewährträgerhaftung) and maintenance obligation (Anstaltslast)

Hamburg Commercial Bank AG is a member of the support fund of the Landesbanks and is integrated into the guarantee system of the German Savings Banks Finance Group.

The German Savings Banks Finance Group has an institutional guarantee scheme: This has been recognised as a deposit guarantee scheme under the German Law on Deposit Insurance (Einlagensicherungsgesetz - EinSiG) since 3 July 2015.

The primary objective of the guarantee scheme is to protect the member institutions themselves and to avert imminent or existing financial difficulties at these institutions. This is intended to avoid triggering a deposit guarantee event and ensure that the business relationship with the customer is continued on a sustainable basis and without restrictions (voluntary institutional guarantee).

The institutional guarantee scheme of the German Savings Banks Finance Group also meets the statutory deposit guarantee requirements under the EinSiG by its official recognition as deposit guarantee fund scheme. Under the statutory deposit guarantee the customer has a claim against the guarantee scheme for the repayment of its deposits up to € 100,000.

The seamless transition of Hamburg Commercial Bank AG to the deposit protection fund for private banks is planned for 1 January 2022. This deposit guarantee 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 transitional agreement reached in the understanding with the EU Commission dated 17 July 2001 on the expiration of the maintenance obligation (Anstaltslast) and guarantee obligation (Gewährträgerhaftung) mechanisms on 18 July 2005 also applies to Hamburg Commercial Bank AG pursuant to Section 2 of the treaty signed by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein on 4 February 2003 concerning the merger of the predecessor institutions. Liabilities entered into on or before 18 July 2001 are therefore covered by the guarantee obligation, regardless of their maturities.

As previous owner of Landesbank Schleswig-Holstein Girozentrale, Landesbank Baden-Württemberg, Stuttgart is liable within the scope of the guarantee obligation described above for the liabilities agreed upon prior to its withdrawal effective 23 May 2003 and transferred to Hamburg Commercial Bank AG by way of the merger. Westdeutsche Landesbank, Düsseldorf, and/or its legal successor are liable for liabilities entered into before the expiry of the guarantee obligation.

4. Accounting standards applied

We prepared the annual financial statements and the management report of Hamburg Commercial Bank AG as at 31 December 2019 in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Bank Accounting Regulation (RechKredV) and the German Mortgage Bond Act (PfandBG). In addition, we complied with the applicable pronouncements of the Institute of Public Auditors in Germany, Incorporated Association - IDW.

Further explanatory information on selected items and scenarios is set out below.

ACCOUNTING AND VALUATION PRINCIPLES

Accounting and measurement 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.

5. Loans and advances

We recognised loans and advances to banks and to customers (asset items 3 and 4) at their nominal value or at their cost of acquisition. Premiums or discounts are recorded under prepaid expenses or deferred income and amortised on a straight-line basis over the term of the loan or the fixed-interest period, whichever is shorter. Pro-rata interest is recognised on an accrual basis and disclosed in the corresponding loans and advances line items. We observe the strict lower-of-cost-or-market principle by rigorously applying our risk provisioning principles which are described below.

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 AG, any necessary valuation allowances are recognised solely on our original loans and advance amounts.

6. Valuation allowances and provisions in the lending business (loan loss provision)

In order to provide for possible loan losses, we make valuation allowances in accordance with the following principles. These adjustments are set off against the corresponding items in the balance sheet. For off-balance sheet business the valuation allowances are achieved by means of provisions. In order to ensure that our loan loss provisions cover all identifiable counterparty default and country risks, risk is determined in three steps:

Our loan exposures are monitored on an ongoing basis. We make individual valuation allowances in the amount of the anticipated loss for all counterparty default risks identifiable when examined individually. We calculate the exposure at default from the carrying amount of loans and advances less the net present value of all payments still expected to be received. The expected incoming payments comprise in particular all expected interest and redemption payments as well as payments from the liquidation of collateral, with any liquidation costs taken into account.

Finally, we set up portfolio valuation allowances in accordance with the German commercial law for the remaining loan exposures not accounted for, but still involving latent risks.

Hamburg Commercial Bank AG makes use of the option of early voluntary application of BFA 7 and applies the IFRS 9 methodology when measuring portfolio valuation allowances. In the event of a significant increase in the credit default risk, increased loan loss provisions are applied in accordance with the IFRS 9 methodology. Portfolio valuation allowances are not reported separately, broken down into the latent and the significantly increased credit default risk. This change in the valuation method increases the portfolio valuation allowances in the amount of € 55 million.

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 2019 in the form of model overlays. These relate to risk factors relevant to valuation that are not already included in the calculation parameters used in the expected loss models/the expert estimates. Particularly, 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 (in particular shipping and real estate). Additionally, they relate to the impact, as estimated by Hamburg Commercial Bank AG, of the emission requirements for ships that will apply from 2020.

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.

These portfolio valuation allowances are determined for tax purposes in accordance with the bulletin of the Federal Ministry of Finance dated 10 January 1994.

Provided the credit risk no longer exists or is reduced, all loan loss provisions mentioned above are reversed accordingly. We thereby comply with the obligation to reverse impairments in accordance with tax law and with the provisions of the German Commercial Code.

If the Bank determines that a receivable must be classified as unrecoverable (in whole or in part), its write-down is initiated.

7. Determining fair value

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. 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 respectively).

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. This is generally the case with regard to securities and derivatives traded on liquid markets.

The mark-to-matrix method is used to determine fair value where the fair value cannot be determined on the basis of market or transaction prices of an identical financial instrument. For this purpose, prices of comparable financial instruments or indices, which are representative for the financial instrument, are used as an alternative and adjusted where necessary.

Fair value is determined by the mark-to valuation using a suitable model (e.g. option price model, discounted cash flow method, collateralised debt obligation model) if a valuation cannot be derived either of adequate quality or at all. Trading assets and liabilities are measured using mid-market rates.

Where valuation techniques and models are concerned, a distinction can be drawn between procedures based exclusively on observable market data or parameters that are non-observable only to an insignificant extent on the one hand and those based to a significant extent on non-observable parameters on the other hand. Observable market data is usually available for liquid securities and simple OTC derivatives traded on liquid markets (for example interest rate swaps, forward foreign exchange transactions and foreign exchange options in certain currencies as well as derivatives of certain listed equities or indices). Valuation techniques and models based on non-observable market data or valuation parameters, and which therefore require assumptions to be made with regard to these parameters, are usually necessary for structured securities – or more generally for securities whose markets are illiquid - and for complex OTC derivatives. Examples of non-observable parameters are special correlations and volatilities. In these cases a significant number of judgements have to be made with regard to the selection of both the model and the parameter estimates. If the valuation technique or model used to determine the value of a derivative does not appropriately reflect modelling risks, parameter uncertainties, funding costs and benefits as well as credit or counterparty risk, the value is correspondingly adjusted by the Bank. The methods applied for this draw to some extent on non-observable market parameters in the form of estimates.

If the valuation of a financial instrument is based partly on non-observable parameters, the fair value determined is the best estimated value in accordance with a discretionary decision by the Bank. However, it remains subjective in that there may be alternative parameter selection options that cannot be refuted by observable market data.

The financial crisis has resulted in derivatives being increasingly concluded on a secured basis in the interbank market (under a collateral agreement, e.g. CSA). At the same time the collateral is also explicitly taken into account in the valuation of OTC derivatives.

A substantial proportion of securities held in the trading portfolio is valued using liquid market prices. If a current price from a liquid market is not available, interest-bearing securities are valued using the discounted and sector-dependent yield curves derived from market data of fixed-income securities.

Exchange-traded derivatives are also valued using market prices. If no current price is available, recognised valuation models (such as the Black-Scholes model for European options) are used for the valuation that are based on estimates of non-observable parameters to an insignificant extent at most.

8. Securities

For valuation purposes, we divide our securities (asset items 5 and 6) not assigned to the trading portfolio in accordance with the provisions under German commercial law into an investment portfolio and a liquidity reserve, depending on the respective purpose.

Given that securities held in the investment portfolio are intended for long-term investment, we value them at the moderate lower-of-cost-or-market value. When impairments are considered to be temporary, we recognise the corresponding securities at acquisition cost. Impairments are considered to be temporary if they are not considered indications of future disruptions in the servicing of interest and capital payments. This is the case, for example, where impairments are caused by changes in interest rates. We thus avoid reporting performance volatility, which would not be economically justified based on the short-term nature of the value fluctuations. As part of the risk provisioning process for securities, we have defined comprehensive criteria ("trigger events") for identifying possible permanent impairments. These are identified on a quarterly basis. All securities under review including any cover assets/underlyings are subjected to an analysis and a two-stage risk assessment process. Depending on the security's asset class, this analysis includes additional indicators (e.g. external ratings, calculation of over-collateralisation for mezzanine tranches, cash flow analyses). As long as this analysis of an individual case does not confirm a trigger event in economic terms or no trigger event is identified, there is no permanent impairment. In the case of impairments expected to be permanent – usually caused by changes in the credit rating – we write down the security to the lower of the exchange price, market price or fair value.

We value the securities held in the liquidity reserve in accordance with the strict lower-of-cost-or-market principle. Accordingly, securities are stated at the lower of cost or exchange price, market price or fair value, irrespective of whether impairment is permanent.

For the balance sheet treatment and the presentation of hedging relationships, please refer to our remarks under Note 13.

Interest resulting from the Bank's own securities holdings is reported as interest income. In this connection, pro rata interest is recognised on an accrual basis. Valuation gains or losses and realised profits on securities held in the investment portfolio are allocated to Net income from financial investments (item 13 in the income statement); in the case of securities held in the liquidity reserve, they are allocated to Credit risk income/expense (item 12 in the income statement).

Dividends and other disbursements are reported under current income from shares and other non-fixed-income securities.

During the financial year there were no reclassifications between the trading portfolio, liquidity reserve and/or investment portfolio.

9. Financial instruments held in the trading portfolio

We include in the assets and liabilities held for trading (asset item 6a and liability item 3a) all financial instruments which we acquired or sold for purposes of realising a short-term proprietary trading profit. In addition to securities, these include in particular derivative financial instruments, but also certain receivables (such as promissory notes). Securities, receivables and derivatives with a positive fair value are disclosed under Trading portfolio (assets) (item 6a); derivatives with a negative fair value are disclosed under Trading portfolio (liabilities) (item 3a). The criteria for allocation to the Trading portfolio remained unchanged during the financial year. We value all financial instruments held in the trading portfolio at fair value less a risk discount. Where no stock market or market prices are available for financial instruments, fair value is calculated on the basis of generally accepted valuation models (cf. also Note 7). In order to account for counterparty risks from derivatives held in the trading portfolio we have created so-called credit valuation adjustments and have reduced the Trading portfolio (assets) accordingly. Furthermore, we have created debt valuation adjustments and have reduced the Trading portfolio (liabilities) accordingly.

Funding valuation adjustments are used to take account of the funding costs and advantages arising from the provision or receipt of cash collateral in connection with the hedging of an uncollateralised OTC derivative with a collateralised OTC derivative.

The risk discount represents a potential loss (value at risk) determined by mathematical methods and is based on all positions held in Hamburg Commercial Bank AG's trading portfolio. The value at risk (VaR) is calculated in such a way that a potential loss on items held for trading will not be exceeded within a holding period of ten days with a confidence level of 99 %. The observation period for the VaR is 250 trading days. The VaR discount is calculated taking into account correlations between the individual transactions in the Trading portfolio. In general, the risk discount is deducted from the assets held for trading. In those exceptional cases in which the liabilities held for trading are larger than the assets held for trading, a risk mark-up is instead disclosed under Trading portfolio (liabilities).

