Hamburg Commercial Bank

Investor Presentation

IFRS Group Result as at 31 December 2019

16th April 2020

Notice due to current occasion – Group result as at 31.12.2019

All the data and information published in this presentation are based on the reporting date as at 31.12.2019.

Therefore, the current Covid-19 crises and any potential implications on the relevant market environment and respective financials of HCOB are not reflected in here.[1]

The global spread of the novel coronavirus ("COVID 19 pandemic") in 2020 and the fight against its health-related implications have led to a significant reduction in economic activity worldwide. Developments to date indicate potential for a significant negative impact on global economic development in 2020. There is currently considerable uncertainty regarding the duration and intensity of the coronavirus crisis on the one hand, and regarding the economic impact of the crisis, or how it can be mitigated by the assistance programmes that have already been implemented or addressed, on the other.

The economic implications of the coronavirus crisis could have a negative impact on Hamburg Commercial Bank's ability to meet its financial targets, although the uncertainty prevailing means that it is not yet possible to arrive at any concrete forecasts of the effects of the crisis. In principle, Hamburg Commercial Bank could be hit by negative effects on the level of its income, additions to loan loss provisions, non-performing-loans and capital ratios as well as its risk-weighted-assets.

1) For further information / events after the reporting date, please refer to respective section in the annual report 2019

Highlights 2019

- Significant progress of the transformation to achieve financial targets and ensure a sustainable profit generation as well as admission as a full member of the Association of German Banks (BdB)
- Portfolio improved by strong new business of EUR 7bn at significantly improved risk return profile and a further reduction of NPE[1] to 1.8% supporting net loan loss reversal of EUR 11mn
- Achieved a strong 18.5% CET1 ratio and leverage ratio of 8.2%, due to reduced RWA, despite stricter regulatory requirements
- Maintained administrative expenses stable at EUR 413mn, in spite of additional costs related to IT investments. Provisions for an even sharper staff reduction to about 700 FTE reflected in result from restructuring and transformation

- Reduced funding costs and successful re-entry into capital markets with senior preferred benchmark; maintained comfortable liquidity buffer with an LCR of 165%; improved capital structure and reduced litigation risk by successful LME of hybrid instruments
- Moody's[2]: "Satisfactory solvency profile supported by its strong capitalisation, significantly improved asset quality and reduced complexity, progress towards diversifying its funding base and lengthening its maturity profile"
- Well-positioned to successfully complete transformation; envisaged CET ratio of ~20%

1) As at 31 December 2019, taking into account adjusting events after the reporting date | 2) Latest publications at the beginning of 2020 by rating agencies available on Hamburg Commercial Bank's website: https://www.hcob-bank.de/en/investoren/rating/rating/

Agenda

1. **Hamburg Commercial Bank at a glance**
2. Transformation process
3. Financial key figures for 2019
4. Portfolio overview
5. Outlook 2020
6. Appendix

Hamburg Commercial Bank – We are …

… a privately-owned commercial bank.
As specialists with clear vision and proximity to the client, we have experience together with being inquisitive and bold. We act with engagement and always at eye level. The roots of our bank are in the North; we are also represented in Germany's metropolitan regions and in selected markets in Europe and Asia.

Corporates & Structured Finance

- Corporate Banking & Advisory: Structured Finance, Leveraged Buy-out, M&A, Factoring and Leasing, Business Development & Financial Institutions Group
- Project Finance – Energy & Infrastructure: Exploit potential in domestic and European markets, selectively non-European markets, generally under high standards of sustainability
- Originate-to-Distribute (OtD) to actively shape and steer the portfolio

Real Estate

- Risk-conscious business orientation regarding the development of domestic real estate market
- Selective new business under consideration of appropriate risk/return requirements
- Expand OtD approach
- Cautious expansion of international business

Shipping

- Strategic partner based on long-term expertise
- New business under strict margin and risk conditions
- Focus on diversification of portfolio through domestic and international counterparties with good credit ratings to generate sustainably viable business

Diversified Lending & Markets

- Diversified Lending newly established for international Corporates business as well as for "Special Solutions" in the form of opportunistic business potential in Europe
- Capital Markets: Steering strategic investments
- Treasury steering liquidity and market price risks, funding activities

Further progress towards financial targets reflected in ratings

Key Credit Strengths

- Robust and resilient capitalization, well above regulatory requirements
- Substantially de-risked asset portfolio underpinned by legacy transfers and conservative new business with prudent risk appetite and improving diversification, amid macroeconomic uncertainty
- Strong loss coverage of residual NPEs
- Diversifying the funding base, lengthening the maturity profile and maintaining substantial liquidity buffer
- Established track record of considerable cost relief
- Demonstrated expertise of owners drives best practices

Upside Drivers

- Demonstrating underlying franchise strength, with steady improvement in risk-adjusted profitability
- Continued diversification by reducing concentration risks from cyclical assets
- Further maturity extension and diversified funding
- Achieving BdB (Association of German Banks) full membership

Ratings Overview[1] as at 16.04.2020	**Moody's**	**S&P**
Issuer Ratings		
Deposit Rating	Baa2	–
Issuer Credit Rating (Long-Term)	Baa2 / Stable	BBB / neg. o.[2]
Issuer Credit Rating (Short-Term)	P-2	A-2
Stand-alone Rating	ba2	bbb-
Instrument Ratings (Unsecured Issuances)		
"Preferred" Senior Unsecured Debt	Baa2	–
"Non-Preferred" Senior Unsecured Debt	Baa3	–
Subordinated Debt (Tier 2)	Ba3	–
Instrument Ratings (Secured Issuances)		
Public Sector Covered Bonds	Aa2	–
Mortgage Covered Bonds	Aa2	–
Ship Covered Bonds	A3	–

1) Latest publications by rating agencies available on Hamburg Commercial Bank's website: https://www.hcob-bank.de/en/investoren/rating/rating/ | 2) Negative outlook

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Sound and resilient key financials provide robust base for further successful transformation

