

Financial Report 2020

of Hamburg Commercial Bank AG

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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. Due to rounding, numbers presented throughout this report may not add up precisely to the totals shown and percentages may not precisely reflect the absolute figures.

Basis of the Group

Business activities

Transformation programme

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

The Bank's realignment, based on the strong commitment of its international owners, is associated with a far-reaching and comprehensive transformation phase spanning a period of several years, which is designed to transform the Bank into an efficient specialist finance provider that is profitable in the long run. Two years after the start of this transformation programme, significant successes have already been achieved, which is also reflected in the significantly improved KPIs as at the reporting date (see also the information provided in the section entitled "Earnings, net assets and financial position"). 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**").

Based on the implementation of these packages of measures, the Bank is aiming for a CET1 capital ratio of more than 20%, an NPE ratio of less than 2%, a cost-income ratio of 40-45% and after-tax profitability (calculated based on a standardised regulatory capital commitment) above 9% by 2022.

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, Real Estate, Shipping and Diversified Lending & Markets. From 2020 onwards, the asset and liability management (ALM) positions, including the liquidity reserve, will be reported in the Diversified Lending & Markets segment. The earnings effects of the ALM positions are allocated to the segments. The previous year's figures have been adjusted accordingly. The administrative divisions are disclosed as segments not subject to reporting requirements in the "Other and Reconciliation" division.

The structure of the segments, a description of the business areas they contain and the business strategies pursued in the segments are described in this chapter in the section entitled "Strategic direction for the business areas" as well as in the section "Segment results".

The Bank still has branches abroad, namely in Athens and Luxembourg, as well as a representative office in London, in line with its focused direction. The Singapore branch was closed in the reporting year. The Bank decided to embark on a realignment project for the Luxembourg branch in 2020. The future focus of this branch will be on the Diversified Lending

division, as well as on asset management activities for plan assets related to the Bank's actively managed pension liabilities. 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 twelve fully consolidated subsidiaries as at the reporting date (31 December 2019: 26 fully consolidated subsidiaries). The significant reduction in the scope of consolidation is consistent with the focused orientation of the Bank's business model.

While there were no additions compared to the previous year's reporting date, 14 subsidiaries were disposed of during the reporting period. These disposals are mainly due to the divestment of the private equity activities managed through the Capcellence Group and to the internal reintegration of HCOB Facility Management.

Further details on the changes in the scope of consolidation and their impact on the Group's income statement can be found in Note 4 (Scope of consolidation) in the notes to the Group financial statements.

In the reporting year, Hamburg Commercial Bank AG concluded a control and profit transfer agreement with BINNEN-ALSTER-Beteiligungsgesellschaft mbH, Hamburg. This company in turn has concluded a control and profit transfer agreement with GmbH Altstadt Grundstücksgesellschaft, Hamburg.

Shareholder structure

Since 28 November 2018, Hamburg Commercial Bank has been owned 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:

Shareholder 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 Aktien- gesellschaft	HCOB Current and former Management Board Members (who are or were in office from November 2018)
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		
9.88%	13.88%	18.72%					
42.48%			34.98%	12.49%	7.5%	2.5%	0.05%

Hamburg Commercial Bank's Management Board reduced from six to five members

At its meeting held on 26 August 2020, the Supervisory Board decided to comply with Oliver Gatzke's request and to terminate his Management Board mandate as CFO/CTO with effect from 31 August 2020.

With the departure of Mr Gatzke, the number of members of Hamburg Commercial Bank's Management Board was reduced from six to five. The Management Board of Hamburg Commercial Bank consists of: Stefan Ermisch (CEO), Ulrik Lackschewitz (CRO/Deputy CEO), Ian Banwell (CFO), Dr Nicolas Blanchard (CCO) and Christopher Brody (CIO).

At its meeting held on 3 December 2020, the Supervisory Board decided to extend the contracts of Stefan Ermisch and Ulrik Lackschewitz ahead of schedule until 31 December 2023 and 30 June 2023 respectively, ensuring continuity for the future of Hamburg Commercial Bank even after the transition to the BdB, which is scheduled for the beginning of 2022.

Further information on the members of the boards is set out in Note 58 (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 guarantee fund consists of the Compensation Scheme of German Private Banks (EdB, statutory deposit guarantee fund) and the voluntary deposit protection fund of the Association of German Banks (ESF). The scope of ESF deposit guarantee fund is governed in particular by Section 6 of the Statute of the deposit guarantee fund.

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. In the reporting year, the Bank also defined processes for COVID-19-related measures.

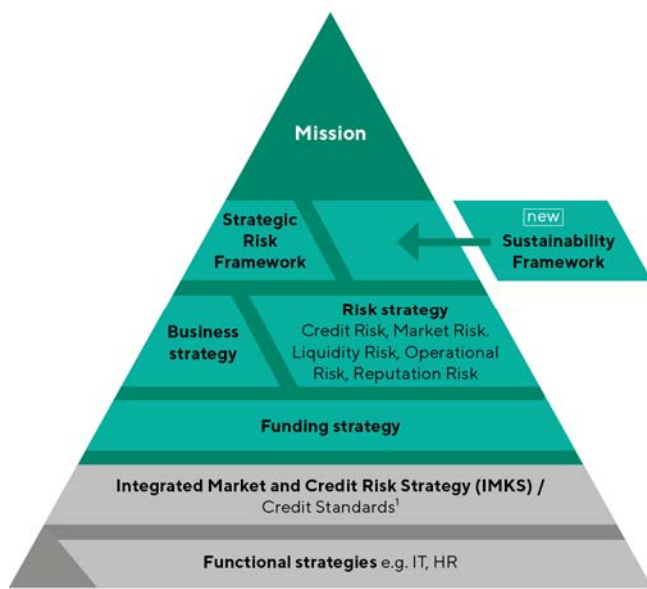
Objectives and strategy

Hamburg Commercial Bank is committed to clarity and, as a privatised commercial bank and specialist finance provider, 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



¹ IMKS (German: Integrierte Markt- und Kreditrisikostategie) focuses on the definition of credit standards and operationalising business and risk strategies.

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. Key aspects related to sustainability risks have been incorporated into the SRF. 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. The Bank made significant progress in the area of sustainability in the year under review. For further details, please refer to the chapter entitled “Business development – significant developments and events in the 2020 reporting year”. 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 and 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 advisory areas of Capital Structuring & Leveraged Buy-Out, Cash & Trade Services, Factoring and Leasing in addition to the corporate client teams.

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.

The Global Sales & Syndicate segment combines the sales activities for capital market-related products and payment transaction products with an adjusted, forward-looking product range, syndication activities and client support for savings banks, banks and institutional clients.

The **Real Estate** segment has a risk-conscious focus, taking the development of the 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 experienced 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 and in the US. Since Diversified Lending 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 derivatives portfolio, 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 2021 and the 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 (before and after taxes), 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 after taxes (return on equity after taxes)	RoE after taxes is calculated as the ratio of Group net result to average reported equity and shows the return on capital. The risk-adjusted allocation of the average reported equity is determined on the basis of standardised 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 the other operating result.
CET1 ratio (Common Equity Tier 1)	The CET1 ratio is defined as the quotient of the core Tier 1 capital excluding hybrid instruments and the sum of the risk-weighted assets, expressed as a percentage.
NPE ratio (Non-Performing Exposure)	The NPE ratio measures the sum of the risk positions (EaD, exposure at default) of borrowers in default as a percentage of the sum of the Bank's risk positions.
LCR (Liquidity Coverage Ratio)	The LCR represents the security provided to the Bank in the event of a short-term acute liquidity stress scenario of more than 30 days by maintaining a liquidity buffer (short-term stress test ratio). The LCR is calculated as the ratio of highly liquid assets to net cash outflows over the next 30 days. It is calculated at Group level for the purposes of internal control. The LCR is calculated without taking the institutional protection into account, i.e. taking into account the limit on the deposit guarantee for client deposits of € 100,000 per client.

Non-financial key management indicators

Rating	Credit ratings awarded by the rating agencies in relation to the issuer rating (long-term).
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Compared to the previous year, the RoE after taxes has been included in the information on the main key management indicators for the first time, in line with the increasing importance of this profitability ratio in the context of internal management, and replaces the RoE before taxes. This is because the information on the level after income tax expense allows the Bank to show the level of returns available to the owners. The RoE after taxes is presented for the first time in the context of the expected development for the 2021 financial year (see chapter "Forecast, opportunities and risks report").

The extent of the indicators used at Hamburg Commercial Bank for managing the overall bank goes far beyond the most important management indicators listed in this section.

Management uses many other supporting key performance indicators 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

Coronavirus pandemic triggers global recession

Global economic output fell rapidly in the wake of the coronavirus crisis. Although the economy showed signs of recovery in the second half of the year (especially in the third quarter), a significant slump can be observed for the year as a whole. The recession is emerging both in the world's industrialised countries and in the emerging markets. The global PMI purchasing managers' indices for the manufacturing and services sectors fell to all-time lows in April. By the end of the year, the indices had recovered despite the recent return to mounting infection rates. The bottom line is that the global economy is estimated to have contracted by 4.4% in 2020. China is the only major economy that grew last year.

The drastic slump in economic activity, especially in the first half of 2020, is the result of the lockdown measures taken in the wake of the pandemic, which wreaked havoc with supply chains and had a particularly lasting impact on large parts of the service sector. The crisis has resulted in a simultaneous negative supply and demand shock. Although the economy made a strong recovery in the third quarter as lockdown measures were temporarily lifted, the level of activity remained well below that seen prior to the outbreak of the crisis. The second coronavirus wave that hit in the fourth quarter put pressure on the economy again, especially in Europe. Inflation initially fell worldwide and even slipped into negative territory in the eurozone.

If we look at the world's major economic areas, the US, the eurozone and China, a more differentiated picture emerges, largely due to the local infection trends. While China, the country where the pandemic emerged, had already returned to growth in the second quarter and closed the year with an increase of around 2 percent, the growth figures for the US and the eurozone were clearly in the red.

The coronavirus crisis has largely overshadowed other economic policy issues. Nevertheless, the trade dispute between the US and China, as well as Brexit, continued to weigh on economic developments in 2020. A hard Brexit was averted at the very last minute, with an agreement being reached just in time for the turn of the year. The regulations that will govern the future economic and political relations between the EU and the UK still have to be ratified.

In view of the dramatic economic slump and the risk of a financial market crisis, the major central banks, the Fed and the ECB, have taken extraordinary monetary policy steps, at the same time signalling their readiness to take action whenever

they have to. The monetary policy measures came hand-in-hand with far-reaching fiscal policy steps. In both the US and the eurozone, extensive economic stimulus packages were adopted and furlough arrangements put in place.

In this environment, which is dominated by the pandemic, yields on German and US government bonds have fallen significantly since the beginning of the year. After initial massive setbacks, the stock markets seem to be pricing in a rapid recovery of the global economy and appeared to have decoupled from the actual economic trend in the second half of the year.

The euro/US dollar exchange rate was extremely volatile in the first half of the year, at times moving close to parity. The euro made massive gains in the second half, resulting in a strong euro at the close of the year.

Economy on a downward trajectory

Triggered by the coronavirus crisis, the US slipped into recession in the first and second quarters of 2020. Although the economy experienced a strong rebound of 7.5% (QoQ) in the third quarter, this was ultimately not enough to compensate for the dramatic losses seen in the first half of the year, especially since the coronavirus pandemic is far from over and new infections have recently increased again. As a result, the International Monetary Fund (IMF) forecasts that US GDP dipped by an estimated 4.3% year-on-year in 2020. Unemployment figures shot up in April, rising to almost 15% at times. While the unemployment rate fell in the second half of the year, it still clearly outstripped the previous year's level of 6.7% at the end of the year.

The US election campaign prompted uncertainty on the markets in the second six months of the year. While the Democrats ultimately won the presidential election, ongoing accusations of election manipulation made by Donald Trump overshadowed Joe Biden's victory. The escalation of the trade conflict with China continued to weigh on economic developments in 2020.

In China, where the economy expanded by 6.1% in 2019, the coronavirus crisis also resulted in a significant drop in economic output. China was the first country to be hit by the pandemic, meaning that it felt the economic impact much earlier than most of the world. The number of infections with the then novel coronavirus started increasing dramatically in China as early as January. The resulting shutdown of Hubei province crippled a significant part of the Chinese economy in the first three months of the year. As a result, China's economy reached its low point back in the first quarter. Gross domestic

product fell by 10% (QoQ) during this period. While the situation in China stabilised in the second quarter (GDP: +11.6% QoQ), case numbers in Europe and the US continued to rise at the beginning of the second quarter. Despite limited sales opportunities and temporary disruptions in global supply chains, China had already returned to its old growth path by the fourth quarter. A v-shaped recovery emerged and the economy grew by 6% (QoQ) in the third quarter. Looking at 2020 as a whole, the IMF forecasts positive GDP growth of 1.9% (YoY).

In the eurozone, GDP is expected to have contracted by 8.3% (YoY) in 2020, according to IMF forecasts, as against +1.0% in 2019. GDP slumped in the first quarter of 2020 due to the coronavirus (-3.7%, QoQ). The low point came in the second quarter, when a decline of 11.7% (QoQ) was recorded. This was followed by a recovery of 12% in the third quarter (QoQ). The renewed far-reaching restrictions in many EU countries explain the negative growth seen in the fourth quarter.

The coronavirus crisis initially pushed the industrial sector, an already ailing branch of the economy, into a deep recession. A massive slump emerged for the year as a whole in each of the four major EMU economies (Germany, France, Italy and Spain). Manufacturing, however, is emerging from the crisis faster than many service sectors, which have been hit much more directly by the lockdown measures.

Germany's economy contracted by 5% in 2020 after growing by +0.6% in the previous year and shrunk by 1.9% (QoQ) in the first three months of 2020. Here, too, the trend reached its low point in the second quarter when GDP plummeted by 9.8% (QoQ). Following a recovery in the third quarter (+8.5% QoQ), we estimate that the economy stagnated in the fourth quarter. It is worth mentioning that the economic slump witnessed in Germany is less dramatic than in the rest of the eurozone. Unemployment, which has also risen significantly in Germany (with the unemployment rate sometimes reaching 6.4%), remains below the eurozone average. This is due to lower infection rates and relatively generous state aid. Mounting geopolitical risks also weighed on the economy, with Brexit, in particular, the cause of many headaches in 2020. News of an agreement allowed the eurozone economy to breathe a sigh of relief at the end of the year. Details on the implementation of the agreement will occupy the economy beyond 2020.

Drastic increase in central bank balance sheets, dwindling capital market interest rates, link between economic trend and stock markets severed

The ECB launched a pandemic emergency purchase programme (PEPP) in response to the coronavirus crisis. This programme allows the ECB to purchase bonds worth € 1.85 trillion. So far, a volume of around € 760 billion has been purchased. The ECB's balance sheet has risen sharply as a result. Compared to the previous year, total assets increased by 50%

to € 7 trillion. The previous limit on the proportion of government bonds of a member state that the central bank is entitled to hold was made more flexible at the same time. In addition, the ECB has relaxed the conditions for the furnishing of collateral and launched new targeted long-term tenders (TLTROs) in a quest to stimulate lending. Meanwhile, the ECB has left its key interest rate unchanged at 0%. The deposit rate remains in negative territory (-0.5%).

In May, the German Federal Constitutional Court issued a ruling questioning the proportionality of existing asset purchase programmes (PSPP). In the meantime, the Bundesbank and the lower house of the German parliament, the Bundestag, appear to have fulfilled the requirements imposed by the Federal Constitutional Court, meaning that there is no threat of restrictions on bond purchases from this side. The judgment does not relate to the PEPP programme.

The US Federal Reserve cut its key interest rate twice in the first quarter. Since then, the rate has been in the range of 0% to 0.25%. The Fed has also massively increased its balance sheet by making bond purchases. Its balance sheet increased by around 76% in 2020 to total USD 7.44 trillion.

On the stock markets, the coronavirus crisis caused what were, at times, hefty price losses for both the S&P 500 and the Dax. In mid-March, the Dax was trading at just under 8,400 points, but then lost almost 2,000 points within the space of a week. The S&P 500 also recorded losses on a dramatic scale. Both indices started to recover at the end of March and closed 2020 having made gains. In 2020, the Dax climbed by 3%, while the S&P 500 rose by 16%. It would seem that the stock markets have decoupled from the actual infection trend and the associated economic risk. The euphoria surrounding the vaccination launch gave both indices a further boost.

In an environment dominated by the coronavirus, yields on German and US government bonds fell significantly in the period leading up to mid-March. Ten-year Bund yields stood at -85 basis points at times and corresponding T-notes at 0.54% (both on 9 March 2020), before both embarked on a moderate upward trend. The ten-year Bunds were trading at -61 basis points at the end of the year and the corresponding T-notes at 0.95%, i.e. a significantly lower level than at the beginning of the year.

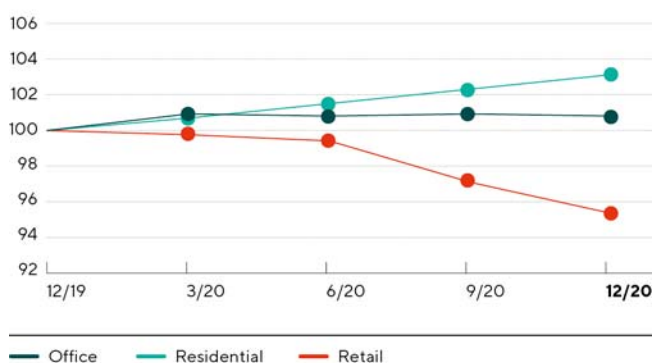
The euro/US dollar exchange rate was extremely volatile in the first half of the year. In March, the euro was trading at 1.07 US dollars at times, its lowest level for the year. In the second half of the year, the euro made ongoing gains against the US dollar. By the end of the year, the exchange rate was 1.23 US dollars/euro, which also marked its high point for the year. Over the year, the euro gained 9.5% against the US dollar.