Income and expense (current income and expense, realised and unrealised valuation income and expense) from financial instruments held for trading are generally disclosed under Net trading income/ expense from the trading portfolio. Current income and expenses from securities and receivables are exempt from this. Consistent with Hamburg Commercial Bank AG's internal management, these are stated under Interest income, Interest expense respectively Current income from shares and other non-fixed-interest securities.

Each year that Hamburg Commercial Bank AG discloses net income in the trading portfolio, 10 % of this net income is allocated to the special item Fund for General Banking Risks (liability item 10). Reversals of this item are only possible in order to balance net expenses in the trading portfolio or as far as the item exceeds 50 % of the average of the past five years net income in the trading portfolio. Expenses from the addition to and income from the reversal of the item are stated respectively under the net income or net expense of the trading portfolio. € 0 million was added to the special item during the past financial year (previous year: € 4 million) from net income from the trading portfolio.

10. Balance sheet presentation on a net basis

We net the fair values of trading portfolio derivatives traded over the counter and cash collateral, for which measurement is performed and collateral provided on a daily basis under a master agreement with collateral agreement. The netting has no effect on the disclosure of net income from the trading portfolio. Cf. also Note 65.

11. Derivative financial instruments

Derivative financial instruments are recognised and valued in accordance with the general rules of commercial law. Internal transactions and their accounting are required to comply with uniformly determined conditions. In particular the terms must be in line with market conditions.

Income and expenses from option contracts held in the non-trading portfolio are disclosed under Other operating income or Other operating expenses in accordance with the disclosure requirements of IDW AcPS BFA 6. Income and expenses from interest rate cap agreements are disclosed under Interest income or Interest expenses. We recognise credit derivatives held in the non-trading portfolio in accordance with IDW AcPS BFA 1. The rules for loan collateral provided apply in principle to credit default swaps in which Hamburg Commercial Bank AG takes the position of a collateral provider and which are not allocated to a valuation unit within the meaning of Section 254 HGB. A provision is recognised in the amount of the negative fair value to take account of the default risk as at the reporting date if a payout is likely to be triggered.

During the financial year accounting for internal derivatives resulted in interest income in the amount of € 1,010 million (previous year: € 828 million), interest expense in the amount of € 825 million (previous year: € 743 million), Other operating income of € 41 million (previous year: € 4 million) and Other operating expense of € 12 million (previous year: € 2 million). Reverse effects are reported in the Net income from the trading portfolio.

Premiums paid or received on purchased or written options, which are not part of the Trading portfolio, are disclosed under Other assets or Other liabilities. If necessary, we conduct write-offs or create provisions to comply with the lower-of-cost-or-market or the recognition-of-loss principle (imparity principle).

In cases involving financial instruments featuring a margin system (futures and OTC derivates), initial margin payments made/received are recognised under Other assets (cf. Note 32) or Other liabilities (cf. Note 42). The same applies to variation margin payments from the banking book. Unrealised gains and losses from open positions under trading portfolio assets and liabilities are netted against the variation margin payments made/received on the face of the balance sheet. The results are reflected in Net income from the trading portfolio.

The amount, the time and the certainty of future cash flows from derivatives, and thereby their fair values, are uncertain. Major influencing factors are:

- future developments with regard to interest rates, exchange rates, market prices, commodity prices, credit indices and other market prices;
- the future volatility of such prices;
- the default risk of the respective counterparty.

12. Structured products

We account for structured products in accordance with the IDW AcPS HFA 22 interpretation. Structured products valued at fair value or in accordance with the strict lower-of-cost-or-market principle are not subject to separate accounting. Structured assets that are valued in accordance with the moderate lower-of-cost-or-market principle are subject to separate accounting with regard to the derivative components and the host instrument. As a matter of principle, the separated derivative components are included in valuation units (cf. also Note 13). Derivative components of equity-linked structured products, however, are valued individually under the recognition-of-loss principle (imparity principle).

13. Hedge accounting via valuation units

We account for hedging relationships with regard to which the clear assignment of hedged items to hedging instruments is documented in a comprehensible manner in risk management as valuation units within the meaning of Section 254 of the German Commercial Code (HGB) in accordance with the IDW AcPS RS HFA 35, in cases where the requirements for the application of Section 254 HGB are met, if the transactions cannot be considered in full in the valuation of the banking book according to IDW RS BFA 3 with the corresponding changes. As the simplified approach was used for recognition and measurement, corresponding micro-valuation units were dissolved in the past financial year and then exclusively included in the valuation of the banking book in accordance with IDW RS BFA 3. Hedged items included in valuation units are assets and liabilities in the form of securities and Securitised liabilities as well as derivative financial instruments. Hedging instruments are derivative financial instruments. All types of market risks may be hedged. However, by far the largest share of valuation units has the purpose of hedging interest rate risk. The clear assignment of the hedged item to the related hedging instrument, the determination of the risk hedged as well as the risk management strategy, information as to the prospective effectiveness and to the methods for determining effectiveness are documented for balance sheet hedging relationships. In addition, the intention to retain or the period of time for which the hedging relationship is to remain in place is included in the documentation. In principle, the intention is to maintain all hedging relationships for the full residual maturity of the hedged transaction. In individual cases, hedging relationships are designated only for a certain term of hedged items and/or hedging instruments.

We present not only micro hedges but also portfolio hedges as valuation units.

A micro hedging relationship is present where a certain risk from a single hedged item is hedged by a single hedging instrument. A portfolio hedging relationship is present where a certain risk from a portfolio of hedged items of the same type is hedged with multiple hedges of the same type. In the case of micro valuation units, the combination into a related unit within the system is already required in the trading system upon the conclusion of the transaction. These are perfect hedging relationships where the value parameters are the same for the hedged portion of the hedged item and the hedging portion of the hedging instrument (e.g. currency, nominal amount, interest rate, interest due date, term). In the case the interest rate risk of a securities portfolio of the same type of fixed-interest securities is hedged by multiple interest swaps, this hedging relationship may be considered for purposes of forming a portfolio valuation unit. We create portfolio valuation units for the corresponding securities portfolios included in the liquidity reserve.

The depiction of hedging relationships accounted for as valuation units is made in two steps. In the first step, the changes in value to be attributed to the hedged risk from the hedged item and the hedging instruments are determined with regard to a valuation unit. We apply the so-called "net hedge presentation method". Changes in value are neither recognised in the carrying amount of the hedged items/hedging instruments on the face of the balance sheet nor in the income statement. Any unrealised loss arising on the netting of such changes in value is recognised in the income statement in accordance with the imparity principle as a provision for contingent losses, which is disclosed on the balance sheet under Other provisions. Additions to valuation allowances for liquidity reserve portfolios as well as additions to loss provisions in the lending business are disclosed in the income statement under Depreciation and impairments on loans (and advances) and certain securities and reversals of such provisions under Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business. Other holdings are disclosed under Other operating expenses. In the second step, the residual change in fair value of the hedged item and hedging instrument are determined on the basis of the individual transaction. This represents the change in fair value attributable to the non-hedged risks. This is separately accounted for in accordance with the imparity principle under general accounting standards. In the second step unrealised losses relating to the liquidity reserve are disclosed in the same manner as in the first step.

The prospective and retrospective effectiveness of a hedging relationship is substantiated and documented at least once a year at the time the annual financial statements are prepared. In the case of micro hedges, the prospective documentation of effectiveness is made on the basis of the critical-terms-match method. As part of this substantiation it needs to be shown that the value parameters of the hedged item and the hedging instruments to be allocated to the hedged risk match. If they match, it is to be presumed that changes in value attributable to the hedged risk will be offset over the entire residual maturity/the designated term of the transactions. In the case of portfolio hedges, prospective substantiation of effectiveness is accomplished by means of quantitative and maturity range-dependent sensitivity analyses in relation to the hedged risk. In the case of a corresponding offset of sensitivities of hedged items and hedging instruments in the relevant maturity ranges, it may be presumed that there will be a high degree of correlation between the changes in the value attributable to the hedged item and those attributable to the hedging instrument over the entire residual maturity of the transactions. The retrospective measurement of effectiveness is generally accomplished, not only for micro but also for portfolio hedges by mathematically determining the ratio of the cumulative changes in value on the part of the hedged item to be attributed to the hedged risk arising since the designation of the hedge to those of the hedging instruments.

AMOUNT OF HEDGED ITEMS AND HEDGING INSTRUMENTS INCLUDED IN VALUATION UNITS

The following table shows the carrying amount of assets and liabilities included in valuation units by balance sheet item. Derivative financial instruments included in valuation units are disclosed under the items Positive market value derivatives/Negative market values derivatives at their respective fair values.

Hedged items

(€ k)	31.12.2019		31.12.2018	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Assets				
Loans and advances to customers	–	–	861,102	–
Debentures and other fixed-interest securities	–	3,770,911	375,747	6,454,843
Liabilities				
Liabilities to banks	–	–	43,507	–
Liabilities to customers	–	–	935,490	–
Securitised liabilities	31,407	–	90,283	–
Positive market values of derivatives	–	–	22,894	–
Negative market values of derivatives	253	–	131,930	–

Hedging instruments

(€ k)	31.12.2019		31.12.2018	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Positive market values of derivatives	721	453	373,233	340
Negative market values of derivatives	88	137,758	597,483	229,355

In relation to the underlying nominal values, interest rate risk is being hedged in approximately 99% of the valuation units. The other risks largely involve currency risks.

AMOUNT OF THE RISKS HEDGED IN VALUATION UNITS
The following table shows the effective portion of the changes in value to be allocated to the hedged risks on a cumulative basis since the designation of the valuation unit.

Hedged items

(€ k)	31.12.2019				31.12.2018			
	Micro valuation units		Portfolio valuation units		Micro valuation units		Portfolio valuation units	
	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value
Assets								
Loans and advances to customers	–	–	–	–	356,629	–	–	–
Debentures and other fixed-interest securities	–	–	96,613	–	165,585	–	140,309	–
Liabilities	–	–	–	–	–	–	–	–
Liabilities to banks	–	–	–	–	–	2,929	–	–
Liabilities to customers	–	–	–	–	705	131,996	–	–
Securitised liabilities	–	525	–	–	–	3,139	–	–
Derivatives	10	230	–	–	11,677	23,282	–	–

Positive changes in value on the part of the hedged items are offset by corresponding negative changes in value on the part of the hedging instruments for which no provisions for contingent losses were created. Negative changes in value on the part of the hedged items are offset by corresponding positive changes in value on the part of the hedging transactions.

14. Accounting for interest-related financial instruments held in the banking book

We have performed the loss-free valuation of interest-related transactions in the banking book by means of a computation based on the present value approach in accordance with IDW AcPS BFA 3. We have included all balance sheet and off-balance sheet interest-related financial instruments that are not part of the trading book. The whole banking book was used as the net risk exposure for the purpose of the calculation – in line with the funding context. Within the framework of the calculation we have compared the carrying amount of balance sheet and off-balance sheet transactions in the banking book under commercial law with the interest-related net present values. We then deducted the risk costs and administrative costs determined on a present value basis from the amount of the net present values exceeding the carrying amounts.

If a negative balance arises on comparing the present values to the carrying amounts, this amount is recognised in the income statement as a provision for contingent losses, which is disclosed under Other provisions on the balance sheet. Based on the results of the calculation, no provisions needed to be created as at 31 December 2019.

Derivative financial instruments not allocated to the trading book and that are neither included in a valuation unit nor in the net risk exposure of the loss-free valuation and do also not fall under the specific cover are valued individually under the recognition-of-loss principle.