	2018[1]	2019	Objectives 2022	
Capital CET1 ratio	**18.4%**	**18.5%**	**~20%**	… prudent approach, strong and resilient capital position is key
Asset quality NPE ratio[2]	**2.0%**	**1.8%**	**<2.0%**	… solid asset quality other key pillar of sound b/s management, high risk coverage
Costs CIR	**27.2%**	**69.3%**	**mid 40%**	… proven track-record in cost reduction, further measures are being implemented
Profitability RoE before taxes	**2.2%**	**1.8%**	**>8%**	… focus on profitable growth, cost reduction and operational efficiency
Total assets in EUR bn	**55.1**	**47.7**	**~30**	… further de-risking planned
Liquidity LCR	**225%**	**165%**	**>140%**	… sound liquidity position underpins solid foundation
Rating[3] Moody's/S&P	**Baa2/BBB**	**Baa2/BBB**	**Baa1/BBB+**	… upward rating trajectory based on strong financial metrics

Clear trajectory towards 2022 KPI set already visible in 2019 results

1) CIR and RoE as at 31 December 2018 were positively impacted by significant special effects resulting from hybrid instruments (EUR 994mn) | 2) As at 31 December 2019 and 31 December 2018, including adjusting events after the reporting date | 3) Issuer credit rating

Strong financial ratios well comparable to A-rated peers, robust capital position, clear upward trajectory for profitability

Key Metrics	Ratios	HCOB		Peer 1	Peer 2	Peer 3	Peer 4	Peer 5	Peer 6	Peer 7	GER	EU
		2019	Target 2022									
Capital	**CET1 ratio**	18.5%	~20%	13.6%	12.9%	19.4%	17.3%	15.1%	18.5%	12.4%	14.0%	14.4%
	Leverage ratio	8.2%	~10%	4.2%	4.5%	5.0%	./.	7.4%	7.0%	6.3%	4.5%	5.4%
Asset Quality	**NPE / NPL ratio**	1.8%	<2%	1.4%	0.8%	0.3%	7.3%	1.8%	2.7%	3.8%	1.1%	2.6%
Liquidity	**LCR**	165%	>140%	141%	136%	302%	./.	148%	212%	172%	150%	149%
Profitability	**CIR**	69%	~45%	92%	81%	42%	46%	43%	46%	55.6%	83%	64%
	RoE[1]	1.8%	>8%	0.0%	2.8%	7.6%	8.6%	11.9%	9.7%	5.9%	-0.1%	7.0%
Long-Term Rating	**Moody's / S&P**	Baa2 / BBB	Baa1 / BBB+	A3 / BBB+	A1 / A-	- / A-	A3 / -	A2 / -	Baa1 / BBB+	Baa2 / BBB		

Profitability	✓ Clear path to sustainable profitability, backed by selective new business, b/s optimization and lower funding costs
Capital	✓ Robust capitalization, well above average for higher-rated peers, underpinned by further de-risking and positive earning trajectory
Asset Quality	✓ Sound and well-performing portfolio, benefitting from continued de-risking and strong loss coverage, driving reduced tail-risk from residual NPEs
Liquidity	✓ Substantial and high-quality liquidity buffers provide robust cushion for ongoing transformation process

Expanding franchise – backed by improving profitability, robust capital and solid liquidity – coupled with a credible path to BdB entry will drive continued ratings upside

Source: Company reports on H1 2019, EBA Risk Dashboard, 2019-Q2 | 1) ROE 2022 for HCOB calculated on normalized CET1 ratio of 14%; RoE for German and EU market averages after tax

Key progress made in 2019 in all fields of action / transformation to be further pushed ahead in 2020

	2019	Measures 2020 and beyond
Go-to-Market	Significant increase in profitability of new business Set base for new business areas (e.g. factoring, leasing, vintage ships, diversified lending)	Continuous improvements in proven core business with clearly defined products Pushing ahead the development and diversification of new sources of income
Portfolio Management	Termination or improvement of terms and conditions of client relationships and products if below level of ambition Exit unprofitable business (GTF, WM)	Disciplined pricing, more simple products Capital-efficient structures Cross-selling with low capital investment Ongoing RWA optimization, e.g. OtD
Liability Optimization	Repurchase of hybrids (LME) with substantial progress in optimizing the capital structure and clear reduction of legal risks Deposit maturity extension resulted in longer av. maturity of liabilities	Diversified, competitive refinancing with extension of maturities Further deposit optimizing Focus on further rating improvement
Operating Efficiency	Social plan and relevant reserves for new target of ~700 FTE Extensive IT transformation initiated Building sale: Signing of SPA's for eleven buildings (Closing in Q1/2020)	Actively using standard/routine processes instead of complex individual solutions Facilitate processes in the desired quality at acceptable costs, e.g. IT outsourcing
Organizational Vitality	Measures to further optimize the corporate culture (e.g. reduction of hierarchies) Organizational structure strengthened to bring it more closely in line with the business model	Streamlined management structures, clearly aligned with the business model Performance-oriented corporate culture

Hamburg Commercial Bank

Agenda

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Hamburg Commercial Bank

Group performance overall slightly above expectations – Development in part marked by one-off effects

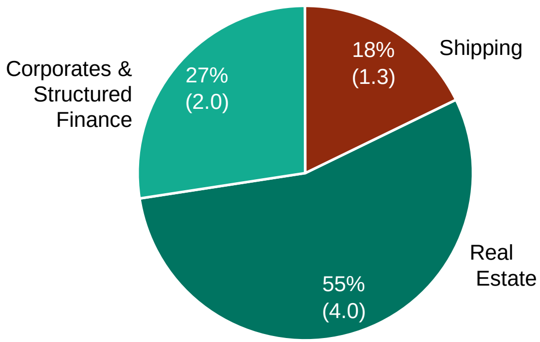
in EUR mn, IFRS	HCOB		
	2019	2018	Change in %
Net interest income	321	1,621[1]	-80
Net commission income	61	35	74
Result from hedging	-2	-9	78
Result from financial instruments categorised as FVPL	-19	-136	86
Net income from financial investments	20	73[1]	-73
Result from the disposal of financial assets 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
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**

1) The previous year's figure was adjusted. Please refer to Annual Report 2019 for more details.