Consequences of the coronavirus pandemic and associated recession have led to significant slowdown in relevant markets, with varying developments in some cases

Developments on the **German real estate markets** due to the consequences of the pandemic and the economic slump painted a very varied picture in 2020. While the residential property markets in major cities, in particular, continued to show positive development and escaped the crisis virtually unscathed, most commercial property markets were hit to varying degrees. With only a few temporary delays in spring, construction activity remained very brisk throughout the year despite the pandemic. Building permits and construction orders increased for residential properties and started declining in the summer for commercial properties. The crisis-resistant market segments continued to benefit from the extremely low interest rates, which have fallen again as a result of the crisis, and continue to represent an attractive investment alternative for investors.

Rents

(Indexed market average, 12/2019=100)



The **residential property markets** benefited indirectly from extensive government support measures for the labour market and the corporate sector. This served to limit the increase in unemployment, job losses and income losses. Nevertheless, the influx of people into the country's major cities and, as a result, demand are likely to have weakened slightly. The housing stock, on the other hand, grew noticeably again due to brisk construction activity, driving down excess demand in the markets in major cities. Together with the rent restrictions on city apartments, which have become more effective in the meantime, this meant that rents often only increased moderately. In the face of declining incomes, housing costs, which were already high, increased once again. As a crisis-resistant investment, residential property remained in demand in the year under review, meaning that prices rose significantly, albeit at a slower pace than in previous years.

In 2020, the **German office property markets** suffered from the sharp decline in the demand for space due to the deteriorating labour market situation. The number of office employees, for example, is likely to have stagnated for the most

part. By contrast, office completions increased noticeably for the third year in a row and exceeded demand for space. This meant that vacancy rates rose slightly for the first time in ten years, but still remained at a very low level. Thanks to this initial situation, rents started to stagnate in the spring. It was only in some inner-city secondary locations that a slight drop in rents emerged. The market values of office properties remained largely stable. Prices only rose slightly in a very small number of prime locations in some major cities, while they fell in some secondary city centre locations.

On the **retail property markets**, the pandemic deepened the division, which had already started to emerge, into market segments that were hit hard by the crisis and the structural shift towards online retail on the one hand, and areas that were either hardly affected or were not affected at all, especially in the area of local supply, in the reporting year. Among the properties affected by the crisis, shopping centres, department stores and, most recently, shops in central locations in major cities were hit particularly hard by falling rents. This is because these locations are home, in particular, to the textile retail sector, which was hit hardest by revenue losses due to temporary shop closures and changes in consumer shopping behaviour. On the other hand, food retail, but also DIY and furniture stores, benefited from rising revenue. Rents remained at least stable for these businesses, which are often located in retail parks in suburban locations. The market values of specialist retail parks with anchor tenants in the food retail sector actually increased in 2020. The retail properties affected by the crisis, on the other hand, fell significantly in value.

On the **European office property markets**, the much more pronounced recession in some countries led to a sometimes significant drop in the number of office employees. The resulting very weak demand for space was exceeded by an increase in office completions, pushing vacancy levels up considerably across the board. While rents and market values often stagnated until the middle of the year, they fell in the second half of the year in many markets, in some cases only moderately, while in some markets (such as London), the drop was more pronounced. In addition to the very deep recession in the United Kingdom, the future uncertain access of British financial service providers to the EU single market also proved to be a burden. This led to the ongoing relocation of jobs from the city on the Thames to mainland Europe.

In the German **manufacturing sector**, production output in 2020 was down significantly on the previous year, and the industrial recession that had already begun in the third quarter of 2018 continued in the year under review, driven by the coronavirus pandemic and lockdown measures of varying intensity, as well as weaker demand. All major sectors – with the exception of the construction sector (and the food industry, where production declined only slightly) – were on a pronounced downward trajectory, with the automotive sector recording a particularly sharp decline in production data.

In 2020, **wholesalers** once again recorded only extremely modest increases in revenue in the course of the pandemic compared with the same period of the previous year. The **retail sector**, on the other hand, which had already reaped considerable benefits from the consumer-driven economic growth in Germany in previous years also recorded a clearly positive revenue trend in 2020, with growth momentum actually increasing compared to the previous year. The individual retail sectors, however, showed very varied development owing to the lockdown measures: Food retail, which was not affected by mandatory closures, as well as furniture and furnishings retailers (an alternative way for consumers to spend their income due to the lack of travel or leisure opportunities) saw their revenues increase. The strongest growth witnessed was in online retail (e-commerce). Brick-and-mortar textile, clothing and shoe retail, on the other hand, suffered considerable revenue losses in 2020.

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. We expect to see further special effects in this sector in the short term as a result of the pandemic response. In the long term, too, a decentralised and efficient healthcare infrastructure (with a higher degree of digitalisation) could prove to be more highly valued.

In the **logistics sector**, revenue was already on a slightly negative trajectory at the beginning of the year and slumped significantly in the second quarter in the wake of the lockdown measures. Despite a recovery in the summer months, revenues after the first nine months of the year were still significantly below the same period of the previous year. Even though the share of e-commerce is growing disproportionately, this was not sufficient to compensate for the loss of order volume from industry and retail. Business climate measurements deteriorated again in November 2020 and are slightly below the October value, after a third quarter that was still characterised by a mood of optimism.

Global **project finance** volumes declined considerably in the first three quarters of 2020, were down by 9% year-on-year and only recorded a volume of USD 177 billion. While the project financing volume in the “Europe, Middle East and Africa” (EMEA) region was 6% lower than in the same period of the previous year, with a drop of 9% in the Americas, the financing volume in Asia fell the most dramatically, by 13%.

Investments in **transport infrastructure** significantly underperformed global project finance volumes in the first nine months of 2020 (-44%) and even declined by 76% in the EMEA region compared to the same period of the previous year. 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.

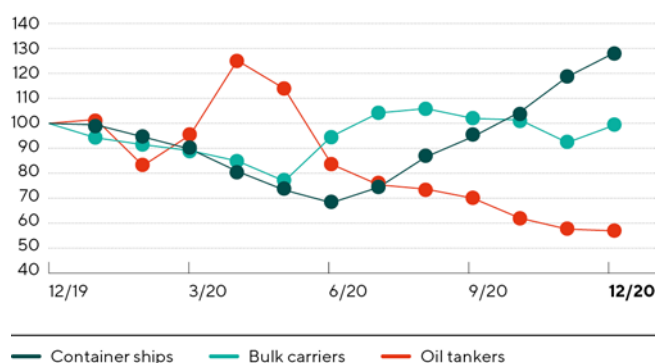
The expansion of **renewable energies** made further progress in the course of 2020, both in Europe and in Germany, although developments varied considerably. The switch to bidding procedures has led to a significant weakening of demand in Germany since 2018: After a very weak year of new installations in 2019, the gross capacity increase in the onshore wind energy sector in the first nine months of 2020 was 70% higher than in the same period of 2019, but also almost 70% lower than the average new installations seen in the comparable periods from 2014 to 2018. This means that this gross capacity increase represents one of the weakest phases seen since the introduction of the German Renewable Energies Act (EEG) back in 2000.

The expansion in the solar segment continued in Europe. In Germany alone, new installations in the photovoltaics segment are estimated to have come to well over five gigawatts in 2020, up by around one gigawatt on the prior-year value.

In the **shipping markets**, the impact of the coronavirus pandemic triggered enormous volatility during the reporting period, with developments in the three main segments varying considerably. Container vessels and bulkers were able to bounce back quickly from the slump in demand seen in the first wave, with container charter rates and especially freight rates experiencing a real boom, driven by special effects. Oil tankers were able to report huge levels of income in the second quarter and only felt the decline in transport demand later. The volatility in second-hand prices was much more restrained.

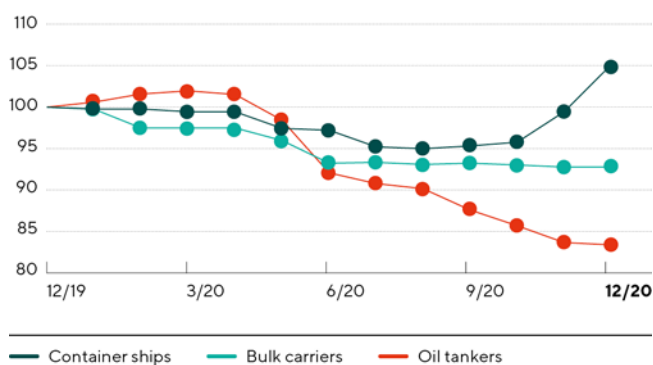
Time charter rates

(Indexed market average, 12/2019=100)



Secondhand prices

(Indexed market average, 12/2019=100)



The strict lockdown imposed in many regions in the period from February to May caused a sudden collapse in transport demand for **containers**. Shipping lines then joined forces and were able to keep freight rates stable, or even increase them, by reducing the number of voyages, returning chartered ships and decommissioning their own vessels. Charter rates gradually dropped, however, due to the large proportion of laid-up vessels. When transport demand recovered in the second half of the year and even significantly exceeded pre-crisis volumes, however, the entire market started to pick up. The first decisive factor was increasing consumption, as travel and a large number of services were restricted. In addition, supply chain stocks had to be replenished following the temporary shutdown. While demand was initially for larger vessels in particular, the smaller segments also benefited as the shortage increased. The increasing tonnage bottleneck was exacerbated by the fact that logistics were out of step and many boxes were not transported back to their starting point. Correcting this scenario required rather a lot of capacity in the period leading up to the end of the year. As a result, average market charter rates reached the highest level seen in the last ten years. Second-hand prices remained stable for some time in spite of these developments and only started to increase considerably towards the end of the reporting period.

In the **bulker** segment, market developments in 2020 were characterised by ups and downs. The beginning of the year brought a drop in demand as a result of the global economic slump triggered by the outbreak of the coronavirus. Coal was particularly affected, and its future as an energy source has been called in question, even leaving the pandemic out of the equation. The only exception to this is gain, which has proven to be resistant to the crisis with demand levels that have remained constant. The middle of the year then saw a significant recovery as, on the one hand, the coronavirus effects subsided and, on the other, government programmes were launched worldwide in a quest to revive the economy. China in particular, which was already the most important importer of bulk commodities, stepped up its imports significantly. The onset of autumn brought with it the second wave

of the coronavirus pandemic, combined with the realisation that overcoming the crisis would take longer than originally anticipated. This was followed by a further decline in bulk shipments, albeit one that was not as severe as in the first wave. Demand took until the end of the year to recover, with coal being an exception for the reasons referred to above. Second-hand prices for bulk carriers showed a moderate decline in the first half of 2020 and remained at this lower level in the second half of the year.

The charter rates for **oil tankers**, on the other hand, showed a completely different trend than the other segments in 2020. With the onset of the pandemic, oil consumption declined and so too did the demand for transport. Oil production, however, was not curtailed accordingly, but was actually increased considerably. Saudi Arabia and Russia flooded the market despite collapsing prices, motivated by strategic reasons. As onshore storage facilities very soon became full, considerable demand for floating storage capacity emerged, driving charter rates for tankers up to record levels in the second quarter. Although production was reduced significantly, demand for crude oil and refined products remained weak due to the ongoing restrictions on mobility and travel. The consequences had a huge impact on the oil tanker market: floating storage declined and transport demand remained weak. As a result, charter rates plunged in the second half of the year to levels just above all-time lows, a level that they had failed to recover from by the end of the year. Second-hand prices are generally less responsive to short-term market fluctuations due to the long life of a vessel. Oil tankers, for example, recorded a slight increase in market values in the first half of 2020, but these then fell sharply in line with charter rates.

Coronavirus crisis exacerbating problems in the German banking market

The coronavirus crisis was reflected not least in the share prices of banks on both sides of the Atlantic, although some prices made a marked recovery in the second half of the year in line with developments on the market as a whole. The critical view taken by investors was triggered primarily by fears of a significant increase in bank loan defaults, driven by the sometimes dramatic slump in economic activity in a number of sectors. Banks are, however, currently in a much more resilient position than they were at the beginning of the financial crisis in 2008, particularly in terms of capital and liquidity resources, which most institutions have been able to expand significantly in recent years.

What is more, given the extremely challenging market environment, central banks and banking supervisors were providing institutions with support, both with their very favourable liquidity facilities (TLTROs) and by implementing reductions in other regulatory requirements (e.g. reduced SREP capital requirements), giving them more leeway to rise to the challenges created by the crisis. At the same time, banks are playing a central role in the implementation of the monetary

and fiscal policy measures taken to tackle the crisis in the real economy, in Germany not least as part of the support programmes offered by the state-owned development bank, KfW.

Nevertheless, the crisis is exacerbating existing problems in the banking sector, first and foremost the weak profitability of European and, in particular, German institutions. This is because the crisis is expected to result in the challenging low interest rate environment lasting even longer and putting further pressure on margins. At the same time, we expect the negative impact of loan loss provisions to increase noticeably, while rating migrations will push risk-weighted assets up considerably, meaning that pressure on the capital position is likely to come from both the income and risk sides. Against this backdrop, rating agencies have since issued a negative outlook for large parts of the European and German banking market. Hamburg Commercial Bank was also unable to escape this assessment for the market as a whole entirely unscathed, with the result that the Bank's S&P rating now also includes a negative outlook that was confirmed again in December 2020. The Bank's rating position at Moody's, on the other hand, has been consolidated further and has been assigned a "positive" outlook since December 2020, reflecting the significant improvement in financial key figures.

Looking ahead, the question as to how individual banks will deal with these challenges will play a decisive role with regard to both the COVID-19 impact and ratings. A solid starting position in terms of capital, stringent cost management (taking into account the need to invest in IT and digitalisation) to mitigate the greater negative impact of loan loss provisions, as well as effective risk management are likely to be crucial factors in this respect.

As part of the SREP process, the ECB has once again made reviewing banks' internal risk models a priority in addition to its close monitoring with regard to COVID-19. The results will be benchmarked at both national and European level. The aim of the banking supervisory authority 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. Other key issues addressed by the ECB in the SREP process included IT and cybersecurity, governance and the sustainability of banks' business models, in particular with regard to profitability. In addition, the topics of dividend policy against the backdrop of COVID-19 and sustainability were added in the course of the year.

Overall conditions impacting Hamburg Commercial Bank's business

The overall environment, which was already challenging even before the blow dealt by the outbreak of the coronavirus pandemic, also had an impact on Hamburg Commercial Bank's business performance. As a result of the global recession, conditions in many of the markets that are relevant to the Bank have clouded over significantly, although the extent of the deterioration varies from market to market and within individual sub-segments and sectors and the development has been volatile. By way of example, the German residential property markets escaped the recession relatively unscathed, while the outlook for office properties has deteriorated and many retail properties, especially shopping centres, department stores and retail outlets in city centres, as well as hotels, have been hit hard by the crisis. The extent to which individual sectors within industry, retail and services, as well as infrastructure and renewable energies, have been affected by the COVID-19 pandemic depends largely on the extent to which they were exposed to the restrictions imposed by the lockdown measures and their knock-on effects. The shipping markets were characterised by high levels of volatility and very varied developments in the main segments: The container market, which initially came under considerable pressure, more than recovered in the second half of the year, while the market for oil tankers subsequently became embroiled in crisis after soaring in the second quarter.

In line with this market environment, there has been a significant drop in demand for new loans across all asset classes, particularly in the Real Estate and Corporates & Structured Finance segments. Against this backdrop, and in conjunction with a business strategy that is geared towards clear risk and return specifications, the gross new business volume of € 2.9 billion in the reporting year was, as expected, significantly below the previous year's figure of € 7.2 billion. Nevertheless, the market environment allowed the Bank to achieve conditions for selective new business and prolongations that were in line with, or in some cases even exceeded, its ambition levels. As a commercial bank, the overall focus in the year under review was on supporting existing clients, also in the context of prolongations.

In the wake of the ongoing coronavirus pandemic and the associated tense economic situation, loan loss provisions put pressure on the Group net result with net additions of € -188 million (previous year: net reversal in the amount of € 11 million). The result includes net additions for credit-impaired loan exposures in the amount of € -91 million and net additions of general loan loss provisions in the amount of € -106 million. The latter are based on the continuation of the forward-looking and conservative loan loss provisions policy, as part of which the Bank has once again substantially increased the risk shielding for the fully performing loan portfolio as at 31 December 2020. At the end of the reporting period, the Bank had an adequate level of total loan loss provisions to cover individual NPE risks (Stage 3), as well as a substantial volume of general loan loss provisions, most of which were COVID-19-induced. All in all, this produces a considerable buffer to cushion the blow of potential adverse influences resulting from an economic environment that is dominated by COVID-19.

Extremely volatile financial markets caused by the coronavirus crisis, particularly in the first half of the year, also had an impact on business developments. The widening of credit spreads and developments on the interest rate markets, especially in the first six months of the year, led to a marked negative result from financial instruments categorised as FVPL of € -149 million at the end of the first half. In the second half of the year, the financial markets stabilised or recovered. Hamburg Commercial Bank benefited in particular from the development of the USD/EUR exchange rate. On this basis, the negative result from financial instruments categorised as FVPL still came to € -93 million for the year as a whole (previous year: € -19 million).