15. Equity holdings in non-affiliated companies and interests in affiliated companies

We recognise equity holdings in non-affiliated companies and interests in affiliated companies at acquisition cost. In the case of impairments expected to be permanent – usually induced by changes in the credit rating – we write them down to the lower fair value.

16. Intangible fixed assets

We account for internally-developed and purchased software under Intangible fixed assets. Internally developed software is recognised in the amount of the production costs incurred in its development. Production costs include expenses directly attributable to the development of the software (so-called development costs). Expenses which cannot be directly allocated to the development of the software (so-called research costs) are not included in production costs but are expensed against income for the year incurred. During the financial year, software development costs in the amount of € 0 million (previous year: € 1 million) and no research costs were incurred as in the previous year.

Purchased software is valued at acquisition cost.

Intangible fixed assets are subject to scheduled, straight-line depreciation, whereby we assume a useful life of five years for acquired standard software. The amortisation period for internally generated intangible assets is ten years insofar as the likely useful life cannot be reliably estimated. In the case impairments are expected to be permanent, we conduct exceptional write-downs. If the reasons for such write-downs no longer exist, we conduct reversals up to the maximum amount of the amortised acquisition or production cost.

17. Tangible fixed assets

Tangible fixed assets are recognised at acquisition cost. For depreciable assets, we calculate scheduled straight-line depreciation for the following periods of useful live:

Tangible fixed asset category	Useful life in years
Buildings	50
Leasehold improvements	The useful life is determined on the basis of the remaining period of the lease.
Other operating equipment	3-15
Leasing assets	Customary useful life
Low-value items (€ 250.00 to € 1,000.00)	5

In the case of tangible fixed assets we conduct extraordinary write-downs where it is likely that permanent impairment has occurred. If the reasons for the write-downs no longer exist, we conduct write-ups up to the maximum amount of the (amortised) acquisition or production costs.

Any acquisition cost subsequently incurred is capitalised and depreciated in line with the adjusted depreciation schedule. Expenses for the maintenance of tangible fixed assets are recognised as expenses in the appropriate accounting period.

Tangible fixed assets with a purchase price of up to € 250 are recognised as an expense in the year of acquisition in accordance with the applicable tax provisions.

18. Deferred taxes

Deferred taxes are calculated based on the different carrying amounts of assets and liabilities in the balance sheet drawn up for accounting and tax purposes. We recognise deferred taxes on differences that are expected to offset in future financial years and will thereby lead to future tax expenses or reductions. Deferred tax assets are additionally attributed to tax losses carried forward to the extent the realisation of the tax benefit from the losses carried forward is expected to occur within the next five years. The Overall Bank is subject to an overall tax rate of 31.98 %. Deferred taxes are not discounted in accordance with the regulations. Deferred tax assets and deferred tax liabilities are stated in the balance sheet on a gross basis (asset item 14 and liability item 6a).

At each reporting date, Hamburg Commercial Bank AG 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.

19. Liabilities

We recognise liabilities at the amount repayable. Premiums and discounts are shown as deferred income or prepaid expenses, respectively, and are reversed over the term on a straight-line basis. We treat pro-rata interest on an accrual basis and report it in the corresponding liabilities line item.

20. Provisions

We value provisions at the expected call on the provisions in accordance with reasonable commercial judgement. Provisions with a residual maturity of more than one year are generally discounted on the basis of the average market rate determined and published by the Deutsche Bundesbank in accordance with the Regulations on the Determination and Disclosure of Discount Rates for Provisions (RückAbzinsV) in the version applicable as at the reporting date which corresponds to the residual maturity. We disclose income and expenses from the discounting or compounding of provisions under Other operating income (cf. also Notes 52 and 53); including the income effect of changes in the discount rate applied.

Provisions for pensions and similar obligations are calculated by independent actuaries based on the projected-unit-credit method. For this purpose, the unmodified 2018 G mortality tables from Professor Klaus Heubeck are employed as the biometrical basis. The following assumptions were made in determining the obligations:

	2019	2018
Salary growth	2.0 %	2.0 %
Personnel growth	0.5 %	0.5 %
Pension growth		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules	2.0 %	2.0 %
Employment contract 4	2.0 %	2.0 %
Staff turnover		
Age up to 30	6.0 %	6.0 %
Age 30-55	linear decline to zero	linear decline to zero
Age above 56	0.0 %	0.0 %
Retirement age	pursuant to the 2007 AGAnpassG	pursuant to the 2007 AGAnpassG

Provisions for pensions and similar obligations are discounted, in accordance with Section 253 (2) sentence 2 HGB, at the average market interest rate for the past ten years based on an assumed duration of 15 years. The discount rate applied as at the balance sheet date was 2.71 % p. a. (previous year: 3.21 % p. a.). As at 31 December 2019, the non-distributable difference based on the average seven-year interest rate of 1.97 % p.a. (previous year: 2.32 % p. a.) in accordance with Section 253 (6) HGB amounts to € 103 million (previous year: € 116 million) (cf. Note 58).

Assets, whose sole purpose is the fulfilment of pension obligations and to which no other creditors have access (fund assets) are recognised at their fair value of € 7 million (previous year: € 7 million), which is also equivalent to the amortised cost of the assets.Income from fund assets, which is offset against expenses, amounted to € 0.1 million in the period under review. Fund assets in the same amount have been offset against provisions for pensions and similar obligations. The amount required to meet the resultant liability was € 10 million as at 31 December 2019 (previous year: € 10 million).

21. Currency translation

Currency translation is performed pursuant to Section 256a HGB in conjunction with Section 340h HGB as well as IDW AcPS FS BFA 4 of the expert banking committee (BFA) of the IDW.

Currency translation with regard to financial instruments included in the trading portfolio is an implicit part of the valuation of such transactions (see comments under Note 9).

Remaining assets, liabilities and pending transactions – including financial instruments that are not classified as held for trading – are translated at the average spot rate prevailing as at the balance sheet date. As forward exchange transactions serve to hedge interest-bearing positions, we divided the agreed-upon forward exchange rate into spot exchange rate and swap positions, and allocate the swap positions over the term of the transaction. The corresponding expense and income are reported in Net interest income. Positive and negative spot exchange rate differences from pending transactions are netted within the same currency and reported under other assets or other liabilities.

To the extent the assets, liabilities and pending transactions are specifically hedged by other assets, liabilities or pending transactions, all expenses and income from currency translation are reported through profit and loss. All assets, liabilities and pending transactions in the same currency are in principle specifically hedged as the foreign exchange risk is managed via a currency position for each foreign currency, the individual currency items are transferred to the corresponding currency position and the amounts of positions or transactions in a foreign currency match. In addition, we also view matching foreign currency transactions which are not managed under a currency position as specifically hedged. If, in exceptional cases, there is no specific hedge (e.g. in case of assets with an acute default risk) and the residual term of the corresponding transactions is more than one year, valuation is made under the recognition-of-loss principle and unrealised income from the currency translation is only recognised to the extent the acquisition costs of assets are not exceeded or the settlement amount of liabilities is not undercut. In the case of residual terms of less than one year, we also recognise unrealised income in the case of corresponding transactions, if such income is not specifically hedged. Expenses and income from currency translation related to items not classified as held for trading are disclosed under Other operating income/Other operating expenses.

For financial statements of entities to be consolidated that have been prepared in a foreign currency, we translate the assets and liabilities at the corresponding mid-market rate of the ECB on the balance sheet date. Average rates for the reporting period are used to translate expenses and income.

22. Accounting treatment applied to the restructuring

Provisions for restructuring are recognised in accordance with the regulations of Section 249 (1) sentence 1 HGB in conjunction with Section 253 (1) sentence 2 and Section 253 (2) HGB, insofar as a restructuring programme has resulted in obligations or pending obligations from which the Bank cannot escape. The Bank discloses provisions for announced personnel measures as well as provisions for administrative cost measures under Other provisions. As soon as the obligation becomes sufficiently certain or can be quantified – e.g. through the signing of agreements – it is reclassified to other liabilities or provisions for pensions and similar obligations as a general rule.

In connection with its successful privatisation on 28 November 2018, Hamburg Commercial Bank approved an extensive restructuring programme, which includes the planned reduction in the number of employees and extensive projects to support the Bank's realignment. A further downsizing programme was approved in December 2019.

The resultant income and expense is disclosed under the Extraordinary result and is explained in detail there.

Notes on balance sheet assets

23. Affiliated companies

The following balance sheet items include loans and advances to affiliated companies in the following amounts:

(€ k)	31.12.2019	31.12.2018
Loans and advances to banks	455,427	493,334
Loans and advances to customers	182,345	341,056
Debentures and other fixed-interest securities		
Bonds and debentures	22,884	13,007

24. Non-affiliated companies

Loans and advances to non-affiliated companies are included in the following balance sheet items:

(€ k)	31.12.2019	31.12.2018
Loans and advances to banks	611	202
Loans and advances to customers	9,233	9,838

25. Subordinated assets

Assets must be reported as subordinated if they can only be honoured after the claims of other creditors in the event of the liquidation or insolvency of the debtor. We disclose subordinated assets under the following balance sheet items:

(€ k)	31.12.2019	31.12.2018
Loans and advances to banks		
Other receivables	66,355	61,112
Loans and advances to customers	47,655	60,164
Debentures and other fixed-interest securities		
Bonds and debentures	9,464	–

26. Residual maturities

The balance sheet items listed below are classified by their residual maturities as follows:

(€ k)	31.12.2019	31.12.2018
Loans and advances to banks		
Other receivables		
Up to 3 months	194,039	488,918
Between 3 months and 1 year	606,421	898,434
Between 1 year and 5 years	30,537	73,143
More than 5 years	408,847	407,195
Loans and advances to customers		
Up to 3 months	3,347,566	3,640,012
Between 3 months and 1 year	4,945,003	3,985,659
Between 1 year and 5 years	14,469,294	15,586,942
More than 5 years	7,006,463	8,299,836
With an indefinite term	8,670	8,894
Debentures and other fixed-interest securities		
Due in the following year	1,765,951	2,216,200

27. Negotiable securities

(€ k)	Listed		Unlisted		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debentures and other fixed-interest securities	7,294,034	9,545,246	663,578	953,518	7,957,612	10,498,764
Shares and other non-fixed-interest securities	7,158	8,052	4,581	772	11,739	8,824
Equity holdings in non-affiliated companies	–	–	7,750	3,407	7,750	3,407
Interests in affiliated companies	–	–	82,590	46,890	82,590	46,890

28. Negotiable securities not valued using the lower-of-cost-or-market principle

(€ k)	31.12.2019	31.12.2018
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	523,559	624,593
Carrying amount of securities reported above their fair value	–	85,482
Market value of securities reported above their fair value	–	84,727
Unrealised losses	–	755
of which unrealised losses on securities which are not part of a valuation unit	–	755
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	513	768

The unrealised losses stated above result from the difference between the market value and carrying amount without taking the effects from the valuation units into account. Any collateral or guarantees are similarly not taken into account in calculating the unrealised losses.

Unrealised losses relating to securities held in valuation units, which are not to be allocated to the hedged risk (resulting for the most part from the creditworthiness of the issuer), amounted to € 0 million as at 31 December 2019 (previous year: € 49 million). The unhedged risk is not recorded as the valuation is based on the moderate lower-of-cost-or-market principle. These also include unrealised losses on securities relating to the unhedged risk, which would show an unrealised loss without taking the valuation unit into account.

If there is not a permanent, but rather only a temporary impairment of securities to be expected, which generally is not induced by changes in the credit rating, a write-down to fair value is not undertaken (cf. Note 8).

There were no unrealised losses relating to securities on the balance sheet date. There were no "trigger events" either in the year under review or in the previous year. In the previous year, the portfolio of unrealised losses of € 755 thousand was rated lower than investment grade.

