Hamburg Commercial Bank

Investor Presentation

Preliminary IFRS Group Result as at 31.12.2020

11th February 2021

Highlights 2020 – Increase in core earnings with excellent capital position and sound asset quality amid Covid-19 crisis

Improving Earnings & Strict Cost Controls

- ✓ **Core Income**[1] increased by +19% to EUR 560mn; **NIM**[2] strongly improved to 117bp (+42bps), above German market level, progressing towards EU levels
- ✓ **OPEX**[3] reduced by 12% to EUR 365mn, **CIR**[4] decreased to 42%, due to EUR 48mn lower costs and one-time income gains; **FTEs** reduced by 360 to 1,122 (24% workforce reduction in 2020)
- ✓ **LLP** of net EUR -188mn, conservative provisioning to be prepared for additional Covid-19 challenges
- ✓ **PBT** of EUR 257mn and **Net Income** of EUR 102mn driven by expanding NIM, lower costs and supported by net positive one-off effects (e.g. building sales). Tax expense driven by reduction of DTA position

Proactive De-Risking, Solid Credit Quality & Very Strong Capital

- ✓ **Comprehensive de-risking** started in 2019, in advance of Covid-19 crisis
- ✓ **Total Assets** reduced to EUR 33.8bn (down 29%) with **Off-b/s** exposure reduced to EUR 5.2bn (down 35%)
- ✓ **Risk-Weighted Assets (RWA)** reduced by 26% to EUR 15.5bn
- ✓ **NPE** kept stable at 1.8%, despite Covid-19 situation with very solid **coverage ratio** of 48%[5], rising to 158% coverage when including collaterals and reserve overlays to cover potentially more adverse scenarios
- ✓ **Gross new business** reduced on a selective basis to EUR 2.9bn (PY: EUR 7.2bn) with continued profitability improvement driven by strict risk/return requirements and additional diversification
- ✓ **CET1 ratio**[6] improved significantly to 27.0% (PY: 18.6%) driven by lower RWA from de-risking efforts

Comprehensive Transformation

- ✓ **Moody's Issuer Credit Rating (Long-Term)** improved to Baa2 positive outlook
- ✓ Delivering on one of the most **comprehensive transformation** agendas in the German banking sector
- ✓ **Transformation** focused on delivering **cost savings**, improving **balance sheet efficiency**, building **capital**, and increasing **recurring profitability**
- ✓ **Investing in IT-Transformation** to realize over 40% IT savings & improve product and servicing capabilities
- ✓ **Holistic ESG implementation**…embedding ESG in our strategic framework

1) Core Income as part of the total income, pls see also page 6 | 2) NIM: Core NII / avg. b/s | 3) OPEX divided in "Run-the-bank" (RTB) and "Change-the-bank" costs (CTB), constituting primarily investments in IT and, to a lesser extent, new hires to advance capabilities I 4) Including one-off effects I 5) NPE Coverage ratio$_{AC}$ | 6) CET1 ratios same-period, PY not in-period of 18.5%

Transformation Roadmap – Keep progress on capital and asset quality and further build recurring profitability

Transformation launched

2019

Post-Privatization Transformation

- ✓ PC-Restructuring (~1,000 lower FTE)
- ✓ Strengthen capital
- ✓ Streamline products & low return clients
- ✓ Pricing discipline
- ✓ Lower funding costs
- ✓ Smaller b/s
- ✓ IT transformation Roadmap
- ✓ SP benchmark issuance

KEEP Capital & Credit Quality

2020

De-Risk & Build Capital

- ✓ Resolve existing NPEs
- ✓ Reduce exposure to potential new NPEs under stress scenarios
- ✓ Strict controls/pricing on new loans/prolongations
- ✓ Other capital actions (e.g., Building Sale)
- ✓ SNP benchmark issuance

BUILD Recurring Profitability

2021

BdB KPIs, Expand Margins & Recurring Profitability

- Deliver on cost targets (personnel & operating costs)
- Pricing discipline and asset mix to grow NIM
- Manage portfolio quality throughout Covid-19
- Further de-leveraging to exit low performing loans
- Broaden capital market access
- Improve rating position
- **BdB Entry** envisaged for January, 1st 2022

Complete Transformation & Position for Growth

2022+

Transition to sustainable profitable bank, SVA+

- OPEX @ EUR ~240mn
- Portfolio NIM >150bps
- IT transformation to be completed in 1H22

- ➢ Specialized lender
- ➢ Objectively superior KPIs (CIR @ 40-45%, After Tax ROE > 9%, strong capital ratios, improving margins)
- ➢ Valuable partner to our customers

Build recurring profitability and ensure BdB entry following 2021 → Well positioned for 2022+

KPI development 2020 – Well on track to achieve overall transformation targets

(Figures in EUR)