Hamburg Commercial Bank adapted its funding strategy to reflect the situation on the financial markets. The attractive liquidity facilities provided by the European Central Bank under the TLTRO programme, for example, were also used to optimise funding costs, while projects for capital market issues were implemented in the context of more favourable market conditions in the second half of the year. 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 2020 reporting year

Despite the coronavirus crisis: very good net income before taxes, capital position improved to excellent level, NPE ratio successfully stabilised, good liquidity position

Hamburg Commercial Bank can report a very good level of net income before taxes of € 257 million for the 2020 financial year, despite the volatile market environment and the challenges posed by the COVID-19 pandemic. The result was driven by strong net interest income and reduced operating costs, and also benefited from disposal gains resulting from the sale of buildings. On the other hand, the earnings situation was hit by the fair value measurement of financial instruments and by additions to loan loss provisions.

The Bank's capital resources continued to improve significantly at a high level, which is reflected in an excellent CET1 ratio of 27.0% as at 31 December 2020. This is due, in particular, to a marked reduction in risk-weighted assets (RWA) for credit risks as part of the de-risking process.

The NPE ratio was reduced slightly despite the adverse macroeconomic environment and a significant drop in total assets, and is on a par with the value achieved at the previous year-end at 1.8% on the reporting date. At the end of the first half of the year, the rate had temporarily risen to 3.2%, mainly due to individual cases. The successful implementation of the NPE action plan adopted around mid-2020, under which major legacy exposures from the Real Estate (including the aforementioned individual case) and Shipping segments were successfully reduced, had led to a reduction in the NPE ratio to 1.8% again as at 31 December.

The liquidity position, which is being managed in line with a particularly prudent strategy during the coronavirus crisis, proved to be stable. The liquidity coverage ratio (LCR) of 171% reported at the end of the year is in line with expectations.

Systematic continuation of transformation programme confirmed by encouraging business performance

By the reporting date, the Bank had completed around two-thirds of the transformation programme it embarked upon at the end of 2018. With regard to the transformation target and the main levers for achieving it, we refer to the explanatory information in the "Transformation programme" section of the previous chapter "Basis of the Group".

The coronavirus crisis that emerged in March 2020 and persists to this day, together with its implications, represent a major challenge for the entire banking environment and, as a result, also for the transformation process at Hamburg Commercial Bank.

The Bank started 2020 in a good position thanks to the further strengthening of its capital and risk position in 2019 and the strategic adjustment (de-risking) already initiated at the end of 2019 in preparation for an adverse economic environment. In response to the crisis, the Bank has systematically continued on the path it has embarked upon. At the same time, the Bank has adjusted or stepped up its transformation agenda at decisive points in order to react in a targeted manner to changes in external factors. By way of example, in the second half of the year, and in addition to the further development of the strategic transformation projects, the Bank focused on accelerating its de-risking activities, further strengthening its capital position and on initiatives to increase the profitability of the balance sheet.

The encouraging results for 2020 confirm that this strategic orientation is the right approach. The Bank achieved all of its major operational targets and largely outstripped the forecasts for its key management indicators.

The implementation of the de-risking process, which was accelerated in view of the coronavirus crisis, was an area in which the Bank clearly exceeded its targets. The implementation of the above-mentioned NPE action plan was particularly decisive in this regard. Further components of the de-risking process included deliberate restraint in new business, as well as RWA and profitability-based portfolio reduction, also in the context of individual disposals. The success of the de-risking drive at the end of the second transformation year is reflected not only in the stable NPE ratio, but also in a significantly lower business volume compared to the end of the previous year. As a result, total assets were reduced significantly by 29% and off-balance sheet business by 35% compared to the previous year, which had a positive impact on the development of RWA (down by 26% compared to 31 December 2019) and further strengthened the Bank's capital position. The fact that rating migrations were comparatively moderate given the economic environment also had a positive impact on RWA, demonstrating the high degree of COVID-19 resilience of the Bank's loan book.

The Bank has also made significant progress in repositioning its balance sheet and, as a result, its profitability, which is reflected in the increased net interest margin compared to the previous year. On the assets side, the Bank's gradual increase in the share of total assets attributable to interest-bearing business and gradual replacement of low-margin business with business with higher ambition levels have had a positive effect. Within this context, new business profitability developed favourably in the reporting year and increased further.

The increase in the net interest margin was supported by a further marked drop in funding costs. The use of the ECB's attractive liquidity facilities under the TLTRO programme also contributed to this. In order to further optimise the liability structure, a senior non-preferred bond was issued in November 2020. The bond, which was rated "Baa3/stable" by Moody's and was placed successfully with European investors, has a volume of € 500 million and a term of three years with a call right after two years. Hamburg Commercial Bank is using this issue, which contributes to the further diversification of the Bank's funding base, to establish itself as a regular issuer of benchmark bonds on the international capital market.

Key strategic transformation projects implemented successfully or developed further according to plan

In operational terms, the financial year was also marked by significant progress made in central transformation projects. As part of the staff reduction programme, which went largely according to plan, the number of employees was reduced from 1,482 full-time employees (FTEs) to 1,122 FTEs in the reporting year.

As part of the IT transformation programme, which is central to the Bank's cost targets, key milestones were reached as part of the Bank's move to a highly efficient and modern cloud-based IT application landscape with the commissioning of the first few systems (SAP S/4 Business Partners, SAP CMS) and the relocation of HR systems to the cloud. The outsourcing of the operation of the application landscape was also completed successfully in the reporting year.

In addition, the Bank successfully consolidated its building portfolio in 2020. Following the sale of eleven Group-owned properties in February, the headquarters at Gerhart-Hauptmann-Platz in Hamburg were sold in December. Following the sale, this building will initially continue to be used by Hamburg Commercial Bank for a transitional period of approximately four years as part of a sale-and-lease-back model. After this period, the Bank plans to move to the Elbtower complex, which is currently being planned in Hamburg's up-and-coming "Hafencity" district. The building sales, including all of the accounting effects resulting from the sale-and-lease-back agreement, resulted in a positive income statement effect of around € 150 million in the reporting year, which had a positive impact on the earnings situation and further strengthened the Bank's equity.

The Bank has also positioned itself for the future by restructuring its Three Lines of Defence (3 LoD) model. As part of the reorganisation project, which meets the latest regulatory requirements, the front office (first line of defence) will be significantly strengthened by transferring the credit analysis function to the market departments. The client-centric lending expertise will align the lending process with the needs of the client and with the focused business model, allowing it to be optimised further. The Bank is using this realignment to systematically pursue its overarching transformation objectives,

which are reflected in the lending business in a risk-oriented and efficient lending process.

Maintaining operations and employee health as a top priority in the coronavirus crisis

In view of the systemic importance that banks have, the top priority for Hamburg Commercial Bank's day-to-day business during the coronavirus crisis was ensuring that business operations could be maintained. Within this context, particular importance was attached to protecting the health of employees and business partners. One of the measures taken by the Bank to manage these tasks was the establishment of an interdisciplinary coronavirus working group as part of its business continuity management system. More detailed information how the working group works and what its remit is can be found in this combined management report in the chapter entitled "Employees of Hamburg Commercial Bank".

For information on the impact of the COVID-19 pandemic on Hamburg Commercial Bank's risk situation, please refer to the "Risk Report".

Strategic focus on sustainability clearly defined and initial ESG initiatives implemented successfully

As part of the interdisciplinary sustainability project launched at the end of 2019, Hamburg Commercial Bank significantly refined its future strategic orientation in the area of sustainability and implemented key measures for its ESG positioning.

One outcome of the strategic orientation and a project milestone in the year under review was the signing of the Principles for Responsible Banking (PRB), a unified framework developed jointly by the global banking industry and the United Nations Environment Programme Finance Initiative (UNEP FI), in September. The principles stand for responsible banking and the alignment of the banking sector with the sustainability objectives set out by the United Nations and in the Paris Climate Agreement of 2015.

By signing the PRB, Hamburg Commercial Bank has made an explicit commitment to the climate and sustainability objectives of the UNEP FI. In line with these goals, the Bank will actively support the sustainability shift in the economy as a whole and among its clients by playing a pioneering role. In order to be able to live up to this ambitious objective, the Bank has defined specific ESG Guiding Principles for itself. The holistic inclusion of sustainability aspects in business policy decisions will also enable the Bank not only to meet regulatory requirements, but also to manage sustainability-related strategic risks even better in the medium term, as well as to identify and seize opportunities, also with regard to the potential broadening of its investor base.

With regard to the operational implementation of ESG initiatives, other significant milestones in the reporting year include the incorporation of ESG aspects into the Bank's lending standards and the definition of transparent exclusion criteria at company, sector and country level. This allows the Bank to

ensure that sustainability aspects are given adequate account in its lending decisions.

Management of pension obligations reorganised by implementing a CTA structure

In the year under review, Hamburg Commercial Bank set up a trust structure for the active management of its pension obligations. This involved the establishment of an association, HCOB Trust e.V. ("Trust"), Hamburg, which has concluded a contractual trust agreement (CTA) with the Bank.

The CTA is being used to build up assets that are protected against insolvency, providing additional security for pension liabilities in the event of the Bank's insolvency (ring-fenced assets). The new structure enables the Bank to make targeted investments from a broad investment spectrum, taking risk/return aspects into account, allowing it to generate the necessary funds to cover its pension obligations. In accounting terms, the assets tied up in the trust qualify as plan assets under IAS 19 and are offset against existing pension obligations. As at 31 December 2020, the fair value of the plan assets in the CTA was € 949 million.

Earnings, net assets and financial position

Group key management indicators	Actual figures		Actual figures 2020
	2019	2020 forecast	
Net income before taxes (€ m)	77	Slightly above the level achieved in the 2019 financial year	257
RoE before taxes (%)	1.8	Between 2% and 4%	5.9
CIR (%)	69	Noticeable decrease compared to 2019 (based on a lower cost base and a planned increase in total income, which was impacted very negatively by special effects in 2019)	42
NPE ratio (%) ¹⁾	1.8	Under 2%	1.8
CET1 capital ratio (%)	18.5	Above the ratio as at 31 December 2019	27.0
LCR (%)	165	Still comfortably above the regulatory requirements	171

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

Group development exceeds expectations overall

The following aspects, in particular, contributed to the overall business development in the 2020 financial year, which exceeded expectations and was characterised to a significant degree by the systematic continuation of the transformation programme and positive one-off effects on the earnings situation overall in a market environment dominated by the COVID-19 pandemic:

- Hamburg Commercial Bank closed its second transformation year with very good **net income before taxes** despite the very challenging market environment. At € 257 million, the result was significantly higher than the previous year's figure (€ 77 million) and also outstripped expectations. The very good overall result was characterised by improved operating margins in the client business, a significantly lower cost base and positive one-off effects overall. Additions to loan loss provisions and in the context of valuations of FVPL assets had a negative impact. The following developments in the key items contributed to net income before taxes: Compared to the same period of the previous year, net interest income rose significantly by € 308 million to € 629 million. This development was helped along by net income from hybrid financial instruments (€ 72 million), which had put substantial pressure on net interest income in the previous period in the amount of € -181 million. By contrast, the result from financial instruments categorised as FVPL (€ -93 million, previous year: € -19 million), which was characterised by valuation losses due to wider spreads, had a considerable negative impact in the reporting period. The result from the disposal of financial assets classified as AC made a positive contribution of € 60 million to total income, albeit one that was slightly lower than in the previous year (€ 82 million). In line with the above-mentioned developments, some of which were contrary to each other, total income increased very significantly by € 193 million compared to the previous year to a

total of € 656 million. Total income after loan loss provisions, on the other hand, decreased slightly by € 6 million to € 468 million due to substantial additions made to loan loss provisions in the reporting year against the backdrop of the COVID-19 crisis (€ -188 million, previous year: € +11 million). In the second year of transformation, the Bank's stringent cost management is bearing fruit. Its operating costs (income statement items: administrative expenses, expenses for regulatory affairs, deposit guarantee fund and banking associations as well as net income from restructuring and transformation) in the 2020 financial year were reduced by a total of € 114 million compared to the previous year. The other operating result, which benefited from property sales and was once again very good, increased by € 72 million to € 205 million, pushing net income before taxes up by € 180 million to € 257 million. As a result, net income before taxes is also well above the forecast from the previous year. This development can be attributed in particular to the positive developments in net interest income and the other operating result, which were above plan and more than compensated for more substantial negative effects in the result from financial instruments categorised as FVPL and in loan loss provisions.

- The return on equity (**RoE before taxes**) for the Group calculated on the basis of net income before taxes exceeded expectations at 5.9% (31 December 2019: 1.8%).
- The cost-income ratio (**CIR**) has decreased more than assumed in the forecast and amounts to 42% as at the reporting date (31 December 2019: 69%). This development is due, on the one hand, to the expected further reduction in administrative costs as a result of the Bank's cost management drive, which is bearing fruit. At the same time, the earnings base in particular has increased significantly, a development which is due not only to the operational progress made, but also largely to one-off effects (especially the gains on property sales). The further stringent implementation of the cost and efficiency measures as part of the transformation agenda is aimed at allowing the Bank to

achieve the CIR reported in 2020 from 2022 onwards even without one-off effects.

- The **NPE ratio** came to 1.8% as at the reporting date, in line with the previous year's forecast and below the strategic target for 2022 of under the 2% mark. This means that the ratio was kept constant as against the value seen at the end of the previous year (also 1.8%), despite the even tougher economic environment caused by the COVID-19 crisis and a significant reduction of around 27% in the exposure at default (EAD). In a year-on-year comparison, the drop in the NPE volume is due primarily to the successful implementation of the NPE action plan, based on which larger legacy exposures from the Shipping segment were successfully reduced in the second half of 2020.
- The **CET1 ratio** improved very significantly from what was already a very good level (18.5%) on 31 December 2019, exceeding expectations and amounting to 27.0% (in-period) as at 31 December 2020. These excellent capital resources put the Bank in a robust and resilient position to meet the further challenges associated with the coronavirus crisis.

The increase in the ratio is largely due to the significant drop in the RWA, which exceeded the Bank's projections. This is mainly due to a reduction in the RWA for credit risks. In addition to systematic de-risking, the Bank also benefited from regulatory relief in RWA recognition in this context. The increase in Common Equity Tier 1 capital also had a positive impact on the CET1 ratio. This is primarily the result of the positive Group net result and reduced regulatory capital deductions.

- At 171% (31 December 2019: 165%), the liquidity ratio **LCR** is slightly above the prior-year value and in line with the Bank's forecast. At this 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.

Earnings

Statement of Income

(€ m)	2020	2019	Change in %
Interest income from financial assets categorised as AC and FVOCI	725	861	-16
Interest income from other financial instruments	626	1,338	-53
Negative interest on investments categorised as AC and FVOCI	-19	-25	-24
Negative interest on other cash investments and derivatives	-79	-181	-56
Interest expenses	-791	-1,671	-53
Positive interest on borrowings and derivatives	95	180	-47
Net income/loss from hybrid financial instruments	72	-181	> 100
Net interest income	629	321	96
Net commission income	48	61	-21
Result from hedging	5	-2	> 100
Result from financial instruments categorised 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
Net income from restructuring and transformation	-19	-66	71
Net income before taxes	257	77	> 100
Income tax expense	-155	-65	> 100
Group net result	102	12	> 100
Group net result attributable to Hamburg Commercial Bank shareholders	102	12	> 100

Net interest income as driver of significantly increased total income, marked increase in the net interest margin and positive valuation effects from hybrid financial instruments

Total income increased significantly in the past year, surpassing expectations, and amounts to € 656 million (previous year: € 463 million). Within the individual income items, there have been partly opposing developments which are described in detail below:

The very positive development in **net interest income** played a decisive role in the increase in total income. Operating net interest income also increased compared to the previous year, driving a noticeable increase in the net interest margin with significantly reduced average total assets. This development was driven by a further significant reduction in funding costs, higher margins in the lending business and an improved product mix, all as a result of the profitability-focused repositioning of the balance sheet.

Overall, net interest income in the reporting period amounted to € 629 million, up very considerably as against the previous year (€ 321 million). The year-on-year increase is mainly due to net income from hybrid financial instruments. In the reporting year, this made a positive contribution to net interest income in the amount of € 72 million, whereas in the previous year, it had had a significant negative impact in the amount of € -181 million. The positive earnings contribution made in the 2020 financial year was mainly due to the reassessment of interest and principal cash flows for the underlying instruments that will fall due in 2021.

Net commission income came to € 48 million (previous year: € 61 million), slightly higher than expected. The decline as against the previous year reflects the planned drop in business volume as well as the withdrawal from certain product groups.

Total income was hit hard by the **result from financial instruments categorised as FVPL** in the amount of € -93 million (same period of the previous year: € -19 million). The main driver for the negative result in the reporting year was valuation losses due to the development of those market parameters that are relevant to valuations (especially credit spreads) during the year.

Further valuation losses were incurred on loans and advances to customers valued at FVLP, as well as securities, the majority of which were attributable to credit rating-induced valuation effects on loans and advances to customers in the Shipping segment. This was offset by the positive operating net trading income and, in particular, by the gains from foreign currency translation driven by the development of the USD/EUR exchange rate. The latter are offset by corresponding valuation losses in OCI.

The **result from the disposal of financial assets classified as AC** came to € 60 million (previous year: € 82 million), meaning that it once again made a positive contribution to total income. The position largely includes income collected from the sale of receivables from public-sector debtors. It also

includes income from prepayment penalties for early redemptions, and, with the opposite effect, disposal costs. In the previous year, the item only included prepayment penalties.