29. Trading portfolio (assets)

The trading portfolio is comprised of the following:

(€ k)	31.12.2019	31.12.2018
Derivative financial instruments	1,270,922	1,255,840
Debentures and other fixed-interest securities	254,349	903,890
Other assets	108	242
Risk discount	– 6,715	– 3,391
Total	**1,518,664**	**2,156,581**

30. Trust assets

Trust assets are comprised of the following balance sheet items:

(€ k)	31.12.2019	31.12.2018
Loans and advances to customers	2,464	3,220
Total	**2,464**	**3,220**

31. Statement of changes in fixed assets

Development in fixed assets

(€ k)	1.1.2019	2019				31.12.2019	2019	31.12.2019	31.12.2018
	Historical cost of acquisition	Additions	Disposals	Transfers	Exchange rate difference	Historical cost of acquisition	Accumu-lated deprecia-tion	Carrying amount	Carrying amount
Securities	661,198	355,381	199,874	–	– 1,008	815,697	282,162	533,535	657,282
Equity holdings in non-affiliated companies	85,829	–	–	–	–	85,829	73,992	11,837	7,496
Interests in affiliated companies	1,297,219	600	–	–	10,258	1,308,077	649,721	658,356	646,924
Land and buildings	83,083	362	–	2,393	–	85,838	12,932	72,906	71,773
Plant and equipment	54,727	2,463	1,125	–	–	56,065	49,985	6,080	6,239
Assets under construction	2,392	104	–	– 2,393	–	103	–	103	2,392
Intangible fixed assets	162,060	1,495	1,303	–	–	162,252	156,511	5,741	7,168
Total	**2,346,508**	**360,405**	**202,302**	**–**	**9,250**	**2,513,861**	**1,225,303**	**1,288,558**	**1,399,274**

Development in depreciation/amortisation

(€ k)	1.1.2019			2019				31.12.2019
	Accumulated depreciation	Depreciation in the financial year	Write-ups in the financial year	Change in total depreciation in connection with additions	Change in total depreciation in connection with disposals	Change in total depreciation in connection with transfers	Exchange rate difference	Accumulated depreciation
Securities	3,916	282,135	–	–	3,889	–	–	282,162
Equity holdings in non-affiliated companies	78,333	2	4,343	–	–	–	–	73,992
Interests in affiliated companies	650,295	–	–	–	–	–	– 574	649,721
Land and buildings	11,310	1,622	–	–	–	–	–	12,932
Plant and equipment	48,488	2,385	–	–	888	–	–	49,985
Intangible fixed assets	154,892	2,921	–	–	1,302	–	–	156,511
Total	**947,234**	**289,065**	**4,343**	**–**	**6,079**	**–**	**– 574**	**1,225,303**

Real estate includes land and buildings used for the Bank's own business activities at a carrying amount of € 73 million (previous year: € 72 million).

32. Other assets

The major components of other assets are:

(€ k)	31.12.2019	31.12.2018
Initial and variation margins from OTC derivatives (cf. Note 11)	1,192,195	1,185,426
Receivables on fiscal authorities	64,454	34,640
Tenant loans	44,432	40,601
Receivables from profit and loss transfer agreements and from dividends	40,365	7,922
Adjustment item for currency translation	37,516	23,934
Premiums paid from options trading and from interest limitation agreements	9,013	8,047
Swap deferrals under forward exchange transactions	42	1,622

33. Prepaid expenses

The major items disclosed here are:

(€ k)	31.12.2019	31.12.2018
Discount accruals from issuing business	11,556	22,375
Premium accruals from claims	62	4,875
Prepaid expenses from derivatives	5,237	8,885
Discount accruals from liabilities	1,515	2,215

34. Deferred tax assets

Deferred tax assets reported for the financial year result from the following balance sheet items:

(€ k)	31.12.2019	31.12.2018
Assets		
Loans and advances to customers	249,322	266,019
Debentures and other fixed-interest securities	23,221	26,955
Equity holdings in non-affiliated companies	3,298	3,673
Interests in affiliated companies	1,596	1,588
Intangible fixed assets	–	61
Tangible fixed assets	10,491	10,670
Other assets	2,209	2,200
Deferred income	901	1,010
Liabilities		
Other liabilities	1,088	291
Provisions	234,808	173,580
Loss carryforwards	111,881	168,780
Total	**638,815**	**654,827**

The deferred tax assets decreased by € 16 million in the financial year.

Deferred tax assets on loss carryforwards in the amount of approximately € 107 million are attributable to the Head Office while € 5 million are attributable to loss carryforwards for the Luxembourg branch.

The analysis of recoverability of deferred tax assets did not require a valuation allowance on deferred tax assets on temporary differences at the end of the financial year (unchanged to previous year).

35. Genuine repurchase agreements

As a borrower under genuine repurchase agreements, we have sold assets with a carrying amount of € 0 million (previous year: € 152 million) and simultaneously contracted to repurchase the same assets. The assets continue to be carried on our balance sheet; the consideration received in return for the assets is disclosed under the corresponding liability items.

36. Assets transferred as collateral

In addition to assets sold under repurchase agreements (cf. Note 35) and the receivables serving as the cover pool for bonds issued (cf. Note 67), we have transferred further assets as collateral. These are mainly securities lodged with central banks and Eurex as collateral for participation in stock exchanges and clearing organisations and for funding as well as loan notes and loan receivables assigned as collateral for borrowings at central banks and other banks.

(€ k)	31.12.2019	31.12.2018
Assets transferred as collateral	7,195,452	7,916,628
thereof for		
Liabilities to banks	5,691,949	6,425,381
Liabilities to customers	311,308	305,821
Trading portfolio (liabilities)	1,192,195	1,185,426

Notes on balance sheet liabilities

37. Affiliated companies

Liabilities to affiliated companies are included in the following balance sheet items:

(€ k)	31.12.2019	31.12.2018
Liabilities to banks	667,825	699,610
Liabilities to customers	638,969	615,829

38. Non-affiliated companies

Liabilities to non-affiliated companies are included in the following balance sheet items:

(€ k)	31.12.2019	31.12.2018
Liabilities to banks	–	1,518
Liabilities to customers	11,169	14,291

39. Residual maturities

The balance sheet items listed below are classified by their residual maturities as follows:

(€ k)	31.12.2019	31.12.2018
Liabilities to banks		
With an agreed maturity or notice period		
Up to 3 months	433,562	820,180
Between 3 months and 1 year	791,038	880,720
Between 1 year and 5 years	2,605,858	2,246,099
More than 5 years	1,510,095	1,798,952
Liabilities to customers		
Other liabilities with an agreed maturity or notice period		
Up to 3 months	5,096,463	6,788,548
Between 3 months and 1 year	3,473,188	6,024,292
Between 1 year and 5 years	4,669,565	4,184,303
More than 5 years	4,206,798	3,485,437
Securitised liabilities		
Debentures issued		
Due in the following year	2,054,689	2,966,452

40. Trading portfolio (liabilities)

The trading portfolio is comprised of the following:

(€ k)	31.12.2019	31.12.2018
Derivative financial instruments	981,419	1,162,570
Liabilities	140	275
Total	**981,559**	**1,162,845**

41. Trust liabilities

Trust liabilities are reported under the following balance sheet items:

(€ k)	31.12.2019	31.12.2018
Liabilities to banks	37	38
Liabilities to customers	2,427	3,182
Total	**2,464**	**3,220**

42. Other liabilities

The major components of this balance sheet item are the following:

(€ k)	31.12.2019	31.12.2018
Security deposits for assumption of debt	331,089	423,181
Variation margin OTC derivatives	239,805	239,343
Pro rata interest on subordinated debt, profit participation rights and silent participations	85,540	84,202
Adjustment item for currency valuation	53,390	29,420
Liabilities to employees	40,013	4,175
Liabilities from profit and loss transfer agreements and from dividends	8,201	15,878
Tax liabilities	6,279	4,303

43. Deferred income

The major components of deferred income are the following:

(€ k)	31.12.2019	31.12.2018
Deferrals from advance loan fees	57,416	50,993
Deferred income from derivatives	5,080	8,327
Discount deferrals from receivables	5,927	1,658
Premium deferrals from issuing business	5,788	6,065

44. Deferred tax liabilities

Deferred tax liabilities reported for the financial year result from the following balance sheet items:

(€ k)	31.12.2019	31.12.2018
Assets		
Interests in affiliated companies	949	497
Intangible fixed assets	64	169
Tangible fixed assets	10,957	10,723
Other assets	645	127
Liabilities		
Deferred income	1,980	371
Provisions	2,733	2,722
Total	**17,328**	**14,609**

The deferred tax liabilities increased by approximately € 3 million in the financial year.

45. Other provisions

Other provisions primarily relate to the following items:

(€ k)	31.12.2019	31.12.2018
Restructuring measures	224,780	280,952
Impending losses from pending transactions	145,900	-
Litigation risks and costs	138,231	242,441
Regulatory expenses	55,481	46,712
Lending business	55,246	50,886
Personnel expenses	49,081	33,774
Outstanding invoices	45,168	42,935
Securities transactions and financial derivatives	36,593	38,777
Transformation expenses	22,216	3,680
Expenses in connection with the privatisation	4,697	4,542
Processing fees for commercial loans	3,932	4,452
Interest on corporate tax and trade tax	-	915

€ 166 million (previous year: € 246 million) of the provisions for restructuring measures relate to personnel expenses and € 59 million (previous year: € 35 million) to operating expenses. The provisions were set up primarily in connection with the extensive restructuring programmes resulting from the privatisation respectively the transformation of Hamburg Commercial Bank AG.

The decline in provisions for litigation risks and litigation costs relates to reduced legal risks in connection with lawsuits filed by individual or groups of investors in hybrid financial instruments and the partial reversal of a provision for a litigation risk from the lending business.

46. Subordinated debt

Subordinated debt was issued in the form of promissory notes, registered or bearer bonds and is denominated in EUR and USD. The original maturities range from under ten years to 40 years and the interest rates payable are between 0 % p. a. and 6.51 % p. a.

Individual items exceeding 10 % of total subordinated debt:

(€ m)	Currency	Interest rate	Maturity	Termination rights
127	USD	2.33 %	21 March 2031	None

In principle subordinated debt meets the requirements of Article 63 of the Capital Requirements Regulation (CRR) for recognition as Tier 2 capital. Subordinated debt in the amount of € 128 million (previous year: € 100 million) will mature in less than two years. For the 2019 financial year, interest expense on subordinated debt amounted to € 16 million (previous year: € 15 million).

47. Fund for general banking risks

Amounts from net income from the trading portfolio totalling € 0 million (previous year: € 4 million) and no other amounts were allocated in the reporting period to the fund for general banking risks in accordance with Section 340g HGB (previous year: € 0 million).

48. Equity

Pursuant to Section 25 (1) of the German Bank Accounting Regulation (RechKredV), Subscribed capital consists of the share capital of Hamburg Commercial Bank AG and Silent participations.

The share capital of Hamburg Commercial Bank AG amounts to € 3,018 million and is divided into 301,822,453 registered shares with a notional par value of € 10.00 per share. All the issued shares have been fully paid up.

As at 31 December2019, 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 2019 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 itself nor any affiliated or majority-owned company hold treasury stock of Hamburg Commercial Bank AG. There are no cross-shareholdings as defined by Section 19 AktG.