Selective new business with increased margins – Sound portfolio quality

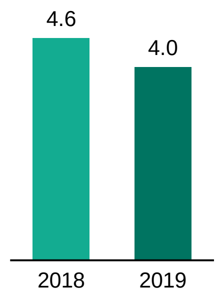
Gross new business[1]

of EUR 7.2bn (PY: EUR 8.4bn); in % / EUR bn



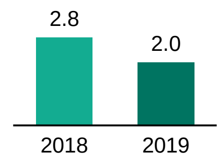
Real Estate

in EUR bn



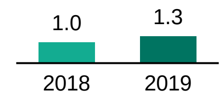
Corporates & Structured Finance[2]

in EUR bn



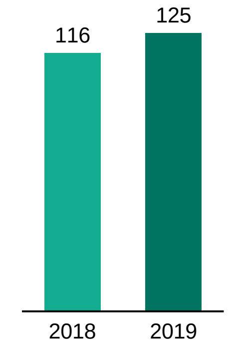
Shipping

in EUR bn



Net new business margin

in bps



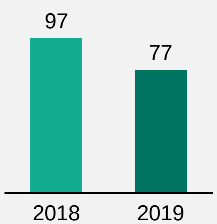
Selective new business approach

- Against the backdrop of weakening economic environment, the Bank managed new business selectively, reducing new business in some cyclical asset classes (e.g. CRE developer, retail)
- HCOB achieved considerably higher profitability on an intentionally lower gross business volume of EUR 7.2bn (2018: EUR 8.4bn)
- Consistent focus on new business with adequate margins

Rounding differences possible | 1) Diversified Lending & Markets segment currently being developed, thus no contribution to new business yet | 2) Including Project Finance

HCOB IFRS Group performance slightly above expectations

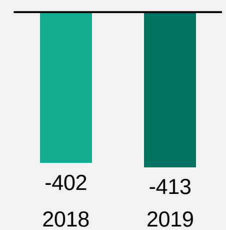
Net income before Taxes
in EUR mn



Sound pre-tax profit based on solid operating income

- Transformation progress already evident by the end of 2019
- Due to planned, non-recurring reduction of deferred taxes in the wake of successfully restructuring its capital basis, the Bank reports a net result post tax of EUR 12mn (EUR 77mn)

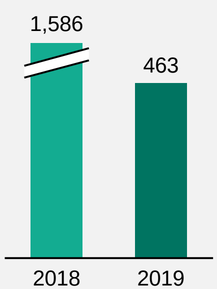
Administrative Expenses
in EUR mn



Transparent, forward-looking restructuring since privatization

- Admin. expenses maintained broadly stable, in spite of IT investments
- Additional provisions for new FTE target of approx. 700 are reflected in result from restructuring and transformation
- Major personnel cost reductions visible in coming periods

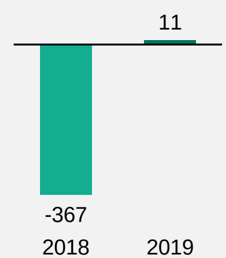
Total Income
in EUR mn



Total income down as expected, impacted by one-offs

- Burdens from repurchase of hybrids of EUR -181mn (positive effect of EUR 994mn in 2018) and temporary valuation effects from financial instruments categorized as FVPL of EUR -19mn
- Positive impacts from disposal of financial assets classified as AC of EUR 82mn (mainly due to early repayments) and net commission income of EUR 61mn

Loan Loss Provisions[1]
in EUR mn



Sound portfolio quality

- Increase in GLLP by EUR -38mn due to further increased macroeconomic and geopolitical uncertainties
- Net release of SLLP of EUR +47mn, driven by Shipping
- HCOB is further de-risking, resulting in an improved NPE ratio of 1.8%

1) Loan loss provisions of 2018 included "EUR -316mn Loan Loss Provisions" and "EUR -51mn Hedging effect of credit derivative second loss guarantee"

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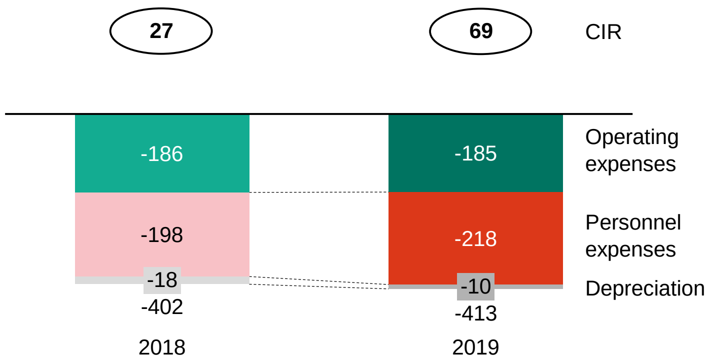
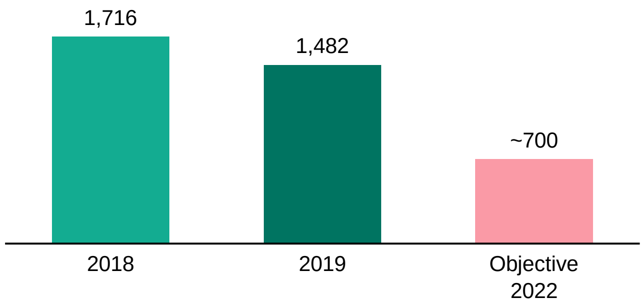
Administrative expenses developed according to plan – Measures to show full potential in coming periods

Administrative expenses / CIR

EUR mn / in %



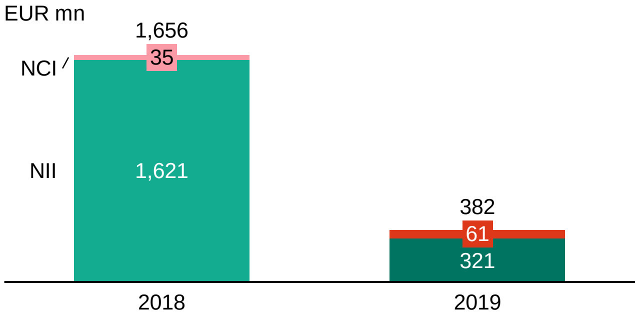
Full-time equivalents (FTE)



- **Number of employees** reduced by 234 to 1,482 FTE
- Despite the decline of FTE, **personnel expenses** rose to EUR -218mn (previous year: EUR -198mn), due to higher provisions being set-up for variable compensation compared to previous year and due to strategic new hires
- Staff reduction measures will show their full cost-cutting potential in coming periods
- **Operating expenses** of EUR -185mn are on previous year's level (EUR -186mn). The stringent cost management is bearing fruit, resulting in lower expenses for external services and project work. These cost reductions compensated the planned increase of IT expenses (in the course of the future-orientated IT transformation) and the increase of legal fees, which is mainly LME-connected
- **Depreciation** of property, plant and equipment and amortization of intangible assets decreased to EUR -10mn (previous year: EUR -18mn), mainly due to the decline in unscheduled depreciation to EUR -1mn (previous year: EUR -7mn)
- **CIR** in line with expectations, previous year included significant one-off effects (EUR 994mn) from revaluation of hybrid capital (pls. see also: net interest income 2018)