		2019	Prelim 2020	vPY	Prelim 2020 Comments
Increase Profitability & Returns	**Core Income**[1] (mn)	472	560	19%	• Strict pricing, improved asset allocation & b/s efficiency; funding costs down by ~45% (reduced b/s & lower cost of funds) • Net Income supported by one-time gains incl. building sales, more than offsetting Covid-19 related LLP increase
	Net Income[2,5] (mn)	12	102	>100%	
	Return on Equity[3,5] (%)	0.4	4.0	3.6% pts	
Reduce Expenses	**OPEX**[4] (mn)	413	365	-12%	• 48mn OPEX reduction while investing 43mn in CTB (primarily IT) • FTE further reduced to 986 as of Jan 1, 2021. Restructuring fully provisioned in 2018/2019 • CIR benefitting from one-off-gains in 2020
	Headcount (FTEs)	1,482	1,122	-24%	
	Cost-Income Ratio[5] (%)	69	42	-27% pts	
De-risk & Build Capital	**Total Assets** (bn)	47.7	33.8	-29%	• Proactive de-risking started in 2019, including selective new business & prolongations • NPE action plans kept NPE-ratio flat despite Covid-19 impact and smaller b/s • Excellent capital position & substantial buffer to SREP requirements • Well-positioned for BdB entry
	RWA (bn)	21.0	15.5	-26%	
	NPE (%)	1.8	1.8	-	
	CET1 Ratio[6] (%)	18.6	27.0	8.4% pts	

1) Core Income as part of the total income, pls see also page 6 | 2) After taxes | 3) ROE after taxes at 14% CET1 I 4) OPEX divided in "Run-the-bank" (RTB) and "Change-the-bank" costs (CTB), constituting primarily investments in IT and, to a lesser extent, new hires to advance capabilities I 5) Including one-off effects | 6) CET1 ratios same-period, 31.12.2019 not in-period of 18.5%

Objectives 2022 – Further transformation will focus on executing cost reductions, asset quality and improving recurring profitability

(Figures in EUR)

		Prelim 2020	Objectives 2022	2022 Comments
Increase Profitability & Returns	**Core Income**[1] (mn)	560	>520	• Core income supported by NIM expansion to >150bps & improving asset mix on smaller b/s
	Net Income[2,5] (mn)	102	>200	• Benefits of cost restructuring realized in run rate
	Return on Equity[3,5] (%)	4.0	>9.0	• Strengthening recurring profitability…business model designed to cover cost of capital
Reduce Expenses	**OPEX**[4] (mn)	365	~240	• Sharp drop in expenses since start of transformation driven by employee restructuring (~60% workforce reduction), 40mn+ savings from IT transformation, and over 8mn savings from reduced facility footprint
	Headcount (FTEs)	1,122	~700	
	Cost-Income Ratio[5] (%)	42	40-45%	• Target CIR in line with best-in-class peers
De-risk & Build Capital	**Total Assets** (bn)	33.8	~30	• Strict return thresholds…build/grow SVA positive asset classes…exit lower performing segments
	RWA (bn)	15.5	<19bn	• Increase in RWA due to change in rating model landscape and selective new business
	NPE (%)	1.8	<2.0	• Stable asset quality & resilient capital levels
	CET1 Ratio[6] (%)	27.0	>20	• Strong capital & recurring earnings support dividend capacity

1) Core Income as part of the total income, pls see also page 6 |2) After taxes | 3) ROE after taxes at 14% CET1 I 4) OPEX divided in “Run-the-bank” (RTB) and “Change-the-bank” costs (CTB), constituting primarily investments in IT and, to a lesser extent, new hires to advance capabilities I 5) Including one-off effects in 2020 e.g. building sales | 6) CET1 ratio same-period

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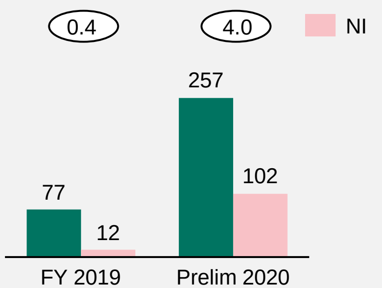
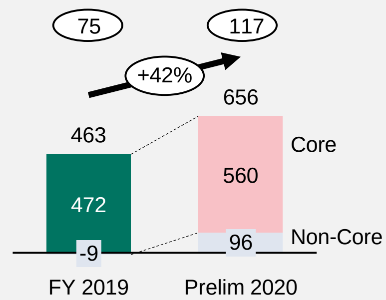
Strong performance in 2020, solid KPI set supported by improving core earnings and one-time events

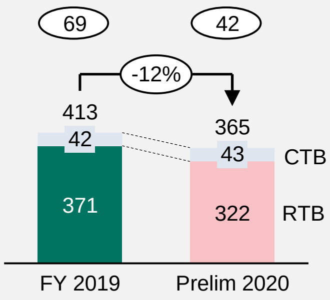
PBT / NI & ROE[1]: Sound operating performance and one-offs[2]
in EUR mn / %