The terms and conditions for Silent participations fulfil the requirements of Article 484 (4) CRR in conjunction with Article 486 (3) and (5) CRR in conjunction with Section 31 of the German Solvency Regulation (SolvV) and can therefore be counted as additional Tier 1 capital during the transition periods up to the upper limits stated there. Furthermore, some of the Silent participations fulfil the requirements of Article 63 CRR for recognition as Tier 2 capital. Among other things, the terms and conditions provide for the Silent participations to be subordinate to other liabilities.

For the Silent participations terminated in 2018 effective 31 December 2020, the regulatory recognition as AT1 or T2 capital for the regulatory capital ratios under CRR and SREP requirements does not apply.

If a net loss is incurred for the current financial year, no distributions related to the Silent participations can be made. In addition, these equity instruments must participate in the net loss for the year. For the 2019 financial year, the Silent participations shared in the Bank's loss to the amount of € 236 million (previous year: € 327 million). The decline in the portfolio in the item Silent participations results in particular from repayments and repurchases of bilateral Silent participations and capital market-listed SPARC securities in the year under review. Silent participations issued to SPVs were not redeemed. The carrying amounts of the hybrid instruments, which are listed on the capital markets, correspond to 8.1 % of the original nominal amount due to the attributed losses.

Notes on the income statement

49. Breakdown of income items by geographical markets

(€ k)	2019			2018		
	Germany	Rest of Europe	Asia	Germany	Rest of Europe	Asia
Interest income	2,150,654	12,805	25,942	2,197,289	87,252	23,843
Current income from shares and other non-fixed-interest securities, equity holdings in non-affiliated companies and interests in affiliated companies	32,891	–	–	41,028	262	–
Commission income	73,293	2,225	1,455	79,930	2,521	524
Net income from the trading portfolio	– 3,600	–	– 182	32,379	–	1,031
Other operating income	283,188	1,059	211	164,820	5,631	617

50. Net interest income

Net interest income includes one-time expenses from the disposal of receivables in the amount of € 9 million (previous year: € 55 million).

51. Net commission income

Net commission income is comprised of the following:

(€ k)	2019	2018
Lending business	32,099	32,580
Payment transactions and foreign business, documentary business	17,144	18,137
Guarantee business	9,568	-180,473
Securities business	-195	871
Other	-198	-3,415
Total	**58,418**	**-132,300**

Net commission income for the year ended 31 December 2018 includes expenses for the guarantee from HSH Finanzfonds AöR ended in December 2018 in the amount of € 165 million. The premium expense resulting from a synthetic securitisation transaction in the amount of € 25 million was also reported under net commission income. Both transactions were no longer included in 2019.

52. Other operating income

In principal the following items are recognised as Other operating income in the course of the financial year:

(€ k)	2019	2018
Income from the reversal of provisions for processing fees in the lending business	127,869	–
Income from option premiums received as well as compensation payments received for options held in the non-trading portfolio	56,329	4,445
Income from legal disputes	30,245	5,329
Cost allocations and reimbursement of expenses	25,547	31,599
Income from the reversal of other provisions	18,282	35,084
Interest income from claims against tax authorities	3,985	7,044
Income from the reversal of provisions for contingent losses from valuation units (cf. Note 13)	1,384	5,040
Income on exchange from transactions not specifically hedged	–	60,190

Income from the reversal of Other provisions mainly relates to the reversal of provisions for litigation risks, cf. also Note 45.

53. Other operating expenses

Other operating expenses primarily include the following items:

(€ k)	2019	2018
Expenses for the compounding of provisions outside the lending business	90,095	80,350
Expenses relating to option premiums paid as well as compensation payments for options held in the investment portfolio	54,534	–
Expenses from additions to provisions for litigation risks	40,563	138,002
Expenses paid in advance for transaction fees, legal fees, servicing	17,752	24,973
Expenses from additions to other provisions	13,477	5,207
Loss on exchange from transactions not specifically hedged	2,434	–

The expenses for the compounding of provisions includes not only the expense resulting from the change in the ten-year mean interest rate in the amount of € 60 million (previous year: € 51 million), but also the interest expense from discounting in the amount of € 25 million (previous year: € 29 million).

54. Extraordinary result

The Extraordinary result comprises restructuring expenses in connection with the Bank's realignment in the amount of € 80 million (previous year: € 345 million). This includes expenses for the privatisation of the Bank in the amount of € 14 million (previous year: € 67 million). Transformation expenses account for € 29 million (previous year: € 0 million).

These expenses are partially offset by income from the release of provisions from previous restructuring programmes. For information on the accounting treatment of the restructuring, please refer to our remarks under Note 22.

As part of the restructuring and optimisation of its capital structure (Liability Management Exercise), Hamburg Commercial Bank AG acquired a significant volume of hybrid capital instruments in the year under review.

This relates to hybrid instruments contracted bilaterally with institutional investors as well as hybrid instruments placed on the international capital market, which were issued to finance Silent participations in Hamburg Commercial Bank AG.

Towards the end of the 2018 financial year, the Bank had called in all instruments outstanding at that time with a total nominal value at that time of approximately € 2,300 million. In this context, individual and groups of investors in hybrid instruments had filed lawsuits against the Bank.

In December 2019, the Bank concluded a private settlement with a large group of plaintiffs, which meant that capital market-listed hybrid instruments with the exchange rate for the nominal value at the date of transaction of approximately € 1,150 million were transferred from the group of plaintiffs to Hamburg Commercial Bank AG against payment of a settlement price plus reimbursement of costs and a settlement fee. The claim was withdrawn at the beginning of 2020.

In addition, Hamburg Commercial Bank issued a public tender offer in December 2019 for the remaining creditors of capital market-listed hybrid instruments, which was concluded in January 2020. After the balance sheet date, the Bank has repurchased additional hybrid instruments with a nominal value of approximately € 383 million.

In addition, in the year under review and until mid-march 2020, the Bank also repurchased significant portions of the bilateral Silent participations.

The Extraordinary result comprises € 282 million for write-downs on hybrid instruments placed on the international capital market, € 50 million for expenses from redemption losses on SPARC securities, € 33 million for expenses from redemption losses on bilateral Silent participations and € 146 million for the allocation of a provision for anticipated losses from pending transactions in connection with the repurchase of a Silent participation and capital market-listed hybrid instruments, the mandatory transfer of which will take place in the 2020 financial year.

55. Income tax expense

Income tax expense comprises the following:

(€ k)	2019	2018
Deferred income taxes	–18,731	178,027
on temporary differences	38,168	26,689
on loss carryforwards	–56,899	151,338
Current income taxes	37,896	15,832
Total	**19,165**	**193,859**

The financial year's deferred tax expense of € 19 million (previous year: income € 178 million) results from deferred tax income on temporary differences of € 38 million (previous year: € 27 million) offset by deferred tax expense on loss carryforwards of € 57 million (previous year: income € 151 million). The deferred tax income on temporary differences is fully attributable to the Head Office. The deferred tax expense on loss carryforwards is attributable to the Head Office with € 52 million and to the Singapore branch with € 10 million. For the Luxembourg branch a deferred tax income of € 5 million was recognised.

Current income taxes of € 38 million relates largely to tax income for previous years, mainly as a result of Hamburg Commercial Bank AG's tax assessment for the 2017 financial year.

56. Income from loss-sharing

The Income from the assumption of losses relates to the participation in losses attributable to Silent participations in the amount of € 236 million (previous year: € 327 million).

57. Fees and activities of the auditor

AUDITOR'S ACTIVITIES
PricewaterhouseCoopers GmbH Wirtschaftsprüfungs-gesellschaft 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.

AUDITOR'S FEES WITHIN THE MEANING OF IDW ACPS HFA 36 (NEW VERSION)
As parent company, Hamburg Commercial Bank AG is included in the consolidated financial statements of Hamburg Commercial Bank AG. Accordingly, in accordance with Section 285 No. 17 of the German Commercial Code (HGB), the total fee paid to the statutory auditor is not disclosed here. Please refer to the corresponding notes in the consolidated financial statements.

58. Non-distributable amounts

A total of € 725 million (previous year: € 757 million) of the reserves available for distribution are barred from being distributed. Of this amount, less than € 1 million (previous year: € 1 million) relates to the recognition of internally generated intangible fixed assets less the Deferred tax liabilities created in relation thereto. € 621 million (previous year: € 640 million) represents the amount by which the Deferred tax assets recognised on the balance sheet exceed the other Deferred tax liabilities. € 103 million (previous year: € 116 million) relates to the difference in accordance with Section 253 (6) HGB in connection with the discount rate for pension provisions.

Other disclosures

59. Leasing business

Assets related to the leasing business include € 57 million (previous year: € 73 million) shown under Loans and advances to customers. Liabilities from the leasing business amount to € 17 million (previous year: € 18 million) and are disclosed under Liabilities to customers.

60. Contingent liabilities and other commitments

Contractually agreed obligations, the realisation of which is unlikely as at the reporting date, constitute contingent liabilities. This item mainly contains financial guarantees provided in the course of our lending business which contain a legally possible call right and it is unlikely that they will be drawn upon. Irrevocable loan commitments are reported under Other commitments. Credit guarantees and irrevocable loan commitments are subject to the Bank's loan loss provisions process (cf. Note 6). As part of this process, the relevant commitments are continually monitored on the basis of certain criteria with respect to exposure to any acute default risk. In the event there are indications that the borrower's financial situation makes the full repayment of the loan unlikely and there is a threat of a call on the guarantee, the default risk is covered by the recognition of a provision. Provisions are additionally recognised for irrevocable credit commitments where a drawdown is likely and the borrower is not expected to repay the agreed loan amount, in full or in part, due to financial difficulties. Provisions are disclosed on the liability side of the balance sheet. Contingent liabilities or other commitments are reduced accordingly. To this extent, there is no acute credit risk for the Bank with regard to the contingent liabilities and other commitments disclosed on the balance sheet as at the reporting date.

Contingent liabilities do not include any material liabilities.

Irrevocable credit commitments mainly relate to domestic clients in the amount of € 4,679 million (previous year: € 5,827 million) and to foreign clients in the amount of € 2,015 million (previous year: € 1,587 million).

As was the case in the previous year, there were no placement or underwriting commitments as at 31 December 2019.

61. Letters of comfort

Except in the case of political risk, Hamburg Commercial Bank AG ensures that its affiliated company HCOB Securities S.A., Luxembourg, is able to meet its obligations.

In addition, Hamburg Commercial Bank AG has undertaken – except in the case of political risk – to provide HCOB Residual Value Ltd., Hamilton, with sufficient funds to allow it to meet when due the obligations it entered into during the period when Hamburg Commercial Bank AG held an equity interest in HCOB Residual Value Ltd.

62. 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 AG.

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 payments are not provided for.

Further obligations in the amount of € 31 million (previous year: € 36 million) result from long-term leases for land and buildings used for business purposes. Additional 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).

There is a payment obligation amounting to a maximum of € 2 million vis-à-vis two affiliated companies under cost assumption agreements (previous year: € 3 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 are no material other financial obligations apart from those listed above.

63. Notes on shareholdings

The following list contains information on the companies in which Hamburg Commercial Bank AG holds either a direct or indirect interest.