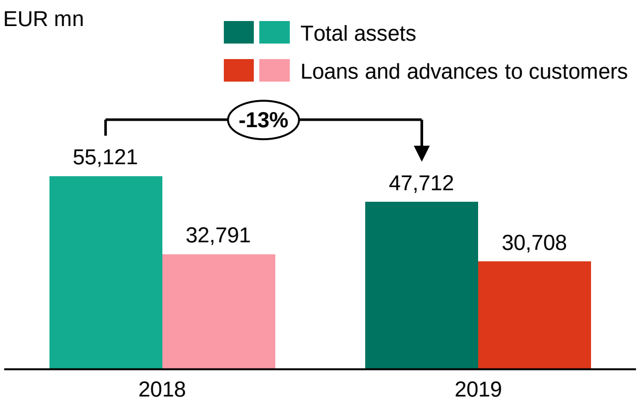
Total income down as expected and total assets further reduced as scheduled

Net interest income (NII) & net commission income (NCI)



- **Net interest income** was generally characterised by scheduled decline in total assets. NII was hit by the negative result of EUR -181mn driven by the buy-back of hybrid capital. Reduction in funding costs following privatisation had a positive impact. The previous period was significantly affected by revaluation of hybrid capital of EUR 994mn
- **Net commission income** developed according to plan; compared to previous year, the lack of expenses for a synthetic securitisation transaction terminated at the end of 2018 had a positive effect

Total assets / Loans and advances to customers



- In line with decreasing total assets (-13%), **loans and advances to customers** decreased by -6%. Decline is attributable in roughly equal parts to loans and advances to public authorities and commercial clients
- **Financial investments** significantly reduced from EUR 10,100mn to EUR 6,100mn (-40%), driven by active liquidity management initiatives, designed to systematically reduce excess liquidity from privatization period

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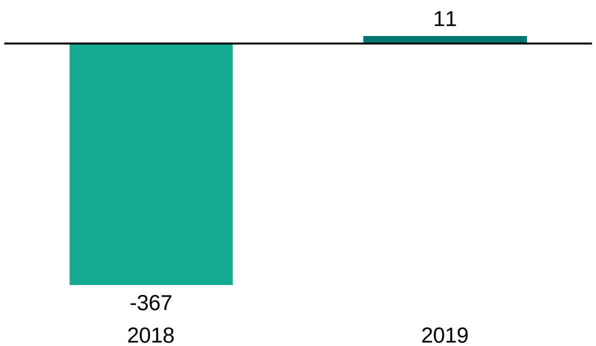
Positive development in LLP reflects further improved portfolio quality and expresses high level of risk coverage

Loan loss provisions[1]

in EUR mn



Loan loss provisions by segments

in EUR mn

Opposing effects characterise loan loss provisioning

- Increase in general loan loss provisions of EUR -38mn for further increases in macroeconomic and geopolitical risks
- Net reversals of specific loan loss provisions of EUR +47mn more than offset the increases
- Net additions to specific loan loss provisions in Corporates & Structured Finance were more than offset by net reversals in the Shipping segment, which benefited from structural improvements in the portfolio quality
- The previous year was characterized by additions to both specific loan loss provisions in the Shipping segment and general loan loss provisions due to increased geopolitical risks

1) Loan loss provisions of 2018 included “EUR -316mn Loan Loss Provisions“ and “EUR -51mn Hedging effect of credit derivative second loss guarantee”

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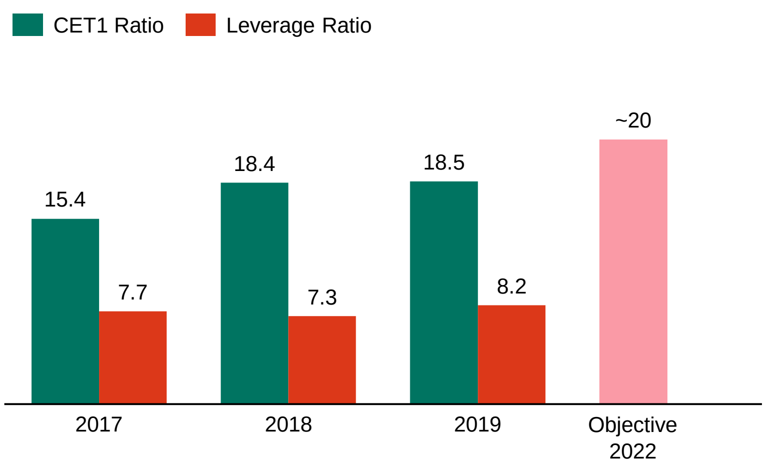
Capital position strengthened, CET1 ratio of 18.5% provides increasingly comfortable buffer for regulatory requirements

CET1[1] and Leverage Ratio

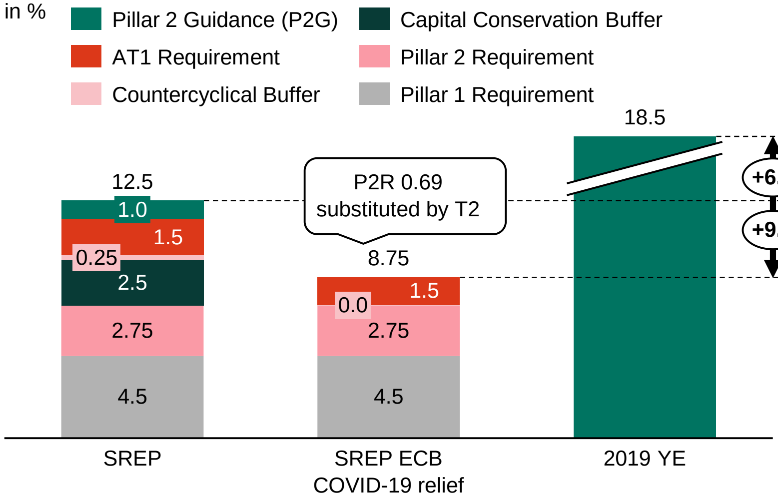
in %



- Strengthened capital position to 18.5% in 2019, as de-risking overcompensates RWA increase of EUR 2.4bn mainly attributable to internal model adjustments
- Very strong leverage ratio of 8.2% (7.3% in 2018) further underlines resilient capital position
- HCOB has raised its strategic target for the CET1 ratio to ~20% for FY 2022
- Capital ratios might be impacted by the regulatory environment, resulting in a potential increase of RWA