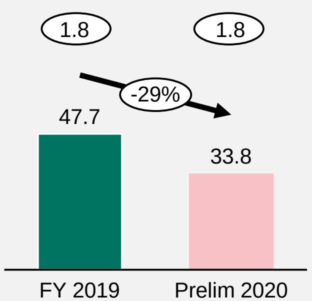
Total Income[2] & NIM[3] : Improved Core Income of 19% (yoy)
in EUR mn / bp



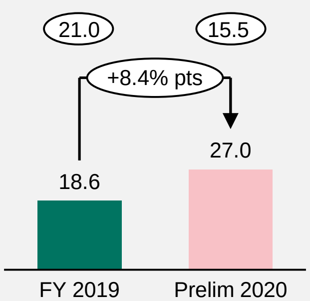
OPEX[4] & CIR[2]: Cost control while investing in the future
in EUR mn / %



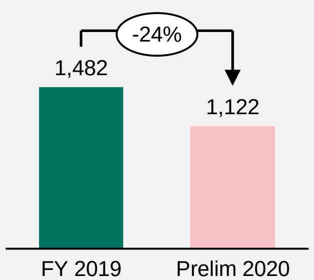
B/S & NPE: De-risking to ensure asset quality & sound NPE ratio despite crisis
in EUR bn / %



CET1 ratio[5] & RWA: Ratios significantly strengthened to very resilient levels
in % / in EUR bn



Headcount: FTEs significantly reduced with advancing transformation
in FTE



Decreasing costs, rising core income and strong capital underline HCOB transformation

1) Profit before taxes, Net Income and RoE after taxes | 2) Including one-off effects | 3) NIM: Core NII / avg. b/s | 4) OPEX divided in "Run-the-bank" (RTB) and "Change-the-bank" costs (CTB), constituting primarily investments in IT and, to a lesser extent, new hires to advance capabilities | 5) CET1 ratios same-period, 31.12.2019 not in-period of 18.5%

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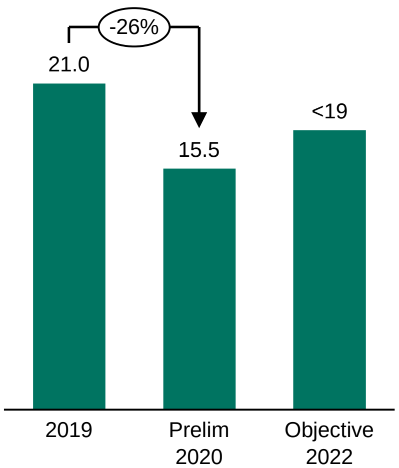
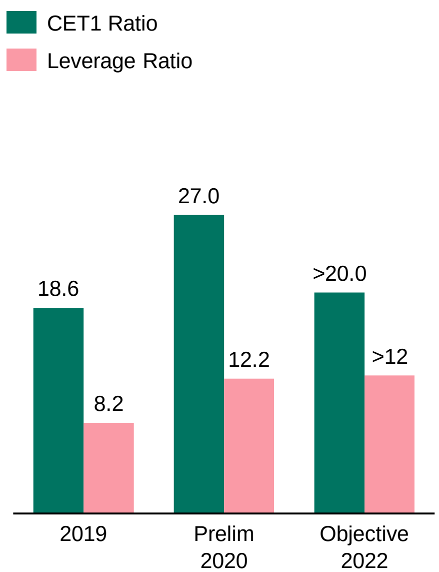
Strong Capital – Robust buffer for even more adverse scenarios

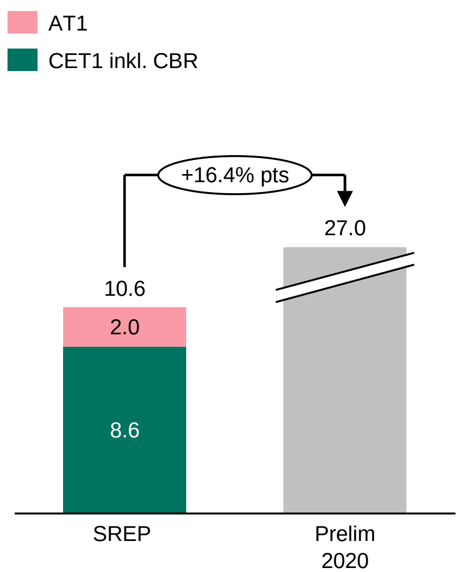
Risk weighted assets
in EUR bn



CET1[2]/T1 and Leverage Ratio
in %



SREP CET1/T1 capital requirements
in %



- RWA down by 26%, moderate rating migrations more than offset by significant de-risking and reduced new business