Affiliated companies – foreign banks

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	198,500,000.00	–

Affiliated companies – other domestic companies

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
2	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100.00	100.00	EUR	244,900.67	– 8,595.83
3	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	26,294.51	5,091.65
4	CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	2,462,752.86	2,414,441.52
5	CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	854,271.23	252,547.14
6	CAPCELLENCE Holding GmbH & Co. KG, Hamburg[1]	100.00	100.00	EUR	114,315,226.11	2,434,102.98
7	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.91	EUR	– 1,056.95	88,494.90
8	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg[1]	90.91	99.99	EUR	1,457,581.02	381,959.21
9	CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.99	EUR	3,325,462.74	– 782,016.09
10	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.47	EUR	– 33,864.76	221,517.54
11	CAPCELLENCE Vintage Year 16 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.99	EUR	14,657,525.21	36,447.17
12	CAPCELLENCE Vintage Year 16 Beteiligungen GmbH, Hamburg[1]	100.00	100.00	EUR	226.47	– 10,514.88
13	CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	5,523,646.87	561,046.74
14	GmbH Altstadt Grundstücksgesellschaft, Mainz[1]	89.90	89.90	EUR	– 137,862.92	102,054.19
15	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,504,117.11	182,431.86
16	HCOB Care+Clean GmbH, Hamburg[1) 3)]	51.00	51.00	EUR	25,000.00	– 119,580.74
17	HCOB Facility Management GmbH, Hamburg[2]	100.00	100.00	EUR	205,600.00	– 8,022,657.66
18	HCOB Gastro+Event GmbH, Hamburg[1) 3)]	100.00	100.00	EUR	25,000.00	– 2,611,195.94
19	HCOB Move+More GmbH, Kiel[1) 3)]	51.00	51.00	EUR	25,000.00	162,819.47
20	HCOB Private Equity GmbH, Hamburg[2]	100.00	100.00	EUR	550,000.00	– 6,473,506.74
21	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg[7]	56.44	56.44	EUR	10,674,163.21	– 448,692.74
22	Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart[1) 5)]	80.00	0,00	EUR	– 240,902.29	–
23	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	33,934.75	2,743.94

Affiliated companies – other foreign companies

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
24	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong[1)]	51.00	51.00	USD	114.00	–
25	Avia Management S.à r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	– 39,762.86	– 34,116.44
26	European Capital Investment Opportunities Limited, St. Helier, Jersey[1)]	51.00	51.00	EUR	124.00	– 101.00
27	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	409,491.00	63,327.00
28	HCOB Funding II, George Town, Cayman Islands7)	56.33	100.00	USD	654,305,988.00	36,276,800.00
29	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	3,984,199.00	61,168.00
30	HCOB Structured Situations Limited, St. Helier, Jersey[6)]	100.00	100.00	USD	346,449.00	– 68.00
31	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg[9)]	100.00	100.00	USD	62,763.63	–
32	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	73,894.70	–
33	Next Generation Aircraft Finance 2 S.à.r.l., Findel, Luxembourg[1) 10)]	49.00	49.00	EUR	350,483.00	5,999,150.00
34	Next Generation Aircraft Finance 3 S.à.r.l., Findel, Luxembourg[1) 10)]	49.00	49.00	EUR	194,992.00	6,937,986.00
35	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		[4)]	[4)]
36	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong[1)]	0.01	100.00	USD	– 1,448,153.00	– 5,276.00
37	RESPARCS Funding II Limited Partnership, St. Helier, Jersey[1)]	0.01	100.00	EUR	134,803.00	26,224.00

Equity holdings in non-affiliated companies

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
38	4Wheels Management GmbH, Düsseldorf[1) 8)]	68.75	40.00	EUR	3,421,251.39	– 1,801,378.92
39	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland[1)7)]	49.00	49.00	USD	20,674.00	– 21,122.00
40	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	1.33	1.33	EUR	246,672,103.15	12,040,000.00
41	CapVis Equity III L.P., St. Helier, Jersey[1) 7)]	2.50	0.00	EUR	266,051,522.00	59,349,078.00
42	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
43	Deutsche WertpapierService Bank AG, Frankfurt am Main	2.51	2.51	EUR	195,780,239.38	17,077,943.19
44	EDD AG, Düsseldorf	0.89	0.89	EUR	22,491,403.37	– 5,300,916.61
45	FSP CAPCELLENCE Beteiligungs GmbH, Hamburg[1)]	100.00	40.00	EUR	14,919,001.00	– 74,529.84
46	GB Deutschland Fund GmbH & Co. KG, Hamburg[1)]	4.69	0.00	EUR	17,615,131.70	5,578,503.15
47	GLB GmbH & Co. OHG, Frankfurt am Main	15.77	15.77	EUR	2,891,543.84	– 61,301.09
48	GLB-Verwaltungs-GmbH, Frankfurt am Main	15.80	15.80	EUR	55,665.10	1,957.27
49	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,949,701.82	1,609.10
50	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
51	HGA Objekt München GmbH & Co. KG, Hamburg	5.23	5.23	EUR	3,627,083.87	51,073,030.04
52	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	11,290,663.07	2,426,005.62
53	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg	5.10	5.09	EUR	6,998,855.32	485,747.52
54	Hines European Development Fund Limited Partnership, Wilmington, USA[1)]	9.90	9.90	EUR	61,417,000.00	61,000.00
55	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	1,953,973.40	– 66,026.60
56	Next Commerce Accelerator GmbH, Hamburg	16.67	16.67	EUR	95,219.58	57,910.50
57	RSU Rating Service Unit GmbH & Co KG, Munich	13.60	13.60	EUR	11,330,787.18	– 2,244,749.73
58	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T. SCRL), La Hulpe, Belgium	0.04	0.04	EUR	407,529,000.00	33,513,000.00
59	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,615,567.94	– 28,767.74
60	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 29 February 2016 is available.
6) Only data as at 31 December 2016 is available.
7) Only data as at 31 December 2017 is available.
8) Only data as at 31 July 2018 is available.
9) Only data as at 9 December 2018 is available.
10) Based on the contractual arrangement this is an affiliated company, although Hamburg Commercial Bank AG does not hold the majority of the voting rights.

Foreign exchange rates for € 1 as at 31 December 2019

USA	USD	1.1234

Hamburg Commercial Bank AG is the general partner of GLB GmbH & Co. OHG, Frankfurt am Main.

There are no equity holdings exceeding five per cent of the voting rights in large corporations.

64. Notes on foreign currencies

The amounts of assets and liabilities denominated in foreign currencies as at the reporting date are as follows:

(€ k)	31.12.2019	31.12.2018
Assets	7,887,432	6,471,228
Liabilities	4,105,459	4,910,327

65. Information on the net balance sheet presentation

The netting of the fair values of trading portfolio derivatives traded over the counter against the cash collateral provided and received had the following impact with regard to the transactions included in the netting process:

(€ k)	31.12.2019			31.12.2018		
	Value before netting	Netting	Value after netting	Value before netting	Netting	Value after netting
Trading portfolio (assets)						
of which: derivative financial instruments	1,454,691	1,453,321	1,370	2,318,207	2,264,014	54,193
Other assets	1,817,855	871,369	946,486	1,660,708	630,437	1,030,271
Total assets	**3,272,546**	**2,324,690**	**947,856**	**3,978,915**	**2,894,451**	**1,084,464**
Trading portfolio (liabilities)						
of which: derivative financial instruments	1,981,158	1,956,269	24,889	2,536,341	2,494,924	41,417
Other liabilities	572,186	368,421	203,765	620,802	399,527	221,275
Total liabilities	**2,553,344**	**2,324,690**	**228,654**	**3,157,143**	**2,894,451**	**262,692**

66. Derivatives business

The following section presents the business conducted by Hamburg Commercial Bank AG in the area of derivative financial instruments (forward transactions within the meaning of Section 36 RechKredV) as at the reporting date.

Transactions held in the non-trading portfolio serve mainly to hedge interest, currency exchange rate or market price fluctuations. The following overview of the non-trading portfolio does not include derivatives that are a component of accounting valuation units (the nominal volume of these derivatives amounted to € 29 million as at 31 December 2019 (previous year: € 3,491 million)).

The following tables show, in addition to the nominal amounts of the contracts with counterparties outside of Hamburg Commercial Bank AG, the term structure and counterparty classification, broken down into interest rate risk, interest rate and foreign exchange risks, foreign exchange risks and other price risks. In addition, the following tables contain information on non-concluded foreign-currency-related, interest-dependent and other forward transactions as defined under Section 36 RechKredV.

I. Presentation of volumes and market values

Trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Interest rate swaps	53,333	126,848	2,461	3,190	1,841	2,347
FRA	–	937	–	–	–	–
Swaptions						
Long positions	3,321	2,358	25	61	13	16
Short positions	3,201	3,460	11	8	102	117
Caps, floors	11,104	13,146	16	24	41	45
Exchange-traded contracts	419	238	–	–	–	–
Other forward interest rate transactions	112	136	14	14	18	19
Interest rate risks	**71,490**	**147,123**	**2,527**	**3,297**	**2,015**	**2,544**
Interest rate/currency swaps	3,990	6,511	49	58	17	42
Interest rate and foreign exchange risks	**3,990**	**6,511**	**49**	**58**	**17**	**42**
Forward exchange transactions	856	1,503	7	38	7	28
Currency options						
Long positions	66	178	3	7	–	–
Short positions	9	128	–	–	–	2
Foreign exchange risks	**931**	**1,809**	**10**	**45**	**7**	**30**
Exchange-traded contracts	5	10	–	–	–	–
Equity and other price risks	**5**	**10**	**–**	**–**	**–**	**–**
Collateral taker	67	54	11	13	–	–
Credit derivatives	**67**	**54**	**11**	**13**	**–**	**–**
Structured products	**1,347**	**1,728**	**124**	**105**	**211**	**199**
Total	**77,830**	**157,235**	**2,721**	**3,518**	**2,250**	**2,815**

Non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Interest rate swaps	3,721	2,921	239	119	918	511
Swaptions						
Long positions	–	900	–	1	–	–
Short positions	100	650	–	1	–	–
Caps, floors	20	6	–	–	–	–
Exchange-traded contracts	–	526	–	–	–	–
Other forward interest rate transactions	–	12	–	–	–	–
Interest rate risks	**3,841**	**5,015**	**239**	**121**	**918**	**511**
Interest rate/currency swaps	77	64	–	–	32	30
Interest rate and foreign exchange risks	**77**	**64**	**–**	**–**	**32**	**30**
Forward exchange transactions	4,245	1,945	31	27	23	3
Foreign exchange risks	**4,245**	**1,945**	**31**	**27**	**23**	**3**
Equity options						
Long positions	10	5	–	–	–	–
Equity/index-based swaps	26	54	10	10	–	–
Equity and other price risks	**36**	**59**	**10**	**10**	**–**	**–**
Collateral provider	–	13	–	–	–	–
Collateral taker	–	–	–	–	–	–
Credit derivatives	**–**	**13**	**–**	**–**	**–**	**–**
Structured products	**1,031**	**609**	**124**	**21**	**99**	**122**
Total	**9,230**	**7,705**	**404**	**179**	**1,072**	**666**

II. Breakdown by counterparty

Trading and non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
OECD banks	50,362	65,894	1,465	1,396	2,463	2,184
Non-OECD banks	59	56	1	1	1	–
Non-banks (incl. stock exchanges)	32,941	94,767	1,407	2,068	525	1,048
Public authorities	3,698	4,223	252	232	333	249
Total	**87,060**	**164,940**	**3,125**	**3,697**	**3,322**	**3,481**

III. Breakdown by maturity

Trading and non-trading portfolio nominal values

(€ m)	Interest rate risks		Credit risks		Foreign exchange risks		Equity and other price risks		Structured products	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Residual maturity										
Up to 3 months	4,848	11,881	–	–	4,775	2,986	8	12	37	251
Up to 1 year	9,622	26,459	–	13	380	743	24	21	59	172
Up to 5 years	39,183	75,574	–	–	21	25	9	36	453	129
Over 5 years	25,745	44,799	67	54	–	–	–	–	1,829	1,785
Total	**79,398**	**158,713**	**67**	**67**	**5,176**	**3,754**	**41**	**69**	**2,378**	**2,337**

IV. Carrying amounts of derivative financial instruments held in the non-trading portfolio

Derivatives held in the non-trading portfolio are in principle not recognised as they are pending transactions. There are exceptions in cases where Hamburg Commercial Bank AG has paid option premiums as a purchaser or has received option premiums as the seller. These are capitalised under Other assets/are expensed under Other liabilities. In addition, the recognition of provisions for contingent losses may be necessary where the individual valuation of derivatives results in negative market values. Furthermore, reconciliation items are recorded for currency transactions. As of 31 December 2019, the net amount of reconciliation items shown under Other assets amounted to € 38 million (previous year: € 24 million) and the reconciliation items shown under Other liabilities amounted to € 53 million (previous year: € 29 million).