Increased buffer to capital requirements

in %

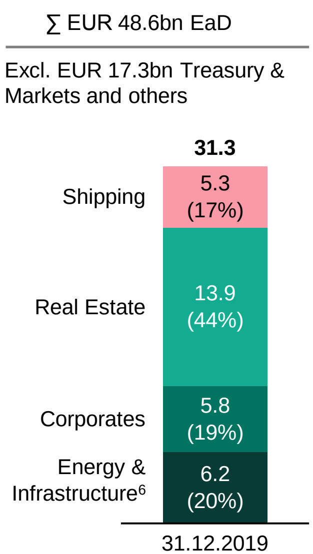


- Capital requirement for P2R was lowered from 3.5% (2019) to 2.75% in 2020
- Overall Total Capital Ratio of 23.5% is also substantially above the requirement of 13.5%
- ECB COVID-19 capital relief: banks may operate temporarily below the level of capital defined by P2G and capital conservation buffer; P2R can be fulfilled with 25% of surplus T2 capital
- MREL requirement consistently significantly exceeded

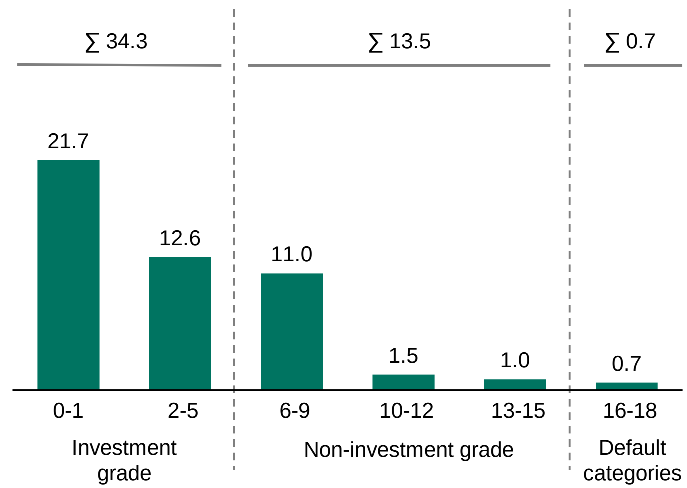
1) 2017 CET1 ratio is pro-forma excl. guarantee, in-period; Figures as at 31.12.2019 I 2) Minor fluctuations due to change in counter-cyclical buffer possible

Solid Portfolio Quality – NPE ratio reduced to 1.8% (py 2.0%) and well covered by LLP[1]

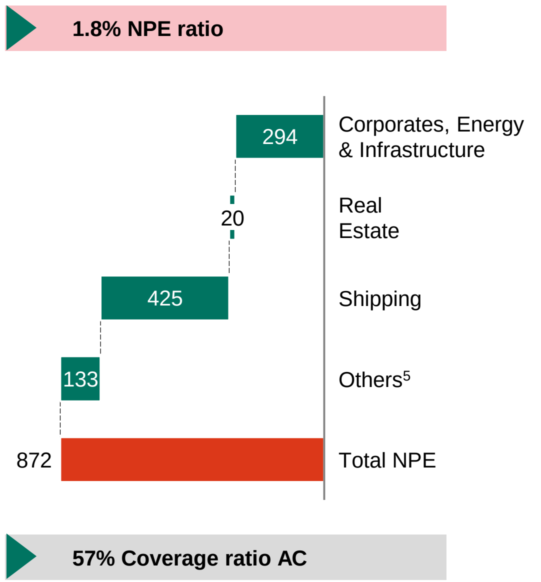
Total loan portfolio[2]
in EUR bn, EaD



Portfolio by rating category[3]
in EUR bn, EaD, total volume of EUR 48.6bn



NPE by client division[4]
in EUR mn, EaD



- Portfolio of EUR 48.6bn EaD, of which EUR 34.3bn (71%) in investment grade
- NPE volume of EUR 872mn[2] corresponds to an NPE ratio of 1.8%, down from 2.0% end 2018
- NPE Coverage ratio AC of 57%[3] at a very solid level, incl. GLLP coverage ratio is strong 81% (708mn EUR)

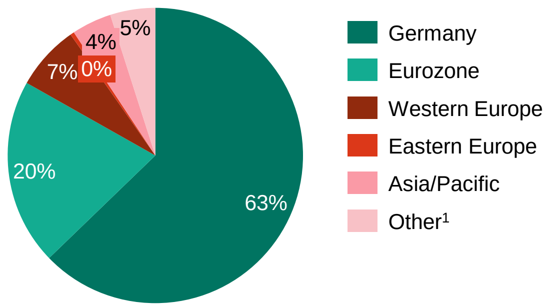
Rounding differences possible | 1) As at 31 December 2019 and 31 December 2018, taking into account adjusting events after the reporting date | 2) Asset class view differs from segment view | 3) Rating distribution as at 31.12.2019. Including value-enhancing findings after the reporting date, NPE volume in categories 16-18 is EUR 872mn | 4) As at 31 December 2019, including adjusting events after the reporting date | 5) Shipping | 6) Project Finance

Agenda

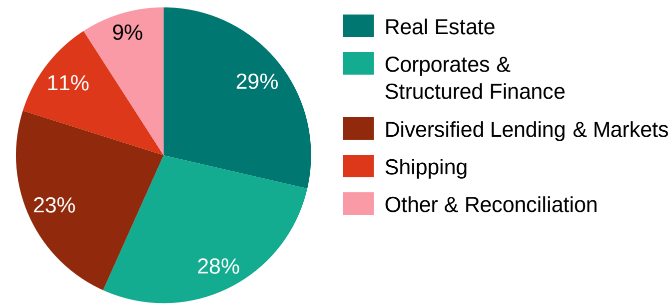
Hamburg Commercial Bank

Current Portfolio – Strategic plan aiming for more diversification

Portfolio by Regions EaD in %



Portfolio by Segments EaD in %



Largely Germany based

- German exposure accounts for 63% of credit portfolio, other European exposure for 27%
- Brexit: UK portfolio is 2.0% (EUR 0.97bn)