- Excellent capital position, reflecting impact of de-risking efforts
- Very strong leverage ratio of 12.2% underlines resilient capital position

- Significant capital surplus well above regulatory capital requirements, +16.4% pts above minimum
- T1 capital requirement reduced to ca.[1]10.6% (FY 2019: 12.1%) - lower SREP Pillar 2 Requirement (P2R) and ECB COVID-19 relief
- Additional Pillar 2 Guidance (P2G) of 1.0% generally applies

1) Minor fluctuations due to change of counter-cyclical buffer possible | 2) CET1 ratios same-period, 31.12.2019 not in-period of 18.5%

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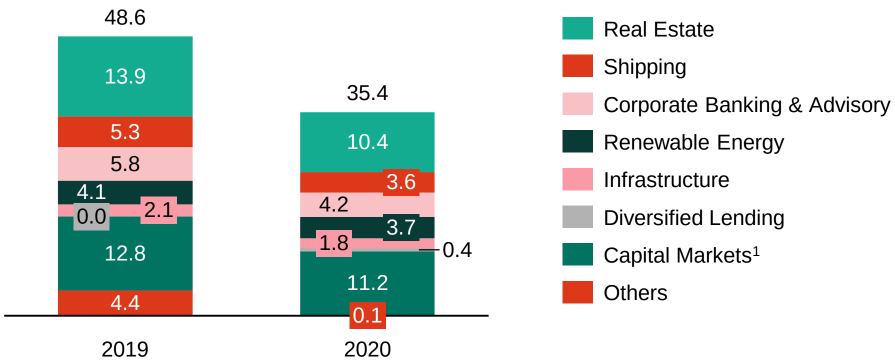
Diversified portfolio with manageable exposure in Covid-19 impacted sectors, limited stage migration in 2020

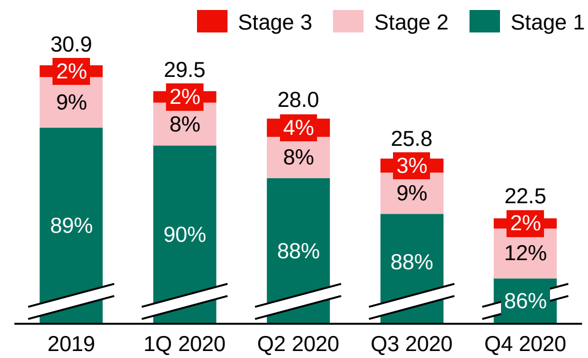
Portfolio composition by asset classes

EAD in EUR bn



Development of IFRS 9 stage migration

Total loan portfolio (b/s), in EUR bn, share in %[2]



- **Comprehensive de-risking strategy initiated in Q4 2019** positioned bank well for challenges arising from COVID-19 crises
- Cyclical HCOB exposures are primarily parts of **CRE** - **hotels** (EUR 0.8bn, all in Germany and mostly owned by large international brands) and **retail** (focus on shopping malls & department stores, amounting to EUR 0.9bn of EUR 2.9bn retail in total). **Shipping exposure diversified across sub-segments** with very limited exposure in offshore (EUR 0.03bn) and no cruise ship exposure (EUR 0.1bn commitment for 2021, 95% ECA coverage)
- Very limited exposure to **automotive and machinery** sectors (EUR 0.3bn) and to **travel and leisure** (EUR 0.2bn)
- Major parts of the portfolio (**Corporates, CRE**) are focused on Germany, thus should benefit from expansive macro measures by German government

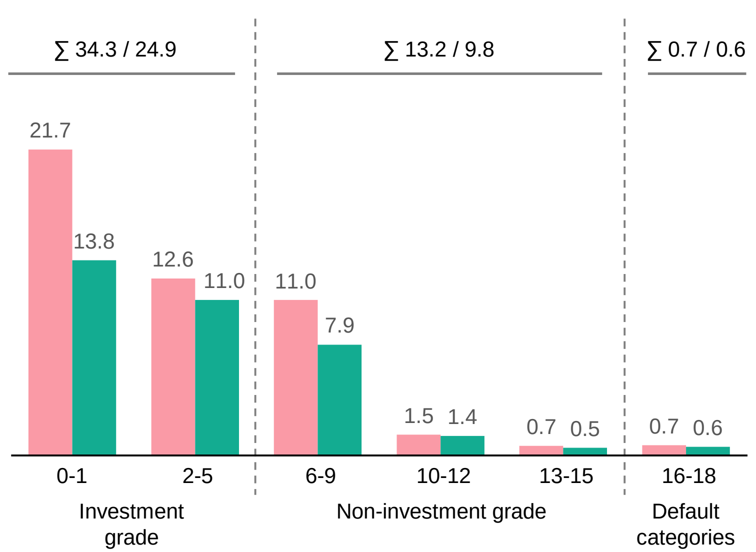
- Overall reduction of loan book from 30.9bn € (2019) to 22.5bn € is main driver for change in relative shares
- Moderate migration between stages 1 and 2 in 2020, with absolute amount of stage 2 loans decreasing from 2.8bn € to 2.7bn €
- Decrease of stage 3 from EUR 649mn (2.1%) to EUR 545mn (2.4%) due to stringent de-risking