Provisions to cover risks increased significantly in view of the economic environment marked by the COVID-19 pandemic

Loan loss provisions (income statement) put considerable pressure on net income before taxes with a net addition (€ -188 million, same period of previous year: net reversal in the amount of € 11 million).

In the 2020 financial year, the development of loan loss provisions was characterised both by the COVID-19-related adverse economic development and by the successful implementation of the Bank's de-risking strategy. The latter has led to a reduction in the NPE volume compared to the previous year, also because the number of rating migrations in 2020 was moderate in spite of the crisis.

Result from loan loss provisions essentially results from a net addition of € -91 million to Stage 3 (specific loan loss provisions) and a net addition of € -106 million to Stages 1 and 2 of the loan loss provisions model (general loan loss provisions). Currency effects had a slightly positive effect.

Net additions to Stage 3 in line with the difficult market environment relate in particular to the Corporates & Structured Finance segment (€ -77 million). The negative effects in the Real Estate segment (€ -50 million), which were still moderate in relation to the portfolio as a whole and in light of the de-risking strategy, which was implemented successfully in a difficult environment, were partially offset by net reversals in the Shipping segment (€ 32 million). The Shipping segment also benefited from the fact that the negative effects expected for 2020 from the introduction of more stringent emissions and environmental standards were lower than expected.

The net addition of € -106 million to Stages 1 and 2 is due in particular to the continuation of the Bank's conservative loan loss provisions policy. In view of the ongoing COVID-19 pandemic, even more conservative assumptions for economic developments were applied compared to the 31 December 2019 and 30 June 2020 reporting dates. In view of the significantly reduced portfolio, the coverage ratio has increased overall, and in particular at Stage 1 of the loan loss provisions model. This is the Bank's way of addressing negative effects that could still potentially arise from the environment characterised by the pandemic in a timely and conservative manner.

The prior-year period was characterised by additions to general loan loss provisions in connection with mounting macroeconomic and geopolitical risks, which were more than offset by higher net reversals of specific loan loss provisions in the Shipping segment.

Administrative expenses characterised by significantly lower personnel expenses and slightly lower operating expenses despite forward-looking IT investments

Overall, the drive to reduce administrative expenses is progressing according to plan. Despite forward-looking investments in the modernisation of the IT landscape, for example, administrative expenses were reduced by around 12% compared to the previous year and amounted to € -365 million (previous year: € -413 million).

The driver for the decline was the FTE reduction, which has so far proceeded largely according to plan and had led to a further reduction in the number of employees by 360 to 1,122 (calculated in full-time equivalents) by the end of the year and, in line with its implementation over time, is clearly visible in the consolidated income statement for the first time in the reporting year. Accordingly, personnel expenses decreased significantly compared to the previous year and amounted to € -178 million (previous year: € -218 million).

Operating expenses came to € -180 million (previous year: € -185 million), down as against the previous year despite the expenses incurred and planned in connection with the major IT restructuring programme, as well as for further forward-looking transformation projects ("change the bank" costs). While current IT expenses ("run the bank" costs) have fallen, IT project costs, as well as service fees paid to the strategic outsourcing partner in connection with the outsourcing of the IT application landscape, which was successfully completed at the beginning of the year, led to an overall increase in IT expenses of € 8 million in total compared to the previous year. This increase was more than offset by the savings achieved in other categories of operating expenses thanks to stringent cost management. The costs for legal advice, which were reduced by € 8 million compared to the previous year, are particularly worthy of mention. A cost reduction of € 2 million was also achieved for building costs in 2020 compared to the previous year. The building transactions executed in the reporting year (including the sale-and-lease-back of the main building) laid the foundation for a cost base that is appropriate in the long run in this area, too. Further reducing the cost base will be one of the focal points of the 2021 financial year.

Depreciation of property, plant and equipment and amortisation of intangible assets came to € -7 million (previous year: € -10 million) below the previous year's level. No unscheduled depreciation was recognised in the reporting period under review (previous year: € -1 million).

Very positive other operating result boosted by profits from building sales

The other operating result amounted to € 205 million (previous year: € 133 million), making a significant positive contribution to the net income before taxes. The other operating result was supported in particular by the sale of buildings as part of the building strategy arm of the transformation programme. In the previous year, reversals of provisions for litigation risks and the recognition of a reimbursement claim from a legal dispute in income had a significant positive impact on the earnings position. Further details can be found in Note 15 in the notes to the Group financial statements.

Further reduction in regulatory expenses: lower expenses for bank levy and deposit guarantee fund

The expenses for regulatory affairs, the deposit guarantee fund and banking associations amounted to € -32 million (previous year: € -51 million). Compared to the previous year, the decline results on the one hand from lower contributions for the bank levy, which is due in particular to the planned decline in total assets. On the other hand, the previous year's expenses included allocations to provisions in connection with expected one-off payments to the Federal Association of German Banks due to the planned move to the new guarantee scheme on 1 January 2022.

Moderate negative impact of transformation expenses

Moderate negative effects on net income, albeit to a significantly lesser extent than in the previous year, came from net income from restructuring and transformation (€ -19 million, previous year: € -66 million).

The expected costs for the substantial staff reduction from 1,716 FTE (end of 2018) to a planned 700 FTE or so at the end of 2022 were already reflected in the balance sheet in the 2018 (main bulk of the costs) and 2019 (adjustments) financial years.

The Bank reported net income from restructuring that is close to break-even level in the reporting year (previous year: € -24 million). This was due to moderate operating expenses from restructuring, which were offset by income from the reversal of restructuring provisions to a comparable extent.

Transformation expenses in the amount of € -18 million (previous year: € -28 million) relate to operating expenses that are directly connected to the Bank's transformation and restructuring. In the year under review, these included, in particular, expenses in connection with the change of payment service provider, measures relating to IT transformation, legal and consultancy costs. Follow-up expenses relating to privatisation accounted for € -1 million (previous year: € -14 million).

Net income before taxes well above expectations despite challenging market environment

As at 31 December 2020, Hamburg Commercial Bank generated net income before taxes of € 257 million (previous year: € 77 million), which was significantly higher than expected overall. Pronounced negative effects in loan loss provisions and in the result from financial instruments categorised as FVPL were more than offset by the strong net interest income and the other operating result, which benefited from the sale of buildings.

Net income after taxes also positive, income tax expense characterised by net reversal of deferred taxes

After taxes, the Group net result comes to € 102 million (previous year: € 12 million). Income tax expense of € -155 million is almost exclusively attributable to deferred taxes (€ -157 million). Deferred tax expense comprises an expense from the reversal of deferred taxes on temporary differences (including from consolidation) in the amount of € -223 million and, on the other side, income from the recognition of deferred taxes on loss carryforwards in the amount of € 66 million.

Net assets and financial position

Material items on the statement of financial position

(€ m)	2020	2019	Change in %
Assets			
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
Equity and liabilities			
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	959	1,491	-36
Total equity and liabilities	33,815	47,712	-29

Substantial reduction in total assets slightly higher than planned

In the 2020 financial year, the Group's total assets declined considerably again, by around 29% to € 33,815 million (31 December 2019: € 47,712 million), and the planned targets were actually slightly exceeded due to the accelerated reduction drive in the second half of the year. This development is the result of the Bank's active balance sheet management strategy. Its key strategic objective is to increase the Bank's net interest margin in the long run by repositioning of the balance sheet to focus on profitability, while maintaining both good asset quality in the loan book and an adequate liquidity position.

The significant drop in total assets is reflected in almost all major items. On the assets side, this is reflected in particular in loans and advances to customers, but also in the cash reserve and trading assets. On the liabilities side, the decline is particularly evident in liabilities to customers, but also in a marked reduction in securitised liabilities, trading liabilities and provisions. In detail, the developments were as follows:

The cash reserve fell significantly as against the end of 2019 to € 1,741 million (31 December 2019: € 4,850 million). The decrease reflects the continuous optimisation of the Bank's liquidity position and contributes to the increase in the

proportion of total assets attributable to interest-bearing assets. At the same time, Hamburg Commercial Bank continues to report comfortable liquidity ratios as at the reporting date, which is also reflected in the Liquidity Coverage Ratio (LCR) of 171% and in the Net Stable Funding Ratio (NSFR) of 111%.

Loans and advances to banks also decreased and amounted to € 1,558 million (31 December 2019: € 2,521 million). The decrease is mainly due to investments that are payable on demand.

In the case of loans and advances to customers, scheduled and unscheduled repayments significantly exceeded the disbursement volume (in connection with approved credit lines, new business concluded and prolongations). In addition, the Bank has been able to reduce its loan book by way of selective disposals as part of the implementation of its de-risking strategy. Accordingly, the carrying amount of loans and advances to customers decreased significantly by around 27% and amounted to € 22,478 million (31 December 2019: € 30,708 million).

Total loan loss provisions (for balance sheet items) were down as at 31 December 2020 and amounted to € -569 million (31 December 2019: € -708 million). Taking into account the significantly reduced volume of receivables as part of the de-risking process and the lower NPE volume compared to the previous year, the level of total loan loss provisions provides solid protection against potential negative effects arising from the COVID-19 pandemic and its implications.

Trading assets were also down on the end of the prior-year reporting period, falling by around 42% to € 1,544 million (31 December 2019: € 2,663 million). This development is due to the fact that the Bank has been able to substantially reduce its derivatives book since the start of the transformation phase, which has led to a significant drop in the nominal volume. In the case of client derivatives, the drop in volume is due, in particular, to the gradual discontinuation of client-oriented capital market activities driven by profitability considerations. The drop in the volume of OTC derivatives results from the winding-down of transactions that are no longer relevant for risk management.

The carrying amount of financial investments decreased from € 6,100 million to € 5,459 million. The amounts reported under non-current assets held for sale and disposal groups as at 31 December 2020 of € 634 million (31 December 2019: € 355 million) relate almost exclusively to a loan portfolio (performing loans from the Energy division) for which the purchase agreements had already been signed in December 2020 and which are scheduled to be closed in the first half of 2021.

On the liabilities side, liabilities to banks increased considerably to € 7,478 million (31 December 2019: € 5,066 million). The increase is due to the fact that the Bank raised funds under the ECB's TLTRO programme to optimise its funding costs during the COVID-19 pandemic.

The significant 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 very significant decline in liabilities to customers to € 13,104 million (31 December 2019: € 23,966 million). The above-mentioned expansion of refinancing via the ECB also had an impact here.

Securitised liabilities were also down considerably on the previous year-end to € 5,670 million (31 December 2019: € 7,845 million). The decline is mainly due to an increase in own issues bought back, which are deducted in the item securitised liabilities.

Trading liabilities, in particular comprising negative market values of derivatives (€ 686 million, 31 December 2019: € 1,946 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.

As of the balance sheet date, provisions amounted to € 634 million (31 December 2019: € 1,699 million). The significant decrease is mainly related to the establishment of plan assets via a contractual trust agreement (CTA). The fair value of the plan assets is netted with the net present value of the pension obligations. For further details, please refer to Note 39.

Subordinated capital as at 31 December 2020 came to € 940 million (31 December 2019: € 1,349 million). This development is due primarily to the silent participations reported under subordinated capital, which decreased from € 280 million to € 2 million. This is due to the further agreements reached with the investors of the hybrid capital instruments concluded on a bilateral basis in the reporting year and the repurchase of these instruments by the Bank. Subordinated liabilities have also, however, been reduced.

Despite the Group net result being in positive territory, the Bank's reported equity fell slightly year-on-year and amounted to € 4,344 million (31 December 2019: € 4,350 million). This was mainly due to the negative other comprehensive income for the period.

Off-balance sheet business also reduced significantly as part of the de-risking process

The business volume decreased at a faster rate than total assets to € 38,991 million (31 December 2019: € 55,635 million), as off-balance-sheet business also declined significantly. Sureties and guarantees fell to € 968 million (31 December

2019: € 1,438 million). Irrevocable loan commitments dropped considerably to € 4,208 million (31 December 2019: € 6,485 million). The significant decline is due to the reduction in volumes in the Real Estate segment (also in the area of construction loans) as well as a more selective approach to revolving credit lines in the Corporate Clients segment.

Structure of liabilities by financial instruments

(€ m)	2020		2019	
	Total	of which >1 year	Total	of which >1 year
Secured: Pfandbriefe and asset-based funding	7,842	7,108	10,863	9,562
Covered bonds (Pfandbriefe)	4,229	3,528	6,481	5,215
Other secured funding	3,613	3,580	4,382	4,347
Unsecured liabilities (senior preferred)	15,196	5,092	21,609	6,011
Unsecured liabilities (senior non-preferred)	3,212	2,613	4,317	3,723
Profit participation certificates and other subordinated liabilities	938	910	1,069	1,069
Hybrid instruments	4	-	368	368
Total	27,192	15,723	38,226	20,733

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 € 7,842 million as at 31 December 2020 (31 December 2019: € 10,863 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 the funds raised at the ECB as part of the TLTRO programme and other unsecured financing instruments. They totalled € 18,409 million as at the reporting date (31 December 2019: € 25,926 million). The call and time deposits are shown together with structured unsecured financial instruments in the "senior preferred" category and total € 15,196 million (31 December 2019: € 21,609 million). The "Senior Non-Preferred" category mainly consists of bearer and registered bonds that do not have any structured elements and amounts to € 3,212 million as at 31 December 2020 (31 December 2019: € 4,317 million).

The two line items profit participation certificates and other subordinated liabilities (€ 938 million, 31 December 2019: € 1,069 million) as well as hybrid instruments (€ 4 million, 31 December 2019: € 368 million) in total represent subordinated capital. Out of the hybrid instruments (Resparc I and Resparc II), € 2 million (31 December 2019: € 88 million) is reported under Securitised liabilities in the balance sheet.

Capital and funding

RWA, regulatory capital and capital ratios¹⁾

	31.12.2020	31.12.2019
Risk assets (RWA) (€ bn)	15.5	21.0
Regulatory capital (€ bn)	5.2	4.9
of which: CET1 capital (€ bn)	4.2	3.9
Overall capital ratio (%)	33.3	23.5
Tier 1 capital ratio (%)	27.0	18.5
CET1 capital ratio (%)	27.0	18.5

¹⁾ Capital ratios as at 31 December 2020 in-period; capital ratios as at 31 December 2019 not in-period (capital ratios as at 31 December 2019 would only differ to an insignificant extent if calculated in-period).

Capital ratios at a very good level

The CET1 ratio increased considerably as against 31 December 2019 (18.5%) to 27.0%. This development is due, in particular, to the drop in RWA for credit risks due to declining balance sheet assets. CET1 capital improved in the reporting period, in particular due to significantly lower regulatory capital deductions and the profit generated in the reporting period. The Tier 1 capital ratio and the overall capital ratio increased in line with the Common Equity Tier 1 ratio compared with 31 December 2019.

The capital ratios still exceed the limit set internally, as well as the regulatory requirements resulting from the SREP process, significantly. The regulatory requirements were adhered to at all times during the reporting period. Please refer to the Risk Report for information on the minimum banking supervisory requirements.

Hamburg Commercial Bank's leverage ratio came to a very solid 12.2% as at 31 December 2020 (31 December 2019: 8.2%). This development is attributable to an increase in CET1 capital and, in particular, to a drop in leverage exposure in the reporting period (€ 34.3 billion, 31 December 2019: € 47.5 billion). The leverage ratio is still significantly higher than the internal limit and the regulatory benchmark of 3% (mandatory from the end of June 2021), and together with the very good CET1 ratio, pays testimony to the Bank's robust capital position.

Refinancing strengthened significantly

The refinancing situation in the reporting period was marked by the coronavirus pandemic. Market-wide turbulence and access to low-cost, long-term funds from the European Central Bank (TLTRO) determined the implementation of key issue projects.

With the very successful placement of a € 500 million senior non-preferred issue on the capital market, the Bank has significantly strengthened its funding base over the long term. The debut senior non-preferred 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 the previous year, the Bank had already successfully entered the capital market with a senior preferred issue of € 500 million.

In addition, long-term funds from the European Central Bank (TLTRO) were used in response to the pandemic to the tune of € 3 billion. In total, the Bank raised around € 4.2 billion in long-term funds in the 2020 financial year.

Deposits were reduced as planned in connection with the further reduction of total assets.

Key liquidity ratios

	31.12.2020	31.12.2019
Total deposits (€ bn)	9.1	13.6
LCR (%)	171	165
NSFR (%)	111	114

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

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

Rating

Rating overview as at 31.12.2020

	Moody's	S&P
Issuer rating (long-term)	Baa2, positive	BBB, negative
Current liabilities	P-2	A-2
Stand-alone rating (financial strength)	ba2	bbb-
„Preferred“ Senior Unsecured Debt	Baa2	-
„Non-Preferred“ Senior Unsecured Debt	Baa3	-
Mortgage Pfandbrief	Aa2	-
Ship Pfandbrief	A3	-

Hamburg Commercial Bank is rated by Moody's and S&P. In light of the coronavirus crisis, rating agencies issued a negative outlook for large parts of the European and German banking market in the spring of 2020. Hamburg Commercial Bank was

not able to fully escape this assessment for the market as a whole, with the result that the Bank's S&P rating now has a negative outlook, which was confirmed again in December, after the rating had been on Rating Watch Negative in the meantime for methodological reasons. The Bank's rating position at Moody's, on the other hand, improved in terms of its outlook to „positive“, reflecting the significant improvement in the Bank's key figures. Looking ahead, how the current challenges are mastered will play a decisive role for banks in general, but naturally also for Hamburg Commercial Bank. A sustainably solid capital position, stringent cost management and solid earnings development as well as good risk management are likely to be decisive with regard to further rating developments. Overall, the Bank believes that it is well positioned in this regard.