Portfolio by asset class is well diversified

- CRE is mainly German risk, currently still benefitting from sound market overall; stability underpinned by lower interest rate environment
- Corporate exposure relatively small compared to peers, in particular exposure to automotive industry is rather small
- Shipping will be impacted by global slowdown, but exposure significantly reduced in absolute and relative terms
- Diversified Lending & Markets - financial investments: Securities portfolio is well positioned with mainly highly rated German bonds

Focus on further portfolio diversification

- Share of non-German portfolio will be gradually increased over next years
- CRE-share will be maintained at about 30% of total portfolio, but being more diversified
- Diversified Lending will be actively used to achieve higher granularity and diversification

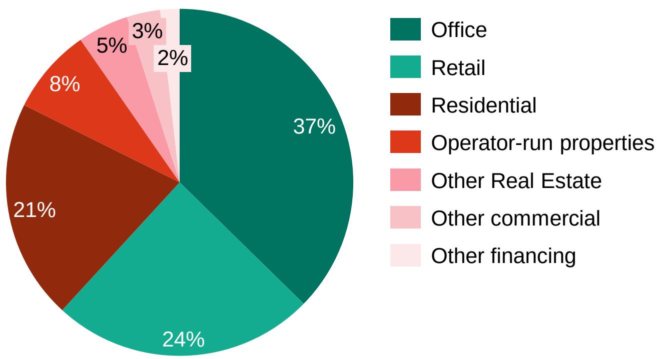
Impact of potential economic slowdown on HCOB portfolio is manageable, more diversification across business lines

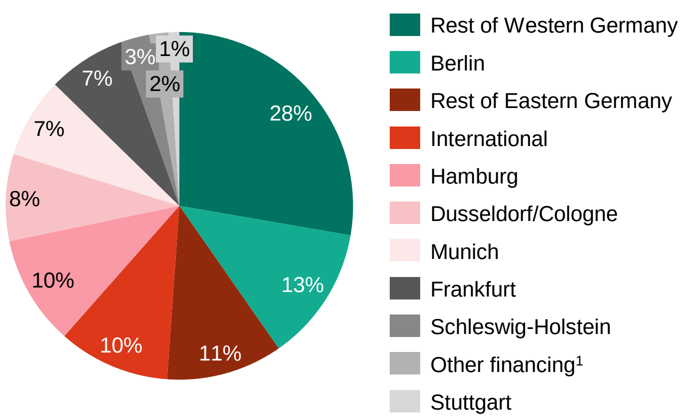
1) Incl. International organizations and International stock exchanges

Real Estate – Good level of diversification by type of use and region

Portfolio (EUR 13.9bn) by segment and region

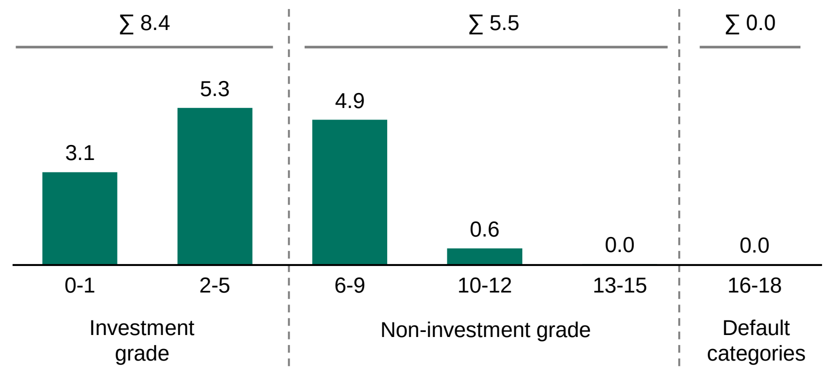
in %





Portfolio by rating category

in EUR bn, EaD



Comments

- Well diversified and sound portfolio built up over past years – high share of German market
- Conservative underwriting criteria for new business – sound loss history in past years
- Portfolio of EUR 13.9bn EaD, of which EUR 8.4bn (60%) investment grade, EUR 13.3bn (96%) in rating categories 0 to 9
- NPE ratio of 0.1% with a NPE of EUR 20mn
- NPE Coverage ratio$_{AC}$ of 24%

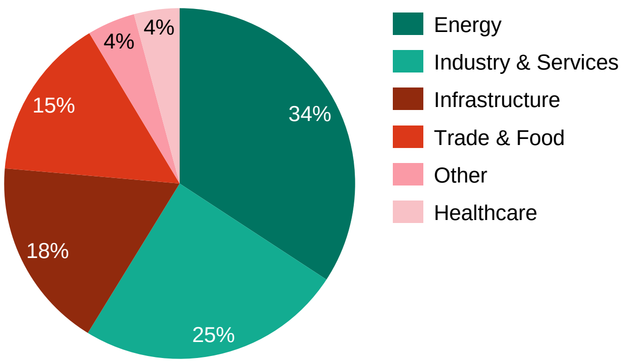
Rounding differences possible | 1) No regional allocation because no property collateral

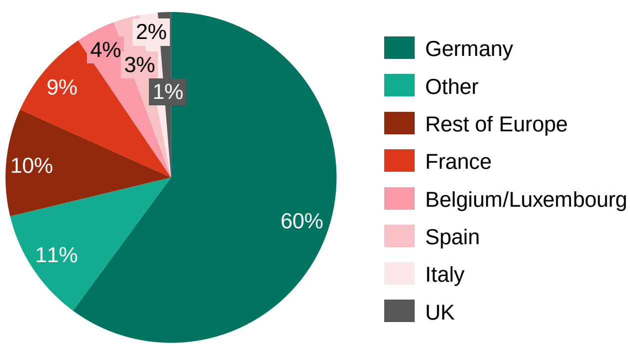
Hamburg Commercial Bank

Corporates and Structured Finance – Well diversified in terms of sectors, solid portfolio quality