(€ m)	Option premiums paid		Option premiums received	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Interest rate contracts	1	1	–	1
Equity and other contracts	8	7	–	–
Total	**9**	**8**	**–**	**1**

We have created provisions for contingent losses in the amount of € 17 million (previous year: € 17 million) for derivative financial instruments outside of the trading portfolio with regard to which an effective hedging relationship could not be shown.

67. Information in accordance with Section 28 of the Mortgage Bond Act (Pfandbriefgesetz)

The total amount of mortgage bonds, public-sector bonds and ship mortgage bonds in circulation, and the corresponding cover funds, stated in terms of the nominal value, net present value and risk-adjusted present value in accordance with PfandBarwertV[1] are as follows:

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Mortgage bonds	4,188	4,786	4,296	4,920	4,204	4,920
Cover funds	4,647	5,203	5,009	5,575	4,885	5,567
thereof derivatives	–	–	–	–	–	–
Surplus coverage	**459**	**417**	**713**	**655**	**681**	**647**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Public-sector mortgage bonds	2,320	2,996	2,759	3,452	2,608	3,316
Cover funds	2,495	3,213	3,214	3,817	2,948	3,548
thereof derivatives	–	–	–	–	–	–
Surplus coverage	**175**	**217**	**455**	**365**	**340**	**232**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Ship mortgage bonds	1,843	119	1,863	124	1,906	122
Cover funds	2,256	1,789	2,419	1,916	2,256	1,723
thereof derivatives	–	–	–	–	–	–
Surplus coverage	**413**	**1,670**	**556**	**1,792**	**350**	**1,601**

Composition of the additional cover assets

(€ m)		Receivables within the meaning of Section 19 (1) No. 2 PfandBG			Mortgage bonds
Registered receivables 2019	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 19 (1) No. 3 PfandBG	Total
Germany	–	5	–	150	155
Total	**–**	**5**	**–**	**150**	**155**

[1] Statutory Order on the Provision of Collateral for the Current Coverage of Mortgage Bonds, Public-sector Mortgage Bonds and Ship Mortgage Bonds according to Net Present Value and its Calculation at Mortgage Credit Banks dated 14 July 2005

(€ m)		Receivables within the meaning of Section 19 (1) No. 2 PfandBG			Mortgage bonds
Registered receivables 2018	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 19 (1) No. 3 PfandBG	Total
Germany	–	15	–	571	586
Total	**–**	**15**	**–**	**571**	**586**

As in the previous year, there were no receivables that exceeded the limits set out in Section 19 (1) of the German Mortgage Bonds Act (Pfandbriefgesetz - PfandBG).

(€ m)		Receivables within the meaning of Section 20 (2) No. 2 PfandBG		Public-sector mortgage bonds
Registered receivables 2019	Equalisation claims	Total	thereof covered debentures	Total
Germany	–	–	–	–
Total	**–**	**–**	**–**	**–**

(€ m)		Receivables within the meaning of Section 20 (2) No. 2 PfandBG		Public-sector mortgage bonds
Registered receivables 2018	Equalisation claims	Total	thereof covered debentures	Total
Germany	–	–	–	–
Total	**–**	**–**	**–**	**–**

As in the previous year, there were no receivables that exceeded the limits set out in Section 20 (2) of the German Mortgage Bonds Act (Pfandbriefgesetz – PfandBG).

(€ m)		Receivables within the meaning of Section 26 (1) No. 3 PfandBG			Ship mortgage bonds
Registered receivables 2019	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 26 (1) No. 4 PfandBG	Total
Germany	–	–	–	70	70
Total	**–**	**–**	**–**	**70**	**70**

(€ m)		Receivables within the meaning of Section 26 (1) No. 3 PfandBG			Ship mortgage bonds
Registered receivables 2018	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 26 (1) No. 4 PfandBG	Total
Germany	–	–	–	30	30
Total	**–**	**–**	**–**	**30**	**30**

As in the previous year, there were no receivables that exceeded the limits set out in Section 26 (1) of the German Mortgage Bonds Act (Pfandbriefgesetz – PfandBG).

The mortgage bonds, public-sector mortgage bonds and ship mortgage bonds in circulation, and the corresponding cover assets, have the following maturity structure:

(€ m)	Mortgage bonds		Cover funds	
Nominal value	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Up to 6 months	163	257	392	329
Between 6 and 12 months	554	641	330	240
Between 12 and 18 months	71	163	211	190
Between 18 months and 2 years	575	554	230	577
Between 2 years and 3 years	1,090	646	658	513
Between 3 years and 4 years	1,425	1,090	781	748
Between 4 years and 5 years	310	1,425	538	733
Between 5 years and 10 years	–	10	1,488	1,847
Over 10 years	–	–	19	26
Total	**4,188**	**4,786**	**4,647**	**5,203**

(€ m)	Public-sector mortgage bonds		Cover funds	
Nominal value	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Up to 6 months	156	302	39	178
Between 6 and 12 months	356	9	90	266
Between 12 and 18 months	421	168	84	34
Between 18 months and 2 years	27	551	151	218
Between 2 years and 3 years	325	602	281	289
Between 3 years and 4 years	30	325	158	270
Between 4 years and 5 years	103	30	93	254
Between 5 years and 10 years	580	624	693	712
Over 10 years	322	385	906	992
Total	**2,320**	**2,996**	**2,495**	**3,213**

(€ m)	Ship mortgage bonds		Cover funds	
Nominal value	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Up to 6 months	15	20	220	223
Between 6 and 12 months	310	15	252	185
Between 12 and 18 months	30	15	247	264
Between 18 months and 2 years	300	10	292	228
Between 2 years and 3 years	415	30	471	340
Between 3 years and 4 years	523	5	460	231
Between 4 years and 5 years	250	23	137	232
Between 5 years and 10 years	–	–	177	86
Over 10 years	–	–	–	–
Total	**1,843**	**118**	**2,256**	**1,789**

The proportion of fixed-interest-bearing cover assets in the corresponding cover funds and the ratios of fixed-interest-bearing bonds to the liabilities to be covered are as follows:

	Mortgage bonds	
(in %)	31.12.2019	31.12.2018
Proportion of fixed interest-bearing cover funds	46	47
Ratio of fixed interest-bearing bonds	92	98

	Public-sector mortgage bonds	
(in %)	31.12.2019	31.12.2018
Proportion of fixed interest-bearing cover funds	94	91
Ratio of fixed interest-bearing bonds	96	96

	Ship mortgage bonds	
(in %)	31.12.2019	31.12.2018
Proportion of fixed interest-bearing cover funds	5	3
Ratio of fixed interest-bearing bonds	4	62

The following tables show the net present value for each foreign currency:

(€ m)	Mortgage bonds	
Foreign currency	31.12.2019	31.12.2018
CHF	1	1
GBP	58	81
SEK	7	9

(€ m)	Public-sector mortgage bonds	
Foreign currency	31.12.2019	31.12.2018
CHF	110	– 122
JPY	25	25

(€ m)	Ship mortgage bonds	
Foreign currency	31.12.2019	31.12.2018
JPY	7	8
USD	2,249	1,744

The loans and advances used to cover mortgage bonds, public-sector bonds and ship mortgage bonds are broken down by size as follows:

(A) Mortgage bond register

(€ m)	Covering mortgages	
Nominal value	31.12.2019	31.12.2018
Up to € 300,000	18	18
Between € 300,000 and € 1 million	60	81
Between € 1 million and € 10 million	1,078	1,351
Over € 10 million	3,336	3,167
Total	**4,492**	**4,617**

(B) Public sector mortgage bond

(€ m)	Covering mortgages	
Nominal value	31.12.2019	31.12.2018
Up to € 10 million	102	140
Between € 10 million and € 100 million	1,338	1,272
Over € 100 million	1,055	1,801
Total	**2,495**	**3,213**

(C) Ship register

(€ m)	Covering mortgages	
Nominal value	31.12.2019	31.12.2018
Up to € 500,000	–	1
Between € 500,000 and € 5 million	253	250
Over € 5 million	1,933	1,508
Total	**2,186**	**1,759**

The breakdown of loans and advances used to provide ordinary cover for mortgage bonds by the country in which the mortgaged property is located, as well as the use to which the property is put, is as follows:

(€ m)	31.12.2019	31.12.2018
Used for residential purposes	828	881
Used for commercial purposes	3,664	3,736

(€ m) 2019	Apart- ments	Single and semi- detached dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commer- cial pro- perties	Unfinis- hed new- buildings	Building plots	Total
Germany	–	4	746	1,258	1,242	3	718	360	35	4,366
Great Britain/Northern Ireland/Brit. Channel Islands	–	–	–	–	54	–	–	–	–	54
Netherlands	–	–	–	34	23	–	–	8	–	65
Sweden	–	–	–	–	7	–	–	–	–	7
Total	**–**	**4**	**746**	**1,292**	**1,326**	**3**	**718**	**368**	**35**	**4,492**

(€ m) 2018	Apart- ments	Single and semi- detached dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commer- cial pro- perties	Unfinis- hed new- buildings	Building plots	Total
Germany	–	4	846	1,308	1,277	3	743	318	21	4,520
Great Britain/Northern Ire- land/Brit. Channel Islands	–	–	–	80	–	–	–	–	–	80
Netherlands	–	–	–	8	–	–	–	–	–	8
Sweden	–	–	–	–	9	–	–	–	–	9
Total	**–**	**4**	**846**	**1,396**	**1,286**	**3**	**743**	**318**	**21**	**4,617**

(€ m)	31.12.2019	31.12.2018
Total of payments at least 90 days in arrears	–	–
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	–	–

Other key figures relating to the regular cover assets of the mortgage bonds:

		31.12.2019	31.12.2018
Total amount of receivables that exceed the limits set out in Section 13 (1) PfandBG	€ m	–	–
Volume-weighted average age of the receivable	in years	4	4
Average weighted loan-to-value ratio	in %	57	57

The following tables show the breakdown of the total amount of loans and advances used to cover public sector mortgage bonds based on borrowers and the countries in which the borrowers are domiciled.