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

Segment results

Segment overview

(€ m)		Corporates & Structured Finance	Real Estate	Shipping	Diversified Lending & Markets	Other and Reconciliation	Group
Total income	2020	228	204	84	38	102	656
	2019	220	300	135	12	-204	463
Loan loss provisions	2020	-165	-150	124	-	3	-188
	2019	-64	-25	84	10	6	11
Administrative expenses	2020	-137	-132	-70	-25	-1	-365
	2019	-166	-150	-90	-7	-	-413
Net income before taxes	2020	-75	-89	134	13	274	257
	2019	-31	176	131	17	-216	77
Segment assets (€ bn)	31.12.2020	9.4	9.5	3.3	10.7	0.9	33.8
	31.12.2019	12.3	12.5	4.6	17.1	1.2	47.7

Adjustments to segment reporting

Compared with the segment reporting as at 31 December 2019, the asset and liability management (ALM) items incl. the liquidity reserve will be reported in the Diversified Lending & Markets segment as opposed to under Other and Reconciliation, as in the past. The earnings effects of the ALM positions are allocated to the segments. The net income from hybrid financial instruments is still reported under Other and Reconciliation. The previous year's figures have been adjusted for purposes of comparability.

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 and leveraged buy-outs is offered to all the Bank's customers. The business unit is also responsible for bank-wide syndication activities, including the OtD approach, as well as for supporting institutional clients and is a product specialist for payment transactions, trade finance, factoring and leasing.

In the Corporates & Structured Finance segment, net income before taxes amounted to € -75 million in 2020 (previous year: € -31 million). This development is due, in particular, to the additions to loan loss provisions (€ -165 million, previous year: € -64 million), which were also driven by the addition to general loan loss provisions (Stages 1 and 2) against the backdrop of the coronavirus crisis. Administrative costs were also reduced further. The stable total income compared to the previous year reflects positive effects from the sale of receivables from public-sector borrowers in addition to a slight decline in operating income – net interest income and net commission

income fell slightly overall, also due to lower segment assets and lower new business, as well as to ongoing pressure on margins.

New business development in the segment has to be viewed in the context of the challenging economic environment, as well as the more selective and risk-conscious approach to new business. New business in the conventional corporates segment, but also in the Energy and Infrastructure area, was down in a year-on-year comparison. Overall, gross new business in the Corporates & Structured Finance segment came to € 0.6 billion (previous year: € 2.0 billion). This also led to a reduction in cross-selling income. In view of the lower level of new business and the selective sale of commitments, segment assets declined by € 2.9 billion.

The **Real Estate** segment reported net income before taxes of € -89 million in 2020 (previous year: € 176 million). The noticeable decline in net income is due to significantly higher loan loss provisions – mainly at Stages 1 and 2 – as well as to negative effects resulting from the valuation of client derivatives. What is more, the segment benefited from a positive one-off effect resulting from the reversal of provisions for legal risks in the previous year. By contrast, operating business showed positive development. Margin developments were positive again. The more selective approach and, above all, the lower funding costs had a noticeable impact here, increasing net interest income from the operating business. Nevertheless, total income is down on the previous year due to the very substantial income from prepayment penalties collected in the previous year. Gross new business declined significantly to a total of € 0.8 billion (previous year: € 4.0 billion) as a result of the risk-conscious approach to business and the lower demand for lending due to the economic environment.

In the **Shipping** segment, net income before taxes amounted to € 134 million (previous year: € 131 million). While operating income showed solid development in line with expectations, reversals of loan loss provisions, also in Stages 1 and 2, also made a noticeable contribution to the result. Nevertheless, even after the reversal of loan loss provisions, the segment still has solid risk coverage. The margin development was positive and is above the previous year's level. At the same time, valuation effects from client derivatives had a noticeable negative impact on total income. In the challenging market environment, focused gross new business with national and international shipping companies with good credit ratings was down slightly on the previous year's level at € 0.9 billion (€ 1.3 billion).

The **Diversified Lending & Markets** segment generated net income before taxes that was in line with expectations at € 13 million (previous year: € 17 million). In the Markets area, income from diversification was generated as planned. This was offset by negative effects resulting from the valuation of legacy portfolios. Both Diversified Lending and Markets got off to a good start in operational terms, contributing € 0.6 billion to the Bank's new business with risk-conscious and selective new business in the international corporate environment.

“Other and Reconciliation” result

Administrative functions 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 Group net result before taxes amounts to € 274 million as at the reporting date (previous year: € -216 million). The significant improvement is due to three main effects. The reassessment of interest and principal cash flows resulted in positive net income from hybrid financial instruments of € 72 million (previous year: € -181 million), meaning that it made a particular contribution to the increase. In addition, the very positive net income is due primarily to a number of building sales in the context of the Bank's downsizing measures (around € 150 million), which were reflected in an increase in the other operating result. Compared with the same period of the previous year, the reporting period also includes a slight improvement in net income from restructuring and transformation, as well as from valuation and hedge effects for overall bank positions.

The segment assets reported under “Other and Reconciliation” mainly comprise tax items, property, plant and equipment, other assets and reconciling items. Segment assets as at 31 December 2020 came to € 0.9 billion (31 December 2019: € 1.2 billion).

Final assessment of the situation of Hamburg Commercial Bank

In the 2020 financial year, the Bank's development exceeded expectations, sometimes considerably so, in a generally difficult environment. The development of its operating business was characterised by income and cost ratios that were largely in line with the plan, whereas the development of new business was characterised by deliberate restraint based on the more selective approach. Other key management indicators relating to capital and liquidity are also above the defined ambition levels on the reporting date, sometimes considerably so. Due to the decisive de-risking strategy, the ambition level for the NPE ratio of <2% was achieved despite the significant reduction in total assets.

All in all, Hamburg Commercial Bank considers itself to have a solid position from which to tackle the ongoing crisis. This is due, on the one hand, to its very good capital position and, on the other, to the forward-looking loan loss provisions policy on the basis of which the Bank anticipates macroeconomic risks, which it had already taken into account in the balance sheet in the previous financial year by setting up corresponding loan loss provisions and has now increased again.

In terms of sustained profitability, the Bank considers itself to be on the right track, which is reflected not least in the increase in net interest income. This increasingly reflects the focus on more profitable new business, the realignment of the balance sheet and lower funding costs.

The Bank is responding to the ongoing challenge faced by the entire German banking system of achieving a cost base that is commensurate with the market environment by continuing to rigorously implement cost-saving measures as part of the transformation programme. In this respect, too, the Bank is confident that the measures it had already taken in the previous year will enable it to achieve its objectives as planned, thus ensuring a sustainable and successful position for the Bank on the German banking market.

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

Far-reaching transformation, safeguarding the health of our employees and ensuring functioning operational processes

Human resources issues in 2020 were dominated by the Bank's ongoing, comprehensive transformation and by the organisational response to the challenges created by the global COVID-19 pandemic.

The Bank has set itself ambitious strategic cost targets as part of its multi-year transformation process, the achievement of which is key to its successful transformation. All business units are required to implement the measures assigned to them to achieve their cost targets in a timely manner, allowing them to meet their respective cost targets. Negotiations on a renewed reconciliation of interests (based on the existing social compensation plan) with the works council members had already been concluded in the first quarter of 2020. The Bank is confident that it will be able to implement the staff reduction measures as planned, despite challenging factors in the overall environment. As at 31 December 2020, the number of staff employed by the Hamburg Commercial Bank Group had fallen to 1,122 FTEs (31 December 2019: 1,482).

In addition to the transformation process, the period under review focused on safeguarding the health of our employees and ensuring that our operations ran smoothly. The Bank took immediate and comprehensive action after the outbreak of the pandemic in Germany and immediately set up a corresponding working group as a committee of the crisis unit. Options for external IT access were increased significantly, which has considerably expanded the capacities available for employees wishing to work remotely. The Bank introduced a split mode, splitting its employees into groups working in the office and groups working remotely. In addition, there was hardly any business travel and the Bank's hygiene concept was adapted and is being constantly reviewed – masks were distributed, disinfection dispensers were set up and, for example, maximum limits were defined for the use of lifts. The flow of information to employees was ensured by a regular dialogue process.

Employees in the Group

	31.12.2020	31.12.2019
Full-time employees (FTE) in the Group¹⁾	1,122	1,482
of which: Women	408	545
of which: Men	714	937
of which: Employees in Germany	1,095	1,421
of which: Employees abroad	27	61
Total number of employees in the Group (headcount)	1,343	1,705
Key employee figures		
Part-time employees (%)	22.0	24.8
Average age in years ²⁾	46.9	46.8
Average period of employment (years)	15.2	15.5

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

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

Dealing with COVID-19 at Hamburg Commercial Bank

With a "coronavirus" working group as a powerful team, HCOB had already established a framework to ensure its capacity to act back in February 2020 as part of its business continuity management system. The working group is responsible for making strategic and operational decisions in order to protect the health of employees and, at the same time, ensure that banking operations, and in particular the processes relevant to emergencies, can be maintained. To this end, the working group currently prepares new information received from the relevant external authorities and organisations several times a week, evaluates it and advises the Management Board on strategic decisions. The working group consists of a member of the Management Board and various representatives from the areas of Human Resources, Compliance, Facility Management, Communications and IT, as well as the company doctor.

The working group provides all employees with specific instructions and guidance on a regular basis in the form of updated FAQs, and also provides information to managers.

In the subject areas listed below, the “coronavirus working group” both sets the framework for the employees and makes concrete decisions: business trips/private travel, IT and technology, mobile working and working from home, hygiene and physical distancing regulations in the Bank, as well as medical issues including what to do in the event of suspected or confirmed infections. The pioneering decisions taken on split-mode operations and the rapid and pragmatic establishment and expansion of technical solutions to support mobile working are worthy of particular mention.

New target vision for collaboration

At the beginning of 2020, Hamburg Commercial Bank developed “Collaboration” as its target vision for a new way of cooperation and leadership. The new target vision comprises six aspects: leadership, working methods, team spirit, innovation, transparency and responsibility. These are briefly described in each case and work is ongoing to make them an established part of day-to-day working life. The new target is about making us a faster, more networked, more open and more agile bank across divisions and hierarchies. The principles apply to all employees, irrespective of hierarchy and function. In the autumn of 2020, all departments addressed the new target vision during the digital “Collaboration Weeks”. The aim was to take a closer look at the six aspects and develop the top 3 individual measures for improving these aspects in each department.

Focus on modern HR development

2020 was no ordinary year for the Bank. It was the second transformation year and was dominated by the COVID-19 pandemic.

The focus of the in-house seminar programme was on supporting employees in their professional and personal development during the change process. For the first time, the seminars were conducted virtually in small groups. Despite minor technical challenges, this implementation was very well received, meaning that these formats will be continued in the future. With a separate training budget for each business unit, we have given managers and their employees even more opportunities to address individual development needs through external training sessions or conferences.

A programme comprising several modules was developed for our managers and sessions of varying durations were completed by all executives, from the Management Board to department heads. The #pushforresults leadership events continued in 2020. The Management Board used digital channels to actively involve executives in current challenges and the transformation path.

The Bank continues to place a strong emphasis on developing up-and-coming talent; a total of 21 trainees and dual students were recruited for 2020. The new format introduced in 2020 to create a network for young talents and interesting

personalities within the Bank is organised on a monthly basis with a very positive response.

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 compensation system for employees of Hamburg Commercial Bank is based on a total remuneration approach, counteracts any significant dependence on variable remuneration and thereby prevents the employee from taking excessively high risks for the purposes of realising variable remuneration components.

In 2020, the new components of the employee compensation system negotiated with the co-determination bodies in 2019 were applied in full for the first time. Agreements on pending regulatory requirements were also brought to a successful conclusion with the committees in 2020 and further details were negotiated.

As in the previous years, the amount of the total budget for the variable performance-related remuneration is still determined on the basis of the Bank’s performance, which is calculated using parameters that reflect the success of the Bank. In addition to achieving key financial ratios, these parameters also take account of the fulfilment of the Bank’s strategic objectives amongst other things and are consistent with the philosophy of sustained business development within the meaning of the German Remuneration Ordinance for Institutions (InstitutsVergV). They are always tailored to the business model as well as the Overall Bank strategy and risk strategy, which are updated on an annual basis.

The variable performance-related remuneration for employees is determined as follows: For risk takers (for an explanation of this term, see below) and for another defined group of employees, known as the “focus group”, this is calculated in accordance with the German Remuneration Ordinance for Institutions (InstitutsVergV) and depends on the Bank’s performance, the success of the business unit and the individual achievement of objectives. For the other eligible employees, variable remuneration is based solely on the Bank’s performance. 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 were continuously adapted, for the last time in 2020, 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 Section 289f (4) of the German Commercial Code (HGB) (Information on the women's quota)

Equal opportunities, women in management positions and diversity concept

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.

In order to attach even greater weight to the issue of equal opportunities, the Bank signed the "Diversity Charter" in May 2020. This underscores its commitment to a working environment that is free of prejudice and sees the Bank undertake to create a suitable organisational culture and to review and, if necessary, adjust its human resources work in line with the charter's objectives.

In addition, the Management Board made the decision in November 2020 to promote the topics of equal opportunities and diversity even more intensively by implementing a large number of measures, including specific target quotas for the underrepresented gender in management and senior positions. The Management Board attaches particular importance to supporting these objectives through the measures adopted.

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 exceeded. The department head ratio also more than meets the

target at 22% (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 December 2020¹⁾

	Number			Ratio	
	Women	Men	Total	Women	Men
Managers reporting directly	4	16	20	20%	80%
Heads of department	11	40	51	22%	78%
Total	15	56	71	21%	79%

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 (five members), it corresponds to a ratio of 20%.
- 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. After the proportion had fallen to 11% as at 31 December 2019 following the reduction and replacement of the Supervisory Board after the Bank's privatisation, it was possible to recruit a woman as a member of the Supervisory Board on the shareholder side in April 2020. As a result, the ratio has risen again to 17%.

Regulations governing the setting of targets by the Supervisory Board for the proportion of women on the Supervisory Board and the Management Board in accordance with Section 111 (5) *AktG* are set out in the rules of procedure for the Supervisory Board. The rules of procedure for the Supervisory Board also 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 risks

The following section should be read in conjunction with the other sections in this combined 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 combined 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

Forecasts on economic growth and inflation come from national and international institutions (Germany: Bundesbank, eurozone: ECB, USA: Fed, China: OECD, world: calculation of Hamburg Commercial Bank on the basis of IMF weights and growth forecasts specified above, as well as IMF forecasts for the rest of the world). The interest rate forecasts are based on the corresponding forward rates. The forecast euro to US dollar exchange rate is also derived from the futures markets. Unless otherwise stated, the other statements on the overall conditions are based on internal estimates, also taking account of external sources of information such as research companies that are established on the market (real estate markets: e.g. bulwiengesa and PMA, shipping markets: e.g. Marsoft and MSI).

Economy as a whole and financial markets

GLOBAL ECONOMY: SPLIT OUTLOOK FOR 2021

2021 will be split into two parts. In the first half of the year, the pandemic will initially worsen in some parts of the world, contributing to a renewed economic slowdown.

In the second half, the global economy is likely to increasingly bounce back. Efforts to contain the pandemic are being made in the form of extensive vaccine campaigns, with catch-up effects likely to trigger a temporary boom in some sectors. In the coming year, the global economy could expand at a rate of 5.2% (IMF, WEO October 2020).

In the US, the coronavirus pandemic is likely to be responsible for a flattened growth curve in the first half of 2021. GDP

is expected to drop in the first quarter, largely due to the domestic pandemic trend. The US has reported the highest number of coronavirus infections worldwide, with no sign of the infection curve flattening to date. What is more, the domestic political climate is extremely tense after the events surrounding the transfer of power in Washington. But it is not only on the domestic front that the US is faced with challenges. Its relationship with China remains tense. The trade war is not over and the tension intensified in 2020. The new security law in Hong Kong coupled with mutual recriminations over the coronavirus pandemic created new potential for conflict. It remains to be seen to what extent the situation will ease under Biden's presidency. Looking ahead to 2021 as a whole, we estimate GDP growth of 4.2%.

China has made a return to its old growth path. Even though the country has proved highly effective in managing the pandemic, it is repeatedly witnessing isolated outbreaks of infection resulting in regional lockdowns. The further development of the pandemic also poses an economic risk for the Chinese economy. The tense relationship with the US in the trade dispute represents an additional economic risk for China. Given the drastic measures taken and the successful crisis management track record to date, however, the economy is likely to make a relatively swift recovery. Economic growth of 8.2% is predicted in 2021.

As far as the eurozone economy is concerned, the Bank expects to see a muted recovery in the first half of the year as a result of the pandemic. The upward trend should then accelerate as the vaccine reaches citizens across the board and lockdown measures are lifted. Especially in the service sector, including tourism, the second half of the year is expected to bring high growth rates. The EU's recovery fund will play an important role in the recovery process, with the first payments likely to be made in the middle of the year. The € 750 billion-heavy fund is expected to be instrumental in helping southern European countries, in particular, to overcome the coronavirus crisis more sustainably than they could without this aid. We expect to see GDP growth of 3.9% in 2021 as a whole.

Germany's economy will expand only marginally in the first half of the year, moving in tandem with the eurozone as a whole, as people's freedom of movement is likely to remain restricted and many companies, particularly in the service sector, will likely not be allowed to operate, or will only be allowed to operate to a limited extent. The continued flow of coronavirus aid and the economic stimulus package adopted by the government will play a key role in propping up the economy. Nevertheless, increasing insolvencies will likely be on the cards.

This is expected to contribute to rising unemployment rates, especially in the first two quarters of the year.