1) Incl. Financial Institutions and Global Sales | 2) Total loans and advances to customers and financial institutions categorized at cost (AC)

NPE volume significantly reduced due to strict de-risking, NPE ratio stable despite crisis and significantly lower b/s volume

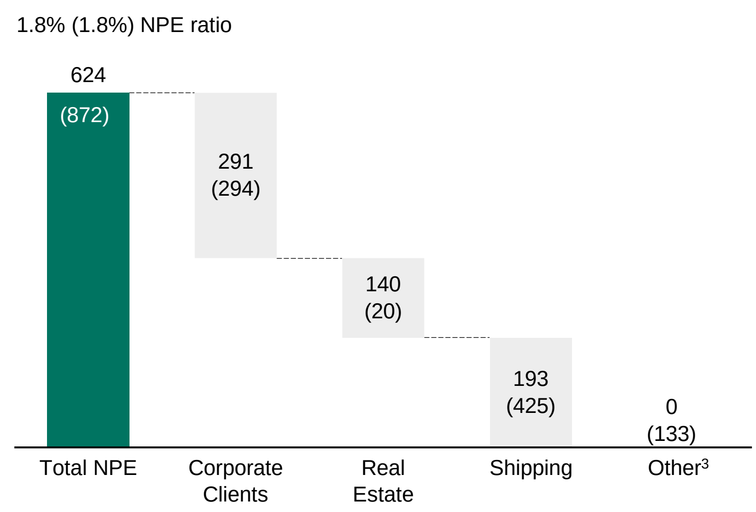
Portfolio by rating category[1]

in EUR bn, EaD, total volume of EUR 35.4bn (EUR 48.6bn)



NPE by client division[2]

in EUR mn, EaD (YE 2019)



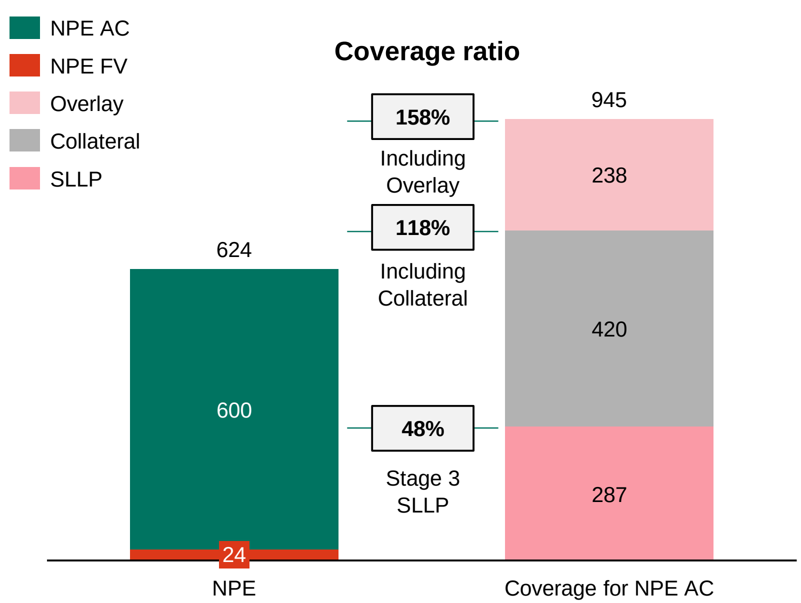
- **Active de-risking:** NPE volume in 2020 reduced from EUR 0.9bn to EUR 0.6bn due to pro-active de-risking, keeping NPE ratio stable at 1.8%. Strong decrease of NPE volume driven by resolving large shipping legacy cases. Moderate rating migration
- The **NPE coverage ratio** for non-performing loans was a **solid 48% at year-end** (PY: 57%); **including collateral, the ratio is 118%**. In addition, the bank has a substantial stock of GLLP, resulting in a very high coverage ratio of 158% when all risk provisioning components are taken into account and thus a substantial buffer for cushioning against further negative COVID 19 impacts

1) Rating distribution not including events after reporting date; total EaD incl. EUR 0.1bn unrated exposures, previous year EUR 0.3bn | 2) 2019 figures including events after reporting date | 3) Shipping

Solid NPE coverage by SLLP, collateral and overlay provide substantial cushion for further adverse Covid-19 impacts