(€ m)	Country		Regional public authority		Local public authority		Other		Total	thereof guarantees received for export promotion reasons
2019	owed	guaranteed	owed	guaranteed	owed	guaranteed	owed	guaranteed		
Germany	70	158	1,163	28	518	58	45	72	2,112	172
Belgium	250	–	–	7	–	–	–	–	257	–
Italy	–	–	4	–	–	–	–	–	4	–
Poland	25	–	–	–	–	–	–	–	25	–
Switzerland	–	–	96	–	–	–	1	–	97	–
Total	**345**	**158**	**1,263**	**35**	**518**	**58**	**46**	**72**	**2,495**	**172**

(€ m)	Country		Regional public authority		Local public authority		Other		Total	thereof guarantees received for export promotion reasons
2018	owed	guaranteed	owed	guaranteed	owed	guaranteed	owed	guaranteed		
Germany	70	12	1,511	327	486	62	150	123	2,741	153
Belgium	250	–	–	8	–	–	–	–	258	–
Italy	–	–	8	–	–	–	–	–	8	–
Poland	24	–	–	–	–	–	–	–	24	–
Switzerland	–	–	93	–	–	–	–	–	93	–
Austria	–	44	–	–	–	–	–	–	44	–
EU-Institutions	–	–	–	–	–	–	45	–	45	–
Total	**344**	**56**	**1,612**	**335**	**486**	**62**	**195**	**123**	**3,213**	**153**

The following amounts are in arrears concerning these loans and advances:

(€ m) 2019	Country	Regional public authority	Local public authority	Other	Total
Total of payments at least 90 days in arrears	–	–	–	–	–
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	–	–	–	–	–

(€ m) 2018	Country	Regional public authority	Local public authority	Other	Total
Total of payments at least 90 days in arrears	–	–	–	1	1
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	–	–	–	9	9

The following table shows the breakdown of loans and advances used to cover ship mortgage bonds by the country in which the ships pledged are registered:

(€ m)	31.12.2019		31.12.2018	
	Ocean-going vessels	Inland water vessels	Ocean-going vessels	Inland water vessels
Bahamas	37	–	45	–
Belgium	5	–	–	–
Germany	479	–	448	–
Denmark	75	–	–	–
Gibraltar	3	–	–	–
Greece	91	–	92	–
Great Britain/Northern Ireland/Brit. Channel Islands	28	–	–	–
Hong Kong	123	–	55	–
Liberia	491	–	432	–
Malta	195	–	134	–
Marshall Islands	359	–	264	–
Panama	113	–	112	–
Sweden	–	–	20	–
Singapore	73	–	37	–
Cyprus	114	–	120	–
Total	**2,186**	**–**	**1,759**	**–**

The following amounts are in arrears concerning these loans and advances:

(€ m)	31.12.2019	31.12.2018
Total of payments at least 90 days in arrears	**–**	**–**
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	**–**	**–**

The following table shows the number of foreclosures, judicially enforced receiverships and land and ships acquired to prevent losses in relation to the loans and advances used for coverage:

(Number) 2019	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Pending foreclosures and judicially enforced receiverships	–	–	–	–	–
Foreclosures completed	–	–	–	–	–
Land and ships acquired to prevent losses	–	–	–	–	–

(Number) 2018	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Pending foreclosures and judicially enforced receiverships	–	–	–	–	–
Foreclosures completed	–	–	–	–	–
Land and ships acquired to prevent losses	–	–	–	–	–

The following table shows total arrears on the interest due from mortgage debtors and repayments made during the financial year:

(€ m) 2019	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Total amount of arrears on interest to be paid	–	–	–	–	–

(€ m) 2018	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Total amount of arrears on interest to be paid	–	–	–	–	–

Of loans and advances to banks, the amount of € 52 million (previous year: € 163 million), and € 11,735 million of loans and advances to customers (previous year: € 11,042 million) are used to cover debentures issued.

68. Average number of employees

The average number of employees as of the reporting date is calculated based on quarterly levels and on a per capita basis:

	2019			2018		
	Male	Female	Total	Male	Female	Total
Full-time employees	814	299	1,113	893	324	1,217
Part-time employees	65	329	394	87	370	457
Total	**879**	**628**	**1,507**	**980**	**694**	**1,674**
Apprentices/trainees	11	9	20	15	14	29

69. Corporate governance

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 AktG and have made it available to the shareholders. The Declaration of Conformity is published on the website of Hamburg Commercial Bank AG. The Declaration of Conformity does not form part of these explanatory notes.

70. Remuneration paid to members of the Management Board and Supervisory Board

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 active and former members of the executive bodies. Total remuneration of members of the Management Board comprises short-term benefits, payments to pension schemes and entitlements under share-based payment arrangements. 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. See below for more detail.

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 2019, a total of € k 49,026 (previous year: € k 46,712) 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 or members of the Supervisory Board as at 31 December 2019. 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

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) were 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 € k 3,747 were created for Supervisory Board activities (thereof value added tax: € k 598). The remuneration (excluding value added tax) paid to the members of the Supervisory Board at the beginning of 2020 breaks down as follows:

(€)	Fixed remuneration		Attendance fee		Total	
Members of the Supervisory Board	2019	2018	2019	2018	2019	2018
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 Schwettscher (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 not provided any advisory or brokerage services or any other personal services to the Bank in the year 2019. Accordingly no additional remuneration was granted.

71. Seats on supervisory bodies

On the reporting date, the following seats were held on statutorily required supervisory bodies of large corporations or financial institutions:

(a) Members of the Management Board

IAN BANWELL
HCOB Securities S.A., Luxembourg
Chair of the Supervisory Board

CHRISTOPHER BRODY
HCOB Securities S.A., Luxembourg
Member of the Supervisory Board

ULRIK LACKSCHEWITZ
HCOB Securities S.A., Luxembourg
Member of the Supervisory Board

(b) Employees

JUTTA ARLT
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt
Member of the Supervisory Board

PETER AXMANN
Sprinkenhof GmbH, Hamburg
Member of the Supervisory Board

MASHAL BÖSCH
HCOB Securities S.A., Luxembourg
Member of the Supervisory Board

JAN LÜHRS-BEHNKE
HCOB Securities S.A., Luxembourg
Member of the Supervisory Board

YORAM MATALON
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt
Member of the Supervisory Board

KATRIN WÄCHTER
Technosis AG, Hamburg
Member of the Supervisory Board

72. The Supervisory Board of Hamburg Commercial Bank AG

JUAN RODRÍGUEZ INCIARTE, MADRID
Chair
CEO Sareema Inversiones S.A.

SIMONE GRAF, ALTENHOLZ
Deputy Chair since 28 August 2019
Employee of Hamburg Commercial Bank AG

OLAF BEHM, HAMBURG
Deputy Chair until 12 March 2019
Employee of Hamburg Commercial Bank AG

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)

BERT EHLERS, SEEVETAL
Employee of Hamburg Commercial Bank AG
(since 12 March 2019)

JAMES CHRISTOPHER FLOWERS, NEW YORK
Founder and Managing Director J.C. Flowers & Co. LLC

ALLEN GIBSON, COLUMBUS
Chief Investment Officer Centaurus Capital LP

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)

(a) 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)

(b) 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)

(c) Members of the Executive/ 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)

(d) 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)

(e) Members of the Mediation Committee

(until 12 March 2019; the Committee has ceased to exit since 12 March 2019 because of application of one-third employee particpation)

JUAN RODRÍGUEZ INCIARTE
Chair

OLAF BEHM

MICHAEL CHRISTNER

RIEKA MEETZ-SCHAWALLER

73. The Management Board of Hamburg Commercial Bank AG

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)

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 ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the annual financial statements of Hamburg Commercial Bank AG, Hamburg, which comprise the balance sheet as at 31 December2019, and the statement of profit and loss for the financial year from 1 January to 31 December 2019 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Hamburg Commercial Bank AG, which is combined with the group management report, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with § 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 Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. 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 annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual 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 annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Provisions for restructuring in the context of the "Reset & Go" strategic program

❷ Accounting issues in connection with hybrid capital instruments

❸ 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:

❶ 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 Company 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 € 225 million, of which € 166 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 In accordance with § 249 Abs. 1 Satz 1 HGB, provisions must be recognized for uncertain liabilities. For this, there must be an external obligation which was caused legally or economically during the financial year, and a claim must be a seriously expected. In the context of our audit, we assessed, among others, 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 provisions are contained in the notes to the financial statements in section 22 "Accounting for restructuring" and in section 45 "Other provisions".

❷ 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 securities, provisions and the silent contributions, reported in equity, balance sheet line items. 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 processes established by the Company for the valuation of securities as well as the recording and risk assessment of legal disputes. This assessment also included an examination of the bank's corporate planning which is relevant for the valuation of the bonds and the measurement of provisions, as well as the material legal risks, including legal disputes in connection with the hybrid capital providers. 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 valuation of securities. 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 valuation of securities is discussed in the notes to the financial statements in section 8 "Securities", and the valuation of provisions in section 45 "Other provisions". The accounting treatment of silent contributions is explained in section 48 "Equity".

❸ **Loan loss provisions in the customer lending business**

① In the Company's annual financial statements loan receivables amounting to € 29,777 million are reported under the "Loans to customers" balance sheet line item. As at 31 December 2019, risk provisions for the loan portfolio consisting of individual and general valuation allowances are reported in the balance sheet. The measurement of the risk provisions for the customer lending business is determined in particular by the executive directors' estimates with respect to future loan defaults, the structure and quality of the loan portfolios and general economic factors. The amount of the individual valuation allowances for customer loans reflects the difference between the outstanding amount of the loan and the lower value assigned to it as at the balance sheet date. Existing collaterals are taken into account. In the financial year 2019, the option for early application of the IDW RS BFA 7 accounting standard was exercised and the measurement of general loan loss provisions was switched to the IFRS 9 method. The changes in the valuation methodology resulted in an increase in general loan loss provisions of € 55 million. The calculation of general valuation allowances also takes into account valuation-relevant risk factors in the context of model overlays. The amounts of the valuation allowances in the customer lending business are highly significant for the assets, liabilities and financial performance of the Company and they involve considerable judgment on the part of the executive directors. Furthermore, the measurement parameters applied, which are subject to material uncertainties, have a significant impact on the recognition and the amount of any valuation allowances required. 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. In addition, for the purpose of assessing the individual and general valuation allowances applied (in accordance with IDW RS BFA 7), we evaluated the calculation methodology applied by the Company together with the underlying assumptions and parameters. 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 regarding Loans and advances to customers are contained in notes of the financial statement in note 6 "Valuation allowances and provisions in the lending business (loan loss provisions)".

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 financial report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited 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 annual financial statements and on the 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 annual financial statements, with the 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 ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accoun-ting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

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

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

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective 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 Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the 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 annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor in the annual general meeting on 23 May 2019. We were engaged by the supervisory board on 28 May 2019. We have been the 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 2020

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 annual 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 Hamburg Commercial Bank AG and that the management report presents the course of business, including the results of the business and Hamburg Commercial Bank AG's situation, in such a manner that it gives a true and fair view and describes the main opportunities and risks for Hamburg Commercial Bank AG's foreseeable performance.

Hamburg, 30 March 2020

Stefan Ermisch	Ulrik Lackschewitz
Ian Banwell	Dr Nicolas Blanchard
Christopher Brody	Oliver Gatzke

Contact

Hamburg Commercial Bank AG
Gerhart-Hauptmann-Platz 50
20095 Hamburg
Phone +49 40 3333-0
Fax +49 40 3333-34001
info@hcob-bank.com
www.hcob-bank.de

Investor Relations
Phone +49 40 3333-11500/-25421
investor-relations@hcob-bank.com

Press & Public Relations
Phone +49 40 3333-12973
Fax +49 40 3333-34224
presse@hcob-bank.com

Marketing & Digital Media
Phone +49 40 3333-14136
Fax +49 40 3333-34224
marketing@hcob-bank.com

Imprint

Concept and design
Factor, www.factor.

Production
Inhouse produziert mit AMANA
Consulting GmbH

Printed by
Hamburg Commercial Bank AG

Notice

If at times only the masculine form is used for certain terms relating to groups of people, this is not meant in a genderspecic manner, but occurs exclusively for the sake of better readability.

This Financial 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 Financial Report.

Forward-looking Statements

This Financial 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 Financial Report. Furthermore, we are not obliged to update the forwardlooking statements following the publication of this information. In addition, information contained in this Financial 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

Gerhart-Hauptmann-Platz 50
20095 Hamburg, Germany

hcob-bank.com