Portfolio (EUR 12.0bn) by segment[1] and region

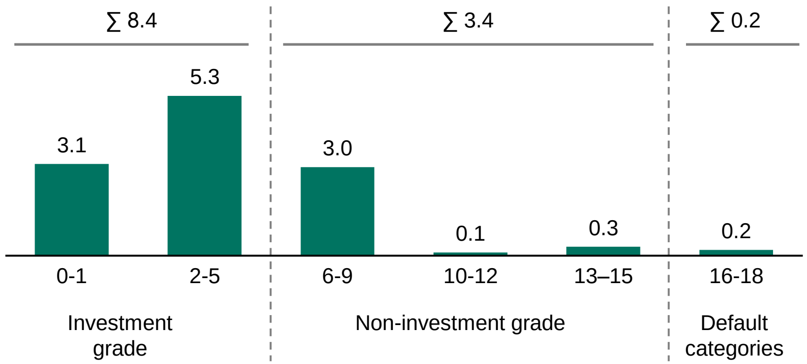
in %





Portfolio by rating category

in EUR bn, EaD



Comments

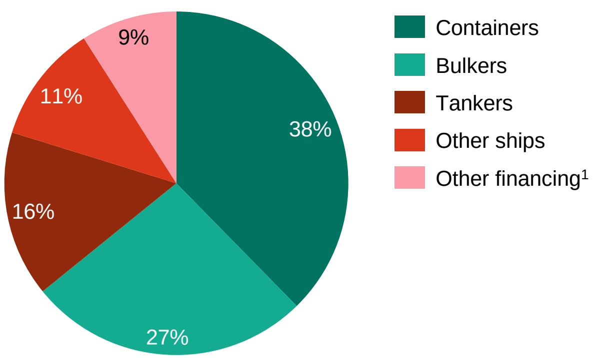
- No major concentrations to specific industries or corporates
- Exposure to structurally weakening automotive sector relatively small and is reduced further
- Portfolio of EUR 12bn EaD, of which EUR 8.4bn (70%) in investment grade, EUR 11.4bn (95%) in rating categories 0 to 9
- NPE ratio of 2.4% with an NPE of EUR 294mn[2]
- NPE Coverage ratio$_{AC}$ of 54%[2]

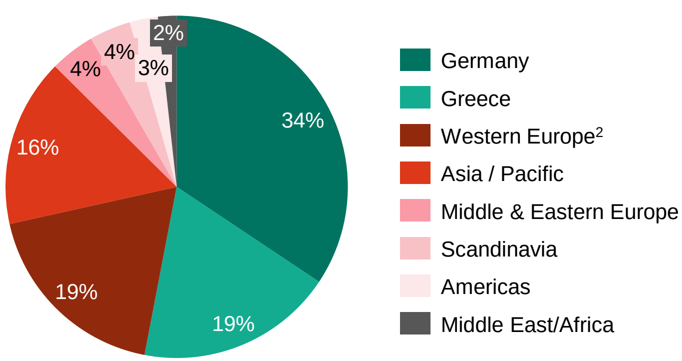
Rounding differences possible | 1) Excluding Global Sales & Financial Institutions | 2) Corporates incl. Project Finance, including adjusting events after the reporting date

Shipping – Structural improvements in portfolio quality benefit loan loss provisioning

Portfolio (EUR 5.3bn) by segment and region

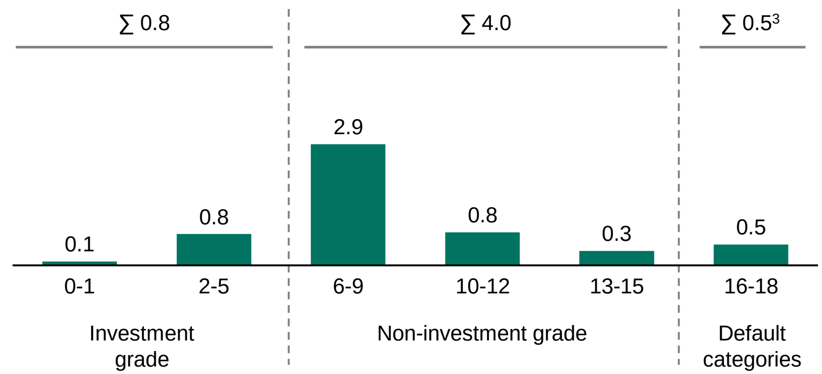
in %





Portfolio by rating category

in EUR bn, EaD



Comments

- Substantially improved and diversified portfolio
- Selective new business with very conservative risk metrics – few competitors left in Germany
- No exposure to high risk COVID sector Cruise Shipping, just EUR 95mn commitment for 2021 / 95% ECA coverage
- Shipping portfolio of EUR 5.3bn EaD, of which EUR 0.8bn (16%) in investment grade, EUR 3.7bn (70%) in rating categories 0 to 9
- NPE ratio of 8.2% with an NPE of EUR 425mn[4] (excl. others)
- NPE Coverage ratio$_{AC}$ of 57%[4]

Rounding differences possible | 1) Incl. working capital financing | 2) Excl. Germany, Scandinavia and Greece | 3) Incl. others of EUR 133mn as per page 19 | 4) Including adjusting events after the reporting date

Hamburg Commercial Bank

Agenda

Outlook 2020: HCOB expects to achieve positive net income before taxes that is slightly up in a year-on-year comparison

- 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 program and the Bank's solid capital and risk position, which has been strengthened further, represents a good starting point in this regard. In view of the increasingly challenging economic environment, the Bank has proactively adjusted its transformation program 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 characterized 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 program, 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.

sustainability@hcob – Hamburg Commercial Bank initiated strategic project for implementation of sustainability / ESG

- 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 last year

- 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 related to ESG factors

- Hamburg Commercial Bank's positioning in this regard will be in line with society's goals, as expressed in the UN's Sustainable Development Goals (SDGs), the Paris Climate Agreement, in relevant national and further international frameworks

sustainability@hcob

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.