MONETARY POLICY REMAINS EXTREMELY EXPANSIONARY, INFLATION SET TO RISE INITIALLY

Inflation will initially rise in the coming months due to significantly higher oil prices, which plummeted in connection with the crisis, than in the previous year. This base effect will become less significant in the course of the year. The second half of the year could bring temporary capacity bottlenecks due to catch-up effects in certain service sectors, driving prices up. This is not, however, expected to translate into any sustained rise in inflation. In the eurozone, inflation is expected to come in at 1.0% at the end of the year.

In December 2019, the ECB had outlined its monetary policy for 2020 with a comprehensive package of measures. The framework for the Pandemic Emergency Purchase Programme (PEPP), for example, was increased from € 1,350 billion to € 1,850 billion and extended until March 2022 (from June 2021). The targeted longer-term refinancing operations (TLTRO III) programme was also modified. This resulted in three additional tender operations being offered in the past year and premium payments to banks taking out these loans being extended by twelve months. Together with other measures, this will help financing conditions remain extremely favourable, with yields hardly set to change at all in the coming year.

The US Federal Reserve has confirmed that it will continue to buy bonds worth around 120 billion US dollars every month over the next few months. This means that monetary policy will remain very expansionary in the US as well. The key interest rate will remain unchanged in 2021.

The euro has already made significant gains in recent months. There is a good chance that it could still appreciate slightly and reach a level of 1.24 US dollars per euro. In order for this to happen, it is important that the mood on the financial markets remains buoyant overall.

Outlook for relevant markets

GERMAN REAL ESTATE MARKETS

The German real estate markets will continue to be hit by the impact of the pandemic and last year's recession to varying degrees in 2021. Following the prolonged shutdown of public life and the partial closure of the retail sector at the beginning of the year, an increasingly dynamic recovery process is expected to emerge in the second half of the year as progress is gradually made in successfully combating the pandemic. Catch-up effects are to be expected, not least with regard to consumption, although these are not expected to take full effect until 2022. Until then, the retailers and hoteliers affected by the crisis, in particular, will have to struggle with an ongoing weak earnings situation. They will remain particularly reliant on state support measures for the time being. Nevertheless, some

companies are likely to be forced off the market. The still-ailing labour market is also putting pressure on the economy at the moment. By contrast, the expansionary central bank policy is likely to continue to have a stabilising effect. Thanks to extremely low interest rates, crisis-resistant segments of the real estate market remain a sought-after investment alternative among investors.

On the **housing markets** in most large cities, demand is likely to grow at a much slower pace than prior to the crisis due to a significant drop in the influx of inhabitants triggered by the weak labour market. In many cases, housing demand is no longer likely to be sufficient to cover the increasing supply of homes driven by the ongoing brisk new-build activity. This means that the reduction in the number of vacant apartments is coming to an end, although vacancies 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 on rental growth. 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 2021.

On the **office property markets**, demand for space is expected to remain weak, with new hires set to increase only gradually and a trend towards employees working more from home. The number of office completions, on the other hand, will remain high in 2021. The space coming onto the market is likely to more than satisfy the weak demand, meaning that vacancy rates will increase slightly again. They will, however, often remain relatively low, meaning that office rents will drop only moderately, with a somewhat more pronounced drop in peripheral locations compared with central locations. Unlike with residential real estate, some investors are likely to become increasingly risk-averse with regard to office properties, making it impossible to rule out a slight drop in values.

As far as **retail properties** are concerned, the split picture that emerged in the market in previous years is likely to continue. This is because not all consumers will abandon the consumption habits they switched to when shops closed during the pandemic, with a shift towards online retail. This structural change is likely to continue, albeit at a noticeably slower pace of growth than that seen in 2020. While non-food retail is likely to benefit from the return of consumers to brick-and-mortar shops, quite a few of the catch-up effects in consumption relate primarily to services. This means that it will probably not be possible to make up for a good part of the revenue losses incurred in 2020. Rents in crisis-hit properties (shopping centres, department stores and commercial buildings in less attractive locations) are therefore likely to remain under pressure with sustained risk aversion also set to continue among investors, meaning that further value losses can be expected here. On the other hand, local supply and, in particular,

food retail are likely to escape the impact of the crisis and also the process of structural change relatively unscathed. Rents and market values in specialist retail parks that focus on local supply, not least those with anchor tenants in the food retail sector, are expected to chart a moderate increase. They remain sought-after among investors.

INDUSTRY, TRADE AND SERVICES, INFRASTRUCTURE AND RENEWABLE ENERGY

The underlying conditions for German growth will remain challenging in 2021, also due to the uncertainty regarding the further course that the coronavirus pandemic and the necessary measures to contain the virus will take, as well as in light of geopolitical and foreign trade risks (such as a renewed escalation of the trade conflict between the US and China, which cannot be ruled out after the new US President Biden takes office, or developments in the domestic political situation in Italy). Exports and investment could weaken significantly again in an unfavourable scenario. The strong economic recovery in growth witnessed in the third quarter of 2020 will be interrupted in the 2020/2021 winter half-year and will remain marked by the lockdown measures. Hopes of the continuation of a higher growth path from the spring quarter of 2021 onwards are supported by an expected pick-up in private consumption thanks to government aid measures designed to prevent a significant rise in unemployment, as well as extensive fiscal policy stimuli, which should bolster demand and, as a result, **retail trade**. The e-commerce segment, in particular, is likely to continue to show strong development and to reap the benefits of potentially permanent changes in shopping habits. Provided that we are spared a return to extensive lockdown measures that also affect industry, the industrial sector should continue to bounce back, meaning that strong growth also appears to be within the realms of possibility for **manufacturing** and for companies in **wholesale and foreign trade** in all sectors in the course of the year. The **logistics sector** in particular, however, is exposed to the risks of a prolonged slowdown in overall economic development and global trade if the measures taken to contain the coronavirus pandemic, e.g. extensive vaccination programmes, do not take effect quickly enough and further waves of infection cannot be averted by imposing new lockdown measures. **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 expected return to increased global economic growth in 2021 on the one hand and high maintenance requirements on the other are providing positive stimuli for investments in **transport infrastructure**. Institutional investors will likely continue to play an important role in an environment of low interest rates.

The prospects for the expansion of **renewable energies** remain mixed as far as 2021 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 2021. 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 2021 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 European Commission to achieve climate neutrality by 2050, could provide new growth impetus for renewable energies in Europe.

SHIPPING MARKETS

The effects of the coronavirus pandemic continue to overshadow all other effects on the shipping markets. This will continue until the pandemic is brought under control and the global economy has settled down again. While the former seems to be a goal that can be achieved in the course of the year thanks to the start of the vaccination drive, the consequences of the crisis are likely to be felt for a longer period. Nevertheless, relatively low order books in all segments are easing the situation on the supply side.

The special effects that recently boosted the market for **container vessels** are likely to taper off in the first half of 2021 and even reverse in some cases. Consumption that has already been brought forward and abundantly stocked warehouses are likely to result in a certain restraint in transport demand. On the other hand, the expected global economic recovery is expected to bolster demand. On the supply side, fleet growth will continue to slow with order books at a relatively low level, meaning that fewer new vessels will be due for delivery. As a result, charter rates are expected to have slid to a solid level by the middle of the year and subsequently edge moderately upwards again as the global economy bounces back. Ship values are likely to follow this trend, albeit with much less volatility.

As far as **bulkers** are concerned, last year’s mixed demand growth is expected to continue in the coming year. With the exception of coal, which faces an uncertain future as an energy source, demand for bulk commodities has stabilised again and is likely to increase slightly during the year as the pandemic is overcome. A renewed escalation in trade disputes with China is looking less likely thanks to the change in the US administration. 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 2021 as a whole should also remain more or less on a par with the current level, and the development of charter rates and ship values should show a sideways movement.

The **oil tanker market** is still faced with a difficult situation. Any sustainable recovery in the global economy is only likely to begin once the pandemic is over. A return to old levels of mobility and fuel consumption will also take longer, and is unlikely to materialise completely, also due to climate change concerns. Owing to continued high inventory levels, among other

things, transport demand for crude oil and refined products will not make any significant recovery in 2021. Slight improvements are also likely to be counteracted by a further reduction in floating storage capacities. On the supply side, scrapping is tipped to increase significantly due to the weak ship earnings situation. Declining deliveries would cause the tanker fleet to shrink noticeably in 2021 and lay the foundation for a market recovery in subsequent years.

BANKING ENVIRONMENT

Against the backdrop of the coronavirus crisis, which is likely to continue to shape economic development in 2021, the banking environment will also remain challenging. The coronavirus crisis is likely to lead to a significant increase in the number of problem cases and insolvencies in the corporate sector, even though aid programmes have been extended and prolonged in some areas. This is because an increasing number of companies are likely to have used up the financial reserves they had at the beginning of the crisis, a trend that will ultimately also be reflected in bank balance sheets in the form of rising deferrals and loan defaults.

In view of this ongoing difficult market environment, the ECB is likely to maintain its expansive monetary policy and also continue to support the banks with temporary regulatory relief, while at the same time sticking to its long-term regulatory agenda.

Banks are likely to focus on holding their own in this complex environment and, on the one hand, actively manage their loan portfolios while on the other making more drastic and earlier adjustments to their cost structures to reflect the sus-

tained adverse market environment. On the funding side, capital market participants are likely to pay even greater attention than before to how banks' key indicators will develop. Developments in the risk position, capital and liquidity resources and sustained profitability will be of central importance.

In addition, further fundamental regulatory 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. Within this context, we expect to see a noticeable increase in RWA throughout Europe going forward and, as a result, pressure on the capital ratios at those banks that make extensive use of internal models for the purpose of determining risk.

The supervisory priorities set as part of the SREP process for 2021 had not yet been published by the end of the reporting period. As the ECB's main focus in 2020 was on making banks more resilient to the current challenges created by the coronavirus crisis, the priorities for 2021 will be published when there is greater clarity on how the current crisis is affecting banks. The focal areas of the SREP process so far, such as balance sheet restructuring, making institutions more resilient, internal models, the quality of lending, capital and liquidity management issues, as well as IT and cyber risks, are nevertheless likely to remain high on the agenda. In addition, issues relating to sustainability risks, especially climate risks, are likely to become increasingly important.

Expected business development of Hamburg Commercial Bank

Financial key management indicators

	Actual figures 2020	2021 forecast	Objective for 2022
RoE after taxes (%) ¹⁾	4.0	Moderate increase compared to 2020 with significantly lower income tax rate	>9
CIR (%)	42	Just below 60%, as the earnings base will be reduced to a greater extent than the planned further reduction in the cost base due to the loss of the one-off effects realised in the other operating result in 2020	40-45
CET1 ratio (%)	27.0	Still well above the 20% mark	>20
LCR (%)	171	The ratio is expected to continue to be comfortably above the regulatory requirements	~140
NPE ratio (%)	1.8	Slightly above 2%	<2

Non-financial key management indicators

	Actual figures 2020	2021 forecast	Objective for 2022
Rating	Baa2, positive/ BBB, negative	The progress made in the transformation process and the Bank's admission to the deposit guarantee fund (ESF) of the Federal Association of German Banks (BdB), which started to look increasingly likely in the autumn of 2020, will consolidate the rating position overall.	Baa1/BBB+

¹⁾ The RoE after taxes shown is based on a standardised regulatory capital commitment (in the amount of a CET1 ratio of 14% for actual 2020 and the forecast for 2021)

Key basis for the forecast

In its corporate planning for the 2021-2023 period, 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,
- there is an overwhelming probability (base case) that the global economy will recover in 2021 and that this recovery can continue at a low level in the years that follow,
- total assets will be moderately reduced again (to approx. € 30 billion at the end of 2021), and the composition of assets and liabilities will be optimised further as part of the repositioning of the balance sheet so as to boost the profitability of the invested assets, a trend that will also be helped along to a considerable degree by a further drop in funding costs,
- total income will be driven primarily by net interest income and will also be characterised by stable net commission income, while the other items within total income will only have a moderate impact overall accordingly,
- net interest income as a key driver of total income will be characterised by a gradual increase in the net interest margin over the planning period, which will be due in particular to the aforementioned repositioning of the balance sheet,
- the negative impact of loan loss provisions in the income statement will normalise from the 2021 financial year onwards, remaining at a moderate level despite the ongoing coronavirus crisis. The Bank will benefit from the fact that it reduced its portfolio risks further in the reporting year by forging ahead with its de-risking strategy and winding down legacy NPE cases. In addition, as at 31 December 2020, it has a substantial volume of (predominantly) COVID-19-related general loan loss provisions (including model overlays totalling € 238 million), which will serve to cushion further potential negative effects from the COVID-19 pandemic,
- the overall cost reduction measures taken as part of the transformation programme will be implemented to the planned extent and within the planned time frame, resulting in administrative costs being reduced to such an extent that the target CIR can be achieved in 2022,
- only moderate burdens will result from restructuring and transformation expenses, with transformation expenses planned for the last time for 2022, when the transformation process will be completed, 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 main progress made in the transformation programme in the year under review (cf. the section entitled "Business development – significant developments and events in the 2020 reporting year"), Hamburg Commercial Bank will systematically continue on the clearly defined path mapped out as part of its extensive transformation programme in the 2021 financial year, too.

The firm objective for the current financial year and the key milestone in the transformation agenda is to achieve successful admission to the BdB deposit guarantee fund on 1 January 2022. Based on Hamburg Commercial Bank's strong financial

key figures, reflected in particular by a very comfortable CET1 ratio of 27.0%, there is no doubt from today's perspective that this target will be achieved. In the 2021 financial year, the key will be to maintain the KPIs despite the continued macroeconomic headwind from the COVID-19 pandemic, and to achieve admission to the BdB with convincing KPIs.

Management's focus for the 2021 financial year will be on successfully shaping the final phase of the transformation process in order to complete it on schedule in mid-2022. To this end, Hamburg Commercial Bank had already defined a framework for action in the middle of the reporting year, which also forms the basis for the Bank's multi-year corporate plan. This framework for action can be split, in simplified terms, into the following areas for action, which are all geared towards achieving a further increase in profitability and efficiency:

- De-risking and RWA optimisation
- Increasing the profitability of the balance sheet
- Diversification of the funding structure
- Reducing administrative costs
- Simplifying the corporate structure and establishing a highly efficient IT platform

The project-related focal points in 2021 are: the IT transformation process, the outsourcing of payment transactions, the second phase of the reorganisation of the 3 LoD model, the further development of the rating model landscape and the continuation of the ESG initiatives. The Bank has already made considerable progress in these areas for action and projects in the 2020 financial year; in 2021, the aim is to build on/round off the results achieved so far.

As part of the implementation of the de-risking strategy, which was initiated back at the end of 2019, the RWA reduction targets were significantly exceeded in the 2020 financial year, meaning that the Bank has already made considerable progress in its activities in this area for action. In the first half of 2021, the sale of a loan portfolio (performing loans) from the Energy division will be closed and removed from the balance sheet. The underlying purchase agreement with a volume of around € 0.7 billion (EAD) was already concluded in December 2020. In 2021, the Bank's de-risking strategy will be geared towards continuing the selective approach to new business and RWA optimisation, also in order to counter the further increase in risks from the economic environment and to limit the RWA increases expected to come from changes in the rating model landscape.

The aim of gradually increasing the profitability of the balance sheet is primarily to boost the return on the invested capital by optimising asset allocation. In the internal determination of the appropriateness of the returns on business transactions, the Bank applies a shareholder value added approach (SVA concept). Accordingly, the profit contribution made by each transaction must be positive after taxes and after the costs of capital (criterion: SVA-positive). Within this context,

the share of non-interest-bearing business is to be gradually reduced while total assets are scheduled to be driven down further to around € 30 billion. On the other hand, the share of higher-margin assets is to be increased. In this regard, the diversified strategic investment portfolios (Strategic Investment and ALCO portfolios) are to be developed further. A higher proportion is also to be allocated to the high-margin, SVA-positive, Diversified Lending business area in a risk-conscious manner, helping to diversify the Bank's sources of income. The Bank will continue to focus on its profile as a commercial specialist financier focusing on project finance for renewable energy and infrastructure, commercial real estate, shipping, diversified lending and focused corporate banking. At the same time, concentration risks in these asset classes will be reduced. Across the portfolio as a whole, the aim is to gradually substitute business that does not make a sufficient contribution to profit with business offering appropriate returns (higher ambition levels) in order to further increase the net interest margin. Also within this context, the Bank plans to noticeably adjust its portfolio in corporate banking, which tends to have lower margins.

Another focus in the current financial year will be continuing initiatives to further reduce funding costs. This involves both more favourable pricing and optimising the funding mix. With regard to refinancing via deposits, which represents a key component of the Bank's funding, the measures are essentially aimed at increasing granularity, extending average maturities and increasing the share of USD deposits. To this end, the Bank is further expanding its franchise in payment transactions with corporate clients. In a market environment that remains challenging as a result of the coronavirus crisis, refinancing via the ECB's TLTRO programme will remain an important component of refinancing in 2021, too. Further activities on the capital market are also planned for 2021. The Bank will also be using the 2021 financial year to prepare for the issue of an AT1 bond in 2022.

In its corporate planning, the Bank has confirmed its ambitious goal of significantly reducing its cost base even further. Key interim targets are already to be achieved in the 2021 business year, laying the basis for achieving a level of administrative expenses in 2022 that translates into a CIR of 40-45%, which is appropriate for the Bank in the long term. With regard to personnel costs, the Bank expects its staff reduction measures to continue as planned. With a strategic target of approximately 700 full-time equivalents (FTEs) for the end of 2022, the Bank is planning to have reduced its workforce to approximately 910 FTEs by the end of 2021. The driver behind the targeted reduction in operating expenses will be the successful implementation of the Bank's transformation projects while adhering to a stringent cost controlling approach.