Bank portfolio is well covered by different layers of LLP and FV adjustments

in EUR mn



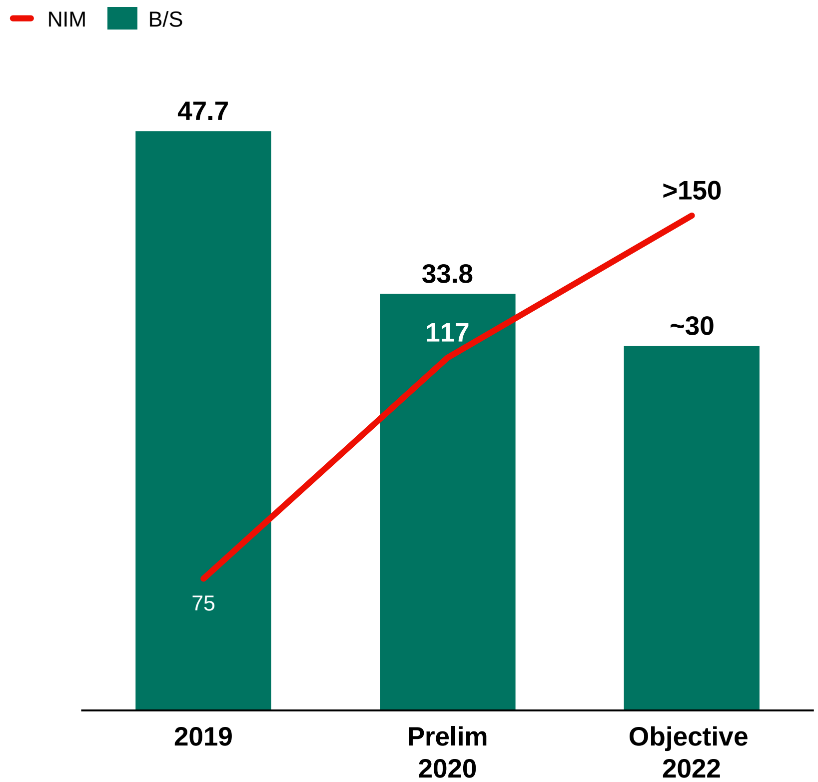
- **Total stock of NPE** consisting of EUR 600mn NPE_{AC} and EUR 24mn NPE at FV
- For NPE_{AC} risks are well covered by:
  - **SLLP** (Stage 3 LLP) resulting in coverage ratio of 48%
  - **Including the collateral** on the NPE_{AC} the coverage ratio rises to 118%
  - **Further including overlays** for additional potential portfolio risks, the coverage ratio increases to 158%
- Very **strong coverage of potential risks in customer loan book**: total LLP on b/s customers loans at strong 2.5%
- Furthermore to these LLP, conservative use of **FV adjustments** on loans which are valued at FV

Strong buffers provide risk shield & significant P&L cushion in case of more adverse Covid-19 effects

Sustainable Profitability – Improving NIM generated by a more productive b/s and competitive cost of funds

Net Interest Margin (NIM)[1] increases as b/s becomes more profitable

in bp, in EUR bn

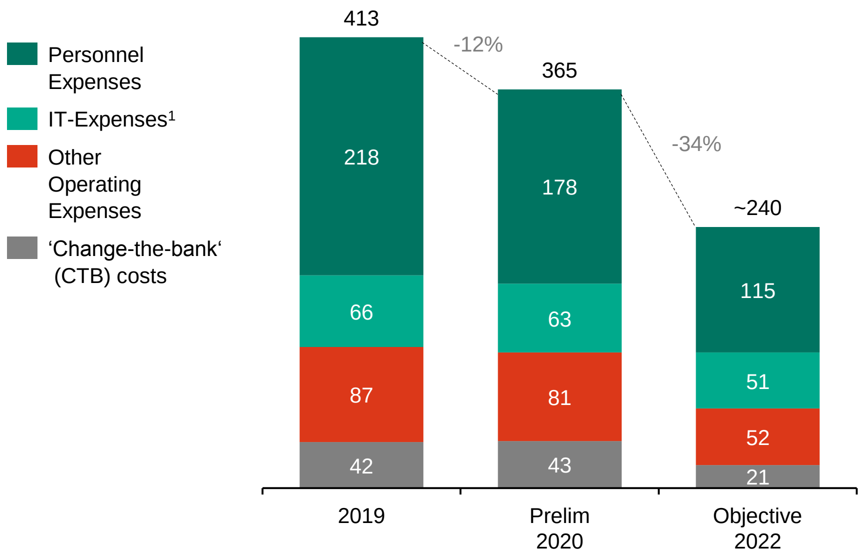


- Solid NIM trend (75 bps to 117 bps) reflects strict pricing discipline, introduction of higher margin diversifying exposures and lower funding costs
- NIM as of YE 2020 (point in time) at 127 bps …strong sign of profitability trajectory
- TLTRO participation (EUR 3bn) beneficial for funding costs
- Share of profitable interest bearing assets on b/s is increasing
- NIM above German market average[2] (100bps), progressing towards EU levels[2] (130bps)