Agenda

Segment overview

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

1) Summary of “Loan loss provisions” and “Hedging effect of credit derivative under the second loss guarantee”, which has been relevant for 2018 | 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

Balance sheet

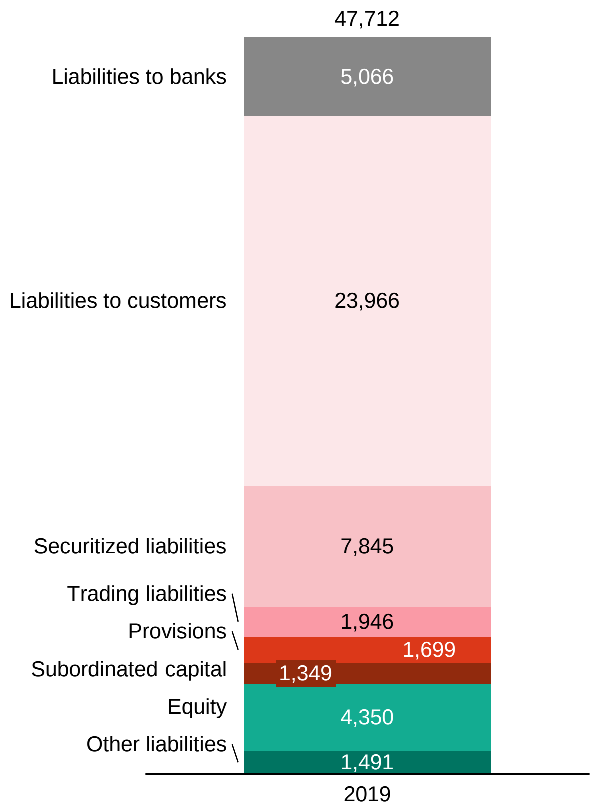
Balance sheet (in EUR mn, IFRS)	2019	2018	Change in %
Cash reserve	4,850	5,362	-10
Loans and advances to banks	2,521	3,167	-20
Loans and advances to customers	30,708	32,791	-6
Loan loss provisions	-708	-831	-15
Trading assets	2,663	3,094	-14
Financial investments	6,100	10,100	-40
Non-current assets held for sale and disposal groups	355	65	>100
Other assets	1,223	1,373	-11
Total assets	**47,712**	**55,121**	**-13**
Liabilities to banks	5,066	5,470	-7
Liabilities to customers	23,966	28,093	-15
Securitized 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 further reduced as planned

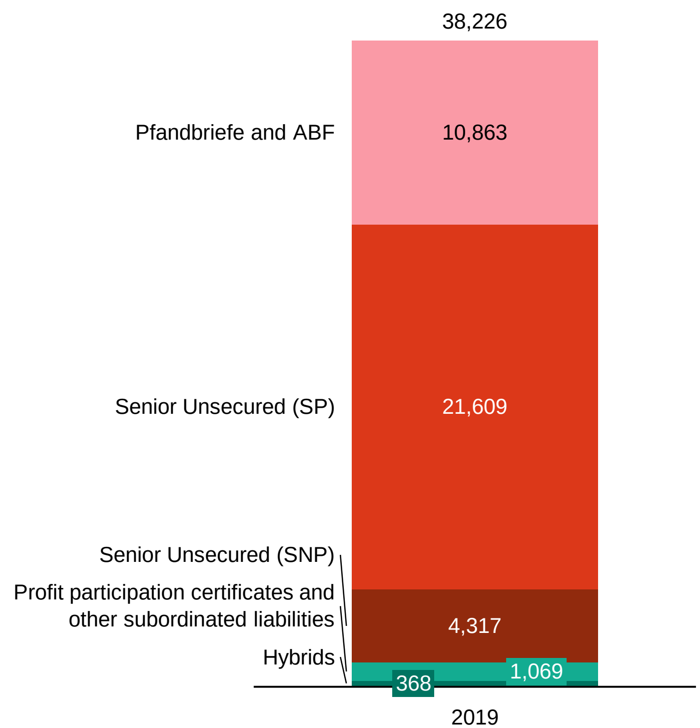
- The 40% reduction in financial investments resulted from systematic portfolio reduction based on measures for active liquidity management, which are designed to systematically reduce the excess liquidity built up during the privatization period and take account of the strategic objective of reducing total assets
- 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
- Securitised liabilities decreased significantly, also due to an increase in own issues bought back, which are deducted in the item securitized liabilities

Structure of liabilities

Total equity and liabilities as to the balance sheet
in EUR mn



Structure of liabilities by financial instruments[1]
in EUR mn



1) The financial instruments can be reconciled to the balance sheet line items liabilities to customers, liabilities to banks, securitized liabilities and subordinated capital

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Definitions and abbreviations

ABF
Asset-based Funding
BdB
Bundesverband deutscher Banken [Association of German Banks]
BRRD
Bank Recovery and Resolution Directive
CCO
Chief Clients and Products Officer
CEO
Chief Executive Officer
CET1 (Common Equity Tier 1)
Defined as the quotient of the core T1 capital excluding hybrid instruments and the sum of the riskweighted assets, expressed in %
CFO
Chief Financial Officer
CIO
Chief Investment Officer
CIR (Cost-Income-Ratio)
A cost efficiency ratio that measures administrative expenses in % of total income plus other operating income.
COO
Chief Operating Officer
CRO
Chief Risk Officer
CSR
Corporate Social Responsibility
CTO
Chief Technical Officer
DSGV
Deutscher Sparkassen- und Giroverband [German Savings Bank Association]

EaD
Exposure at Default
EdB
Entschädigungseinrichtung deutscher Banken [Compensation Scheme of German Banks]
FTE
Full time equivalent
Imug
Institut für Markt-Umwelt-Gesellschaft
[Institute for Market-Environment Society]
IFRS
International Financial Reporting Standards
LCR (Liquidity Coverage Ratio)
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.
M&A
Mergers & Acquisitions
NPE Ratio (Non Performing Exposure)
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.
NSFR (Net Stable Funding Ratio)
Was introduced to ensure structural liquidity. The NSFR is defined as the ratio of available stable funding amounts to the required stable funding
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.

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Management system and defined management indicators of the IFRS Group

The Bank's integrated management system is aimed at the management of key value drivers on a targeted basis. The Bank (which was operating under the name HSH Nordbank AG up until February 4, 2019) uses a risk-adjusted key indicator and ratio system for this purpose that ensures that the Overall Bank are managed in a uniform and effective manner. The Hamburg Commercial Bank Group is managed mainly on the basis of figures for the Group prepared in accordance with the International Financial Reporting Standards (IFRS) and/or the relevant prudential rules.

Within the management reporting framework, the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. On the one hand, the focus is on how these key indicators changed compared to the previous year and, on the other, on how they are expected to change in the future. The Group management report for the 2019 financial year will contain further information on the management system and defined management parameters of the Hamburg Commercial Bank Group as well as disclosures.