In order to be able to achieve the long-term cost targets, all transformation projects are also focused on their contribution to simplifying the corporate structure ("simplifying com-

pany”), as a logical consequence of a smaller and more powerful bank. The focus will be on making ongoing adjustments to the organisational structure and business processes (with an emphasis on credit risk management in 2021). This will be fittingly combined with a standardised and, at the same time, flexible IT architecture that supports swift decision-making processes geared towards client needs through intelligent and smart data management. The project structure for the IT transformation process, which is central to the Bank’s ability to achieve its cost targets, was optimised further in the reporting year. In 2021, the focus will be on further increasing the level of software standardisation in central application areas (Risk, Finance and Controlling) while establishing the highly efficient IT platform (SAP S/4 HANA). The rollout of the new workplace infrastructure (“modern workplace”), which is geared towards mobility and cloud use, is scheduled for the first half of 2021.

In addition to its operational projects, in 2021 Hamburg Commercial Bank is also looking ahead to the period after the completion of the transformation process. As a result, the strategy process was already launched at the beginning of the current year allowing the Bank to analyse and evaluate its future strategic options and development opportunities following its planned admission to the BdB, as well as to enter into dialogue with its relevant stakeholders.

Taking into account the fundamental aspects referred to above, the Bank’s forecast expects to see a moderate increase in **net income after taxes** and, as a result, in **RoE after taxes** compared to 2020, as the income tax expense in the reporting year was characterised to a considerable degree by reversals of deferred taxes. Net income before taxes will decrease as planned in 2021. The main reason for this is the loss of the one-off effects resulting from the sale of buildings realised in the year under review in the other operating result. In operational terms, the Bank expects the positive trend to continue. Due to the loss of the one-off effects included in other operating income in the reporting year, as mentioned above, the **cost-income ratio (CIR)** will initially rise again to a value of just under 60% in 2021 as planned. Despite further investments in the new cloud-based, integrated IT platform, the cost base will continue to be reduced as planned in 2021 by percentage similar to that achieved in 2020, with a significant portion of the planned cost savings already contractually established. In 2022, further savings, supported by significantly lower “change the bank” costs, should lead to the targeted CIR in the range of 40–45%. In forecasting the **CET1 ratio**, the Bank has accounted for an increase in RWA in 2021 and 2022, in particular due to the steps taken to further develop the rating model landscape in these two years, with the most significant part of the increase in RWA expected in 2022. As a result, the Bank expects the CET1 ratio to have dipped slightly from the excellent level at the end of the reporting period. The Bank expects the **LCR** to remain comfortably above the regulatory requirements in 2021, too. The **NPE ratio** is expected to have increased to just over 2% by 31 December 2021. This is based on

the assumption that the NPE volume will increase moderately despite the continued de-risking, while the total exposure (EaD) will continue to decrease as planned. In general, the Bank expects that the progress made in the transformation process and the Bank’s admission to the deposit guarantee fund of the BdB, which started to look increasingly likely in the autumn of 2020, will have a positive effect on the **rating agencies’** assessment, meaning that Hamburg Commercial Bank’s rating position will be strengthened further.

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 an accelerated infection trend triggered by the COVID-19 mutation from the UK both here in Germany and/or among our major trading partners, which could require an even harder economic lockdown. It is also possible that the vaccination process will take longer than forecast due to logistical problems, meaning that herd immunity cannot be achieved this year. In the financial markets, there is an increased risk of a shock in the form of a massive slump on the stock markets, which the IMF, among others, considers to be highly overvalued. This could be triggered by a sharp rise in long-term government bond yields, caused by an unexpectedly significant increase in inflation for example. Another risk is that the government crises in Italy and the Netherlands will restrict key EMU economies in their ability to act. In the US, the violent protests that have accompanied the transfer of power have shown that political stability can also come under threat in the United States. Finally, it is impossible to rule out a climate-related economic slump in the coming year. Conversely, if the above-mentioned risks do not materialise, levels of uncertainty in the corporate sector would decrease. In particular, achieving herd immunity faster than expected would allow for higher growth.

B) INDUSTRY-SPECIFIC FACTORS

The duration and extent of the pandemic are likely to exacerbate knock-on effects, such as de-globalisation or on-shoring, which tend to hinder world trade. The need to limit the consumption of fossil fuels such as coal, oil and gas will also slow the demand for maritime transport. The export-oriented German economy could also suffer more in this sort of scenario than assumed in the planning due to structural changes. The expansive central bank policy, which is expected to continue for some time to come, is likely to have a positive impact on developments in crisis-resistant segments of the real estate market thanks to the very low interest rates. Those areas of the real estate market that have been hit hard by the crisis, on the other hand, will barely reap any benefits from this trend, or will only benefit to a very limited extent.

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 programme 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 will be impossible to achieve the income and cost targets.

On the earnings side, there is a fundamental risk that the profitability targets will not be met. With regard to the development of the client portfolio, the main challenge, especially in the difficult market environment caused by the coronavirus crisis, but also the opportunity, lies in managing existing client relationships profitably and, at the same time, establishing new client relationships in line with the Bank's ambition levels. The difficult market environment could also lead to a higher number of rating migrations than assumed in the planning and, as a result, to unplanned loan loss provision expense or increased pressure on RWA/the NPE ratio. In turn, earnings opportunities are emerging in particular in the area of project finance, especially due to the steadily increasing importance of sustainability aspects in this area, as well as in the new Diversified Lending business area and the further development of the strategic investment portfolio.

With regard to the Bank's funding targets, there is a fundamental risk of developments on the capital markets that are adverse for the Bank. This could lead to the Bank not achieving its funding targets and, as a result, to the intended further reduction in funding costs not being achieved to the extent expected. Negative developments on the capital markets could also lead to an unplanned temporary burden on the earnings situation in connection with negative valuation effects from financial instruments categorised as FVPL. On the other hand, a more positive trend for the Bank on the capital markets or in the ECB's monetary policy could lead to a reduction in funding costs that exceeds the plan and could also have a positive effect on the earnings situation in connection with valuation effects.

On the cost side, there is a fundamental risk that the targeted further substantial reduction in personnel and operating expenses cannot be achieved within the specified time frame. With regard to personnel costs, the transformation agenda for 2021 and 2022 provides for the further implementation of the planned reduction in the number of employees. In general, it is impossible to rule out a scenario in which the reduction targets cannot be achieved in full within this ambitious time frame. In addition, staff reduction measures come hand-in-hand with the risk of an increase in operational risks, including the loss of key skills, which would require mitigation measures in each case. With regard to operating expenses, there is a risk that the Bank will fall short of its planned targets, especially in cases involving cross-functional transformation projects that entail a very high level of complexity, such as the IT transformation process, the restructuring of the first and second line of defence in the lending process and the change in payment service provider. The challenge here is essentially to complete these projects on time and in line with high quality standards while maintaining stringent cost discipline. On the opportunities side, 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.

In summary, 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 continued 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 deposit protection fund for private 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 guarantee system 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 deposit guarantee funds 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 change in the deposit guarantee fund.

Hamburg Commercial Bank may also be required to make special payments because of its membership of the support fund of the Landesbanks and 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 AND LEGAL ENVIRONMENT

New regulatory initiatives, in particular resulting from the implementation of Basel IV, generally carry the risk of higher RWA. Hamburg Commercial Bank has taken the RWA increases expected to result from the changes to its internal models into account in its corporate planning. As a result, the chances that the increase in RWA for credit risks will be lower than planned tend to slightly outweigh the risks of a contrary development as at the reporting date. The implementation of regulatory requirements and expectations, including those resulting from supervisory audits, could, in principle, result in negative effects on administrative expenses that exceed the planned scope.

In the past, the Bank has suffered losses relating to financing in European countries due to state intervention. The Bank has already taken legal action against such intervention in the past. If future rulings confirm the Bank's legal opinion, then the Bank can expect significant cash inflows. On the other hand, these matters do not pose any risk to the Bank's earnings situation as the Bank has covered the risks in full in its balance sheet.

Overall appraisal and net income forecast

2021 will be a decisive year of transformation of Hamburg Commercial Bank. In the third transformation year, the Bank's top priority is to maintain the strong financial key figures achieved at the end of 2020 and, as a result, achieve successful admission to the BdB's deposit guarantee fund at the beginning of 2022, a target that there is no doubt about from today's perspective. The focus of business development in 2021 will be on initiating and successfully shaping the final phase of the transformation process in order to be able to complete it in mid-2022 in line with the Bank's targets. The Bank has created a very good starting position for itself with the significant progress made in the reporting year. This is reflected, in particular, in its excellent capital ratios. The positive overall picture is also, however, shaped by the marked risk reduction in balance sheet assets, the clear successes in cost management, the simplifications achieved in the business model and especially the structural improvement in profitability in the Bank's core business.

On the basis of the generally encouraging results reported in the IFRS Group financial statements for the 2020 financial year, the Bank is confident, from today's perspective, that it will be able to achieve the targets set for 2021 as a whole. The 2021 financial year will be characterised in particular by initiatives aimed at building further on the structural improvements in profitability achieved to date. With regard to total income, the emphasis will be on further increasing the net interest margin. On the cost side, the aim is to use systematic project management and stringent cost controlling to ensure that the ambitious interim targets for personnel and operating expense reductions can be achieved in 2021, laying a foundation that will enable the Bank to achieve its target costs for administrative expenses.

On the basis of the information currently available to it, the Bank expects to be able to achieve positive IFRS net income after taxes (Group net result) for the 2021 financial year, moderately above the level seen in the year under review. This earnings forecast is subject to any unforeseeable effects resulting from the implementation of the restructuring/transformation process or unforeseeable geopolitical influences such as a significantly slower economic recovery from the recession triggered by the coronavirus crisis.

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 under the sign of Corona

The 2020 financial year was also significantly characterised by the uncertainties associated with the COVID-19 pandemic in the area of risk management. Hamburg Commercial Bank responded to this challenge immediately after the outbreak of the pandemic, and took comprehensive measures within the framework of risk management to ensure a solid capital and liquidity position and to safeguard business operations.

Hamburg Commercial Bank established a task force immediately in March 2020, which closely monitors the effects of the pandemic on the loan portfolio, as well as legal and banking supervisory changes, on an ongoing basis. The Bank has analysed its loan portfolio at the level of sub-portfolios as well as at a case-by-case level, and identified clients with higher exposure to the pandemic. Based on these results, the clients were closely managed and the need for measures to manage credit risk, such as adjustments to payment arrangements or state guaranteed bridging loans, was continuously reviewed.

Hamburg Commercial Bank already initiated a comprehensive de-risking strategy in the fourth quarter of 2019, which was adapted and implemented at an accelerated pace in light of the coronavirus crisis, in order to compensate for potential rating migrations and defaults due to the consequences of the COVID-19 pandemic.

Since the beginning of the pandemic, business operations have been continuously ensured at full operational capacity. This was made possible by increased hygiene measures, the introduction of split-mode operations as well as IT measures for increased use of digital services and mobile work.

Overall, capitalisation again improved significantly, while balance sheet quality was maintained at a solid level, despite the negative impact of the COVID-19 pandemic on the economy as a whole. The substantial volume of general loan loss provisions related to COVID-19 also provides a significant buffer to cushion further potential negative effects of COVID-19. Through these measures, Hamburg Commercial Bank is well positioned to counter the effects of the COVID-19 crisis.

Details of the measures taken in the context of the coronavirus crisis are presented in the following sections of the Risk Report.

Risk management system

Principles of risk management

Active risk management represents a core component of the Overall Bank management at Hamburg Commercial Bank. The risk management system is developed on an ongoing basis in line with the Bank's business strategy and risk positions. The current version of the Minimum Requirements for Risk Management (MaRisk) laid down by the supervisory authorities

serves as the regulatory framework for the design of the risk management system. In addition, comprehensive requirements of the European Supervisory Review and Evaluation Process (SREP) and the ECB Guides for the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) must be observed.

Hamburg Commercial Bank defines risk as the threat that unfavourable future developments could have an adverse impact on the Bank's assets, earnings or financial position.

Hamburg Commercial Bank conducts an annual risk inventory in order to identify material risks as defined by MaRisk. This includes a review of the existing quantitative and qualitative criteria for determining materiality taking due account of the Bank's risk appetite, with these criteria being redefined if necessary. Based on the results of the risk inventory, risks are broken down into "financial risks" and "non-financial risks" (NFR). 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 instead maintain an explicit allocation of capital or liquidity, 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 accordingly taken into account in assessing the adequacy of economic capital and liquidity.

Other material risk types at Hamburg Commercial Bank include the illiquidity risk as the second manifestation of liquidity risk for financial risks, reputation risk for NFR as well as business strategy risk, which comprises both financial and non-financial components.

In accordance with the regulatory initiatives, Hamburg Commercial Bank does not consider sustainability risks to be an own risk type, but rather as risk drivers in financial risks and non-financial risks, and takes measures to actively manage them, including measures based on sustainability scores for lending business as well as integration in the scenario analysis.

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 owners and meeting the requirements of other stakeholders, in particular the banking supervisory authorities and the Deposit Guarantee Fund of the Association of German Banks, are 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 figures and ratios, the non-financial RAS of qualitative targets regarding the 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. The risk strategy provides the framework for the individual sub-risk strategies.

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

	31.12.2020		Limit	Guideline
ICAAP utilisation from an economic perspective/RBC	53%	<	90%	-
Economic capital required (EUR bn)	1.9	<	2.8	-
of which: for default risks	0.9	<	1.3	-
for market risks	0.7	<	1.0	-
for liquidity risks	0.2	<	0.3	-
NPE ratio	1.8%		-	< 3.5%
CET1 ratio (same period calculation) ¹⁾	27.0%	>	14.0%	-
T1 ratio (same period calculation) ¹⁾	27.0%	>	15.5%	-
Overall capital ratio (same period calculation) ¹⁾	33.3%	>	17.5%	-
MREL	26.4% ²⁾	>	7.7%	-
Leverage ratio	12.2%	>	4.2%	-
Liquidity coverage ratio (LCR)	171%	>	115%	-
Net stable funding ratio (NSFR)	111%	>	102%	-
NLP2 in the stress case until 1. Month (EUR bn)	3.3	>	0.5	-

¹⁾ Same period calculation: calculation taking fully into account the balance sheet carrying amounts as at the reporting date, all else being equal.

²⁾ 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. The CRO makes decisions independently of the members of the Management Board responsible for the market or trading divisions. In this way, the separation of functions required under the regulatory rules 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.

Specifically, the CRO's responsibilities include the Risk Control, Credit Risk Center and Compliance business units.

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 sets the risk limits and risk guidelines for the operational portfolio management. The Risk Control business unit also determines the loan loss provision amounts for Stages 1 and 2 (IFRS 9).

Among other things, the Credit Risk Center business unit is responsible for setting ratings and the collateral valuation for the Bank's lending business. The Credit Risk Center is also responsible for independent evaluation and preparing a second assessment for normal and intensive exposures that are subject to a vote. In addition, the Credit Risk Center has the right of veto and the right to issue binding conditions.

The specialised Restructuring & Work-Out department, which is located in the Credit Risk Center, is primarily responsible for restructuring and workout-specific activities, in particular the development, implementation and monitoring of restructuring and workout concepts as well as determination of the Stage 3 (IFRS 9) loan loss provision amounts.

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

The Compliance business unit is responsible for compliance risk management. It 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). In addition, the business unit 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. Compliance with the different legal requirements is also ensured by the respective business units concerned.

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 business unit acts 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 business units 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 (NPNM 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 corresponding competence level. 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.

Additional information on the organisation of risk management is presented in the following sections for each risk type.

Risk management by a central committee structure

The Management Board has established committees with their own respective responsibilities, that support it in monitoring and managing all material risks. Besides the members of the Management Board, the committees are also composed of managers from 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.

At the end of the reporting year, 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 resources 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, 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.

In 2020, the Non-Financial Risk Committee and the IT Transformation Committee were established as new committees.

The Non-Financial Risk Committee (NFR Committee) supports risk and cost-conscious handling of non-financial risk. The focus is on assessment of non-financial risk across all business units, the generation of bank-wide control mechanisms for NFR management, determination of the matters to be presented to the Overall Management Board, as well as the consistent anchoring of governance awareness.

The IT Transformation Committee (ITC) acts as a central steering group responsible for the IT transformation programmes and projects. In addition, the ITC is the highest decision-making and escalation body below the Overall Management Board for major changes to programme and project plans, as well as for questions regarding the prioritisation of resources, budget and contents, along with important questions regarding the IT architecture.

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 generally takes place 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 central element of risk reporting is the monthly management report. This Management Board 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/processes and the development of the recovery plan indicators. 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.

Relevant extracts from the management report and the development of aggregated risk parameters of Hamburg Commercial Bank are presented to the Risk Committee of the Supervisory Board for the purposes of its regular meetings.

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

In addition to risk reports on the overall risk, there are reporting instruments based on the risk type. Accordingly, the Overall Management Board is informed via the daily market risk report of the risk and earnings trends as well as the extent to which risk limits and guidelines are utilised. The Management Board members responsible and the business units affected are also informed daily about the illiquidity risk trend in the normal case and stress case.

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.

Central responsibility for methodology guidelines and their enhancement as well as assessment of the appropriateness and effectiveness of the ICS lies with the Information Security & Sourcing Management organisational unit. This also includes proper reporting to the NFR Committee, the Management Board and the Supervisory Board. The operational management and monitoring of the ICS cycle is carried out by the Operations Management organisational unit.