1) NIM: Core NII / avg. b/s I 2) Source: EBA Risk Dashboard, Q3 2020

Sharp Cost Reduction – Clear focus on what we control while investing in modernizing the IT platform

Efficient operating model is key to reach targeted profitability levels
in EUR mn



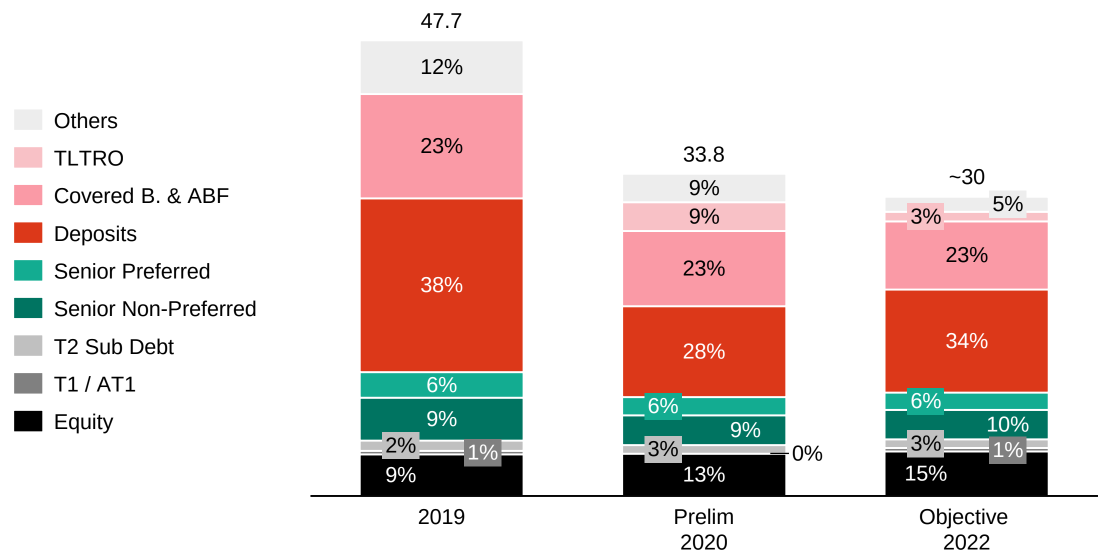
	2019	Prelim 2020	Objective 2022
FTEs	1,482	1,122	~700
Total Income	463	656	~550
CIR	69%	42%[2]	40-45%

- OPEX reduced by 12% in 2020, showing strict cost control while investing in the future
- Organizational restructuring, IT savings and process simplification driving cost reductions
- Investments in modern IT-landscape and process automation support process efficiencies
- FTE reduction of almost 60% from 2018 of 1,716 FTE until 2022 with a target of ~700 FTE; 92% of planned FTE reduction already contracted

1) Total savings of EUR ~40mn from IT related expenses including CTB and personnel expenses | 2) Including one-off effects

Improved Liability Structure – Solid liquidity position at further reduced funding costs

Liability structure by instruments & average costs of funds
in EUR bn



Average costs of funds (bps)	105	58	

Liquidity
LCR 171%
NSFR 111%

- Lower funding costs increasingly becoming major driver for positive NII trajectory
- While high-priced legacy instruments are bought-back / maturing, new issuances with lower spreads are being issued…funding costs will further improve over time
- Reduction is further supported by decline of interest rates and participation in TLTRO

Rating reflects HCOB's strong capitalization, substantially de-risked asset portfolio and significant liquidity buffer

Key Credit Strengths

- ✓ Robust and resilient capitalization, well above regulatory requirements and peers
- ✓ Substantially de-risked and simplified asset portfolio underpinned by legacy disposals and conservative new business with prudent risk appetite and improving diversification, amid macroeconomic uncertainty
- ✓ Strong coverage of credit risks
- ✓ Progress towards diversifying the funding base, extending the maturity profile & maintaining substantial liquidity buffer
- ✓ 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
- Admission to BdB's (Association of German Banks) Deposit Guarantee Fund (ESF)

Ratings Overview[1]	Moody's	S&P
Issuer Ratings		
Deposit Rating	Baa2	–
Issuer Credit Rating (Long-Term)	Baa2 / positive	BBB / negative
Short-term Debt	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)		
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/

HCOB ESG program with significant progress & key achievements in 2020

- HCOB's **ESG Guiding Principles** defined
- ESG applied to **credit standards & black list implemented**
- **ESG-scoring** of all **new business** started
- **Principles for Responsible Banking and UNEP FI membership** signed and externally promoted
- **Sustainability section on HCOB's website launched** along with **comprehensive ESG-Factbook**
- First steps for a **CO2 neutral banking operation** undertaken
- **Sustainability rating agencies** recognizing improvements: Sustainalytics to 14 ("Low risk"), imug rating to "positive" (BB)

Embedding ESG in our strategic framework

2021 Outlook – Capital, Asset Quality and Profitability

(Figures in EUR)

		2020 Preliminary	2021 Outlook
Strong Capital	CET1[1] %	27.0%	• Maintain excellent capital levels • Resilient position for potentially adverse Covid-19 scenarios • Selective use for additional new business
Sound Asset Quality	NPE %	1.8%	• Continue strict NPE management towards target below 2% • Strong coverage ratios heading into ‘21
Improving Profitability	NIM[2]	117 bps	• 20+ bps increase (FY avg), ~150bps by YE21
	OPEX	365mn	• ~12% reduction to < 320mn; FTEs down ~20%
	Net Income[3]	102mn	• 135mn+ with no one-time gains planned & smaller b/s
	ROE[4]	4.0%	• 6%+ ROE in ‘21, covering cost of capital in ‘22

Strong KPI Set with clear execution plans … Well positioned for BdB entry following 2021

1) CET1 ratio same-period | 2) NIM: Core NII / avg. b/s I 3) Net income after taxes, including one-off effects 4) ROE after taxes at 14% CET1 ratio, including one-off effects

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Appendix

Prelim P&L 2020 – Net interest income benefits from one-off effects and drives increase of total income

P&L overview (in EUR mn, IFRS)	HCOB Group		
	Prelim 2020	2019	Change in %
Net interest income	629	321	96
Net commission income	48	61	-21
Result from hedging	5	-2	>100
Result from financial instruments categorized as FVPL	-93	-19	>-100
Net income from financial investments	7	20	-65
Result from the disposal of financial assets classified as AC	60	82	-27
Total income	**656**	**463**	**42**
Loan loss provisions	-188	11	>100
Total income after loan loss provisions	468	474	-1
Administrative expenses	-365	-413	-12
Other operating result	205	133	54
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-32	-51	-37
Net income before restructuring and transformation	**276**	**143**	**93**
Result from restructuring and transformation	-19	-66	71
Net income before taxes	**257**	**77**	**>100**
Income tax expenses	-155	-65	>100
Group net result	**102**	**12**	**>100**

Comments

- NII (EUR 629mn) increases by 96% yoy, incl. positive valuation effects from hybrid financial instruments (EUR 72mn) in contrast to EUR -181mn negative effects in 2019
- NCI (EUR 48mn) decreases, mainly driven by lower b/s and less new business as well as retreat from non-profitable product groups
- FVPL (EUR -93mn) negatively impacted by valuation effects (e.g. from credit spreads)
- Increase in Loan loss provisions (EUR -188mn) due to prudent approach in covering future risks from ongoing Covid-19 crisis
- OPEX (EUR -365mn) reduced by 12% yoy despite investments in IT-transformation
- Improvement in other operating result (EUR 205mn) primarily driven by gains from sales of buildings of around EUR 150mn
- Strong Net income before taxes of 257mn €, benefitting from sound operating business and one-offs
- Group net result (EUR 102mn) includes high tax burden due to reduced DTA, income taxes are expected to normalize in the next years

Prelim B/S 2020 – Systematic further reduction in total assets

Balance sheet (in EUR mn, IFRS)	Prelim 2020	2019	Change in %
Cash reserve	1,741	4,850	-64
Loans and advances to banks	1,558	2,521	-38
Loans and advances to customers	22,478	30,708	-27
Loan loss provisions	-569	-708	-20
Trading assets	1,544	2,663	-42
Financial investments	5,459	6,100	-11
Non-current assets held for sale and disposal groups	634	355	79
Other assets	970	1,223	-21
Total assets	**33,815**	**47,712**	**-29**
Liabilities to banks	7,478	5,066	48
Liabilities to customers	13,104	23,966	-45
Securitised liabilities	5,670	7,845	-28
Trading liabilities	686	1,946	-65
Provisions	634	1,699	-63
Subordinated capital	940	1,349	-30
Equity	4,344	4,350	0
Other liabilities	960	1,491	-36
Total liabilities	**33,815**	**47,712**	**-29**

Comments

- In line with de-risking strategy, Group's total assets continued to decline as planned, falling by almost EUR 14bn (approx. 30%); decline is reflected in almost all major b/s items
- On the asset side, decline is mainly driven by loans and advances to customers and further supported by lower cash position due to optimized liquidity position
- On the Liability side, the decline is particularly evident in liabilities to customers, but also in securitized liabilities
- Increase in liabilities to banks reflects use of TLTRO (EUR 3bn); decrease in liabilities to customers mainly driven by balance sheet reduction and accompanying decrease of required fundings

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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 2020 financial year will contain further information on the management system and defined management parameters of the Hamburg Commercial Bank Group as well as disclosures.