In addition, from 2021 an independent function will be established in the central ICS Office in the information Security & Sourcing Management organisational unit, which will check the appropriateness and effectiveness of the ICS using spot checks, based on a risk-oriented process evaluation. Overall, clear roles and responsibilities are defined within the ICS cycle to ensure that the tasks are performed in a proper manner.

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 the correctness of the Group accounting methods. The internal control system for the accounting processes 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 member of staff in charge of the process and adjusted to the current framework conditions and requirements. In addition, process-independent audits are carried out by Internal Audit.

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 uses standard procedures to determine the

amounts allocated to market risk positions, to take account of operational risks and 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 2020 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 Combined 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 2021, 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 2 surcharge of 2.75 %. In addition, there is a Pillar 2 Guidance (P2G) of 1.0 %. In accordance with the CRD V requirements, the Pillar 2 surcharge may be covered by 56.25 % CET1 capital and 75 % Tier 1 capital (T1). The capital requirements including the combined capital buffer requirements are approximately 8.6 % for CET1 capital (around 9.6 % including P2G), around 10.6 % for tier 1 capital (T1) and approximately 13.3 % for total capital. 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 ratios¹⁾

(%)	31.12.2020	31.12.2019
Overall capital ratio	33.3%	23.5%
Tier 1 capital ratio	27.0%	18.5%
CET1 capital ratio	27.0%	18.5%

¹⁾ Regulatory group according to CRR.

Regulatory capital¹⁾

(€ bn)	31.12.2020	31.12.2019
Regulatory capital	5.2	4.9
of which: Tier 1 capital	4.2	3.9
of which: CET1 capital	4.2	3.9
of which: Additional Tier 1 capital	-	-
of which: Supplementary capital	1.0	1.0

¹⁾ Regulatory group according to CRR.

Risk weighted assets (RWA)¹⁾

(€ bn)	31.12.2020	31.12.2019
Market risks	0.0	0.2
Operational risks	1.4	1.5
Credit risks	11.9	16.5
Other RWA	2.2	2.8
Total RWA	15.5	21.0

¹⁾ Regulatory group according to CRR.

CET1 capital increased during the reporting period, in particular due to significantly lower regulatory capital deductions in conjunction with the winding down of risky exposures and the profit generated in the reporting period.

RWA have decreased compared to 31 December 2019. This is primarily due to the drop in RWA for credit risks due to declining balance sheet assets related to the decrease in new business, as well as the active winding down of risky positions in the portfolio.

In addition, RWA relief came from early implementation of the relief granted in terms of CRR 2 for risk positions towards small and medium-sized enterprises (SMEs), which was brought forward due to the COVID-19 crisis, as well as qualified infrastructure financing (CRR Quick Fix).

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 21.6 % as at 31 December 2020 (previous year: 16.2 %). The corresponding Tier 1 ratio reached 21.6 % (previous year: 16.2 %), the corresponding overall capital ratio amounted to 27.3 % (previous year: 20.9 %). 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. As at the reporting date, the requirement was 6.1 % of TLOF (total liabilities and own funds) at Group level, and was adhered to at all times during the reporting period. The Bank is also orientating itself towards this level in 2021, as part of the implementation of new statutory regulations by means of transitional provisions (Banking Package) by the resolution authorities.

Risks for the capital ratio trend

Risks may arise from the regulatory environment, for instance from interpretation decisions or audits, in addition to the macroeconomic and industry-specific risks for the capital ratios.

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

As part of the optimisation and restructuring of the capital structure at the end of 2018, the Bank cancelled its silent participations with effect from 31 December 2020. As a result, the outstanding hybrid capital instruments will be settled in 2021 at the HGB carrying amount for the 2020 financial year. Individual and groups of investors in hybrid instruments had taken legal action against the Bank. An agreement that is positive from the Bank's perspective has been reached with all the plaintiffs by the reporting date, which has led to all claims being withdrawn.

Hamburg Commercial Bank extensively uses models approved by the supervisory authorities to map counterparty risk (internal ratings-based (IRB) approach). The Bank is planning to simplify its model landscape in 2021 and 2022 in two steps, from the Advanced IRB (A-IRB) approach to the Foundation IRB (F-IRB) approach along with the Credit Risk Standardised Approach (CRSA), and thereby in particular eliminate internal loss ratio estimates. The share of the overall portfolio required for regulatory capital backing under the CRSA is higher in this context, but only continues to apply to a small portion of the assets. The Bank has taken this simplification of its rating model landscape into account in the projections of risk-weighted assets and capital ratios for the years affected.

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". The original introduction date of January 2022 has been postponed by one year due to the COVID-19 crisis. The new requirements must thus be successively implemented from 2023 until 2028. Under Basel IV, there are plans to significantly restrict the advantages of internal models. Through simplification of its model landscape, the Bank does not currently anticipate any further significant adverse impacts.

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. The Bank's current capital position significantly exceeds the BdB requirements. Should inclusion in the form of full membership of the BdB guarantee scheme not succeed as planned, this could have a significant adverse impact on the Bank's business model.

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.

As at 31 December 2020, the risk coverage potential amounted to € 3.7 billion (previous year: € 3.8 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. Operational risks are determined by means of a modified standard approach, which also takes account of results from the scenario analyses. 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.

The overall economic risk amounted to € 1.9 billion as at the reporting date (previous year: € 2.0 billion).

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 € 0.9 billion (previous year: € 1.0 billion). The decrease was mainly due to the continuing efforts to wind down risky exposures in 2020.

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 € 0.7 billion as at 31 December 2020 (previous year: € 0.6 billion). € 0.3 billion of this amount is attributable to interest rate risks in the banking book (IRRBB). Main driver of the increase in market risk are the high market volatilities in the context of the COVID-19 crisis.

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 2020, the liquidity value-at-risk (LVaR), as a measure of the economic capital required for liquidity risk, amounted to € 0.2 billion (previous year: € 0.1 billion). The illiquidity 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 illiquidity risk is included in the section entitled "Liquidity risk".

The economic capital required for operational risks amounted to € 0.2 billion as at 31 December 2020 (previous year: € 0.2 billion).

The utilisation of risk coverage potential amounted to 53% as at the reporting date (previous year: 51%). 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 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 Group¹⁾

(€ bn)	31.12.2020	31.12.2019
Economic risk coverage potential	3.7	3.8
Economic capital required	1.9	2.0
of which: for default risks	0.9	1.0
for market risks	0.7	0.6
Interest rate risks in the banking book (IRRBB)	0.3	0.4
Other market risks	0.3	0.2
for liquidity risks	0.2	0.1
for operational risks	0.2	0.2
Risk coverage potential buffer	1.8	1.9
Utilisation of risk coverage potential (in %)	53	51

¹⁾ Differences between totals are due to rounding.

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 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 1 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 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 incorporated in different simulation scenarios for

the normative perspective and presented quarterly to the ALCO and 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.

Therefore, the impact of macroeconomic scenarios, such as a severe economic downturn, asset-specific crises as well as a scenario that reflects potential risks from climate change, on the Pillar 1 and 2 capital ratios and leverage ratio is calculated. In addition, there are scenarios which, along with the capital burden of macroeconomic effects, also assume a significantly more difficult liquidity situation. In these so-called ICLAAP scenarios, capital and liquidity are stressed simultaneously and consistently. In addition, the effects of possible regulatory developments are regularly assessed.

Due to the current economic crisis triggered by COVID-19, a significant deterioration in the risk parameters is expected. The Bank therefore continuously considers different COVID-19 scenarios, oriented towards the base and stress forecasts of the ECB, the Bundesbank, the German Council of Economic Experts (Sachverständigenrat), the OECD and other institutes.

In the event of a 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 with the regulatory requirements at the level of the Hamburg Commercial Bank Group. If capital buffer requirements 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 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. In addition to checking the adequacy of economic capital and liquidity, this analysis serves to determine the need for action 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 re-

lated processes are reviewed and substantiated in the recovery plan on an annual basis by means of specific stress scenarios.

The indicators and action options used in the recovery plan are closely coordinated with the requirements of the SRF. The particular purpose of the stated 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 going concern 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, collateral, settlement, country and equity holding risk.

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.

Collateral risk is the risk that the unsecured portion of an exposure will rise due to a loss in value of the collateral provided.

Settlement risk arises from trading activities and 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 is the risk that Hamburg Commercial Bank performs its contractual obligations when settling a transaction, but the consideration is not provided by the contracting party.

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

The Credit Office is responsible for credit risk analysis, including the preparation of ratings and drafting of the credit applications as well as contract and collateral documentation. This

also includes the ongoing monitoring of loan exposures, including the recognition of warning signs and intensive supervision. The Credit Office is also responsible for designing the processes and rules that apply to the lending business within Hamburg Commercial Bank, in consultation with the Credit Risk Center business unit.

Among other things, the Credit Risk Center is responsible for setting ratings and for preparing a second assessment for normal and intensive exposures that are subject to a vote. Voting on credit transactions is not an integral part of, but rather a prerequisite for, the lending decision in the case of normal and intensive exposures. In addition, the Credit Risk Center has the right of veto and the right to issue binding conditions. Lending decisions below the committee competence levels are each made jointly by a competent manager in the sales units and the Credit Office for normal and intensive exposures.

In principle, for restructuring and workout cases there is joint management by the Credit Office and Credit Risk Center, whereby the specialised Restructuring & Work-Out department located in the Credit Risk Center is primarily responsible for restructuring and workout-specific activities. These primarily include the development of restructuring or workout concepts, their decisive implementation, the monitoring of success, the examination of whether a default is to be determined in the framework of ratings preparation, the classification as deferred or non-performing risk positions, the determination of loan loss provision amounts (IFRS 9 Stage 3) and ultimately the termination of the restructuring or workout process. Voting is not required due to the close involvement and responsibility of the Credit Risk Center. Decisions regarding restructuring and workout exposures are made jointly by a competent manager from the Credit Office and Credit Risk Center, or by two competent managers from the Credit Risk Center. Hamburg Commercial Bank makes use of the option to dispense with the involvement of the Credit Risk Center within the scope of the 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 loan exposures 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 voting and lending competencies (definition of voting and/or decision-

making powers for lending decisions made by the Bank as well as for entering into, changing and terminating equity holdings), on limiting the concentration of counterparty default risks and reporting thereof, on assessing creditworthiness and the determination of ratings, on the treatment and valuation of collateral, on ongoing exposure monitoring and dealing with problem loans, including classification as deferred risk positions or non-performing, defaulted or impaired loans, form the basis for the operating activities within the lending business. Thereby, credit risks which fall under the definition as set out in Article 389 CRR are considered and treated differently based on collateral, loan type, rating category and type of credit risk. The basis is Hamburg Commercial Bank Group's total exposure per group of connected clients (GCC) as defined in Article 4 (1) no. 39 CRR, whereby the bearer of the economic risk is always to be regarded as the relevant borrower.

Hamburg Commercial Bank has defined valuable collateral in order to differentiate between collateralised and non-collateralised loans. The focus is placed on meeting the requirements of the CRR (e.g. availability of a market value, ability to realise the collateral, no correlation to the collateralised loan, legal enforceability, and matching maturities). The range of approved collateral can be expanded following an assessment carried out by a team independent of the market units, consisting of specialists from the Credit Risk Center, Credit Office, Risk Control and Legal, Board Office & Taxes units.

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

Default risk management

In line with Hamburg Commercial Bank's business strategy focus as a commercial bank and specialist finance provider, 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 NPE ratio, for which a corresponding risk guideline has been defined in the SRF, serves as an important management indicator for the non-performing exposure (NPE), which is the total of all risk positions of borrowers in default. In addition, the NPE coverage ratio AC is monitored at the Overall Bank level.

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 loan amount to a market conformity review carried out in a committee and a syndication assessment performed by the credit syndication unit within the Syndicate & Credit Solutions department. The Credit Committee then makes a joint decision together with the credit syndication unit and the deal team sales employees as to whether syndication should be arranged as part of the new business or underwriting process.

RATING PROCEDURES, LGD AND CCF

Hamburg Commercial Bank uses rating modules for banks, corporates, international sub-sovereigns, country and transfer risks, insurance companies, leveraged finance, savings banks standard rating and leasing as well as for special financing for ships, real estate and projects. Various qualitative in addition to quantitative characteristics are also used in each rating module. The result is a probability at default (PD) for each borrower and hence allocation to a concrete rating category. The Bank uses an identical rating master scale for all modules which not only allows comparison of differing portfolio segments but also mapping with external ratings.

In order to determine the expected drawdown for contingent liabilities and commitments in case of possible default, so-called credit conversion factors (CCF) are calculated empirically and applied. The loan amount outstanding weighted by CCF is described as the 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 2020 were in the real estate portfolio, which accounted for 29 % of the overall portfolio, unchanged from the previous year (previous year: 29 %).

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 global spread of the coronavirus has a significant impact on economic activities.

Hamburg Commercial Bank established a working group immediately at the start of the COVID-19 pandemic, which closely monitors the effects of the pandemic on the credit portfolio, as well as legal and banking supervisory changes, on an ongoing basis. In addition, the Bank has analysed its loan portfolio at the level of sub-portfolios as well as at a case-by-case level, regarding the impact of the pandemic. The main areas which suffered negative effects due to the coronavirus crisis during the reporting period were particularly in the hotel and retail properties sub-portfolios, especially shopping centres, department stores and retail outlets in city centres. In addition to the real estate markets, hotel operators, travel businesses and restaurants/catering companies in particular are severely affected by the restrictions due to the pandemic.

Based on these results, customers were actively addressed, where the Bank identified an increased risk due to the pandemic. Where necessary, appropriate measures were initiated to manage the credit risk (e.g. KfW programme). The following table shows the holdings where special measures have been taken due to the COVID-19 crisis, according to the new financial reporting (FinRep) requirements. Active and/or approved measures are shown here. The information is reported on the basis of the exposure at default (EAD), and shows the whole EAD of customers where at least one of the above-mentioned measures has been utilised. This means that the EAD amount shown also includes the holdings of the accounts of the corresponding customers, which are not covered by these measures. The EAD corresponds to the total 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 the EAD.

Special measures in connection with COVID-19 customers affected by exposure at default

(€ m)	31.12.2020
Active forbearance measures in connection with COVID-19	186
Partially state guaranteed (new) loans (e.g. KfW programme)	249
vdp repayment moratorium for commercial real estate financing	-
Consumer loan moratorium ¹⁾	-

¹⁾ Deferrals of consumer loans in accordance with Art. 240 Section 3 Par. 1 EGBGB.

The EAD of the total exposure amounted to € 35,400 million as at 31 December 2020. As part of the de-risking strategy, a reduction in the EAD was achieved compared with the end of the previous year.

The EAD broken down by internal rating categories is presented in the following table. The moderate overall number of rating migrations is in view of the corona crisis in line with expectations.

EAD with an investment grade rating (rating category 1 to 5) remains high at 71 % of the total exposure at the Group level (previous year: 71 %).

The non-performing exposures were significantly reduced through the continued systematic efforts to wind down non-performing exposures, despite the adverse effects on the economic environment due to the coronavirus crisis. With a simultaneous decline in the total exposure, the NPE ratio is at 1.8%, which is solidly on a par with the previous year's level.

Default risk structure by rating category¹⁾²⁾

(€ m)	31.12.2020	31.12.2019
1 (AAAA) to 1 (AA+)	7,259	12,610
1 (AA) to 1 (A-)	6,589	9,108
2 to 5	11,039	12,567
6 to 9	7,871	11,035
10 to 12	1,392	1,472
13 to 15	541	693
16 to 18 (default categories)	624	735
Other ³⁾	85	335
Total	35,400	48,554

¹⁾ Mean default probabilities (in %): 1 (AAAA) to 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⁾ No separate disclosure of the segment "Other and reconciliation" due to low materiality (< € 100 million).

³⁾ 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.

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

Default risk structure by sector¹⁾

(€ m)	31.12.2020	31.12.2019
Industry	5,850	7,140
Shipping	3,229	4,921
Trade and transportation	1,985	2,473
Credit institutions	4,334	4,722
Other financial institutions	1,545	1,851
Land and buildings	7,830	10,714
Other services	4,164	4,871
Public sector	6,231	11,525
Private households	232	336
Other	-	-
Total	35,400	48,554

¹⁾ No separate disclosure of the segment "Other and reconciliation" due to low materiality (< € 100 million).

The following table shows EAD broken down by residual maturities:

Default risk structure by residual maturity¹⁾

(€ m)	31.12.2020	31.12.2019
Up to 3 months	2,286	9,265
> 3 months to 6 months	1,488	2,436
> 6 months to 1 year	2,673	3,213
> 1 year to 5 years	12,818	19,438
> 5 years to 10 years	10,074	9,412
> 10 years	6,061	4,789
Other	-	-
Total	35,400	48,554

¹⁾ No separate disclosure of the segment "Other and reconciliation" due to low materiality (< € 100 million).

The following table provides an overview of the EAD by region:

Default risk structure by region¹⁾

(€ m)	31.12.2020	31.12.2019
Eurozone	29,014	40,384
of which Germany	20,049	30,481
Western Europe	2,678	3,443
Eastern Europe	166	206
Africa	443	466
North America	916	673
Latin America	542	844
Middle East	74	74
Asia-Pacific region	1,417	2,123
International organisations	150	298
International stock exchanges	-	42
Total	35,400	48,554

¹⁾ No separate disclosure of the segment "Other and reconciliation" due to low materiality (< € 100 million).

Exposure at default in selected European countries

(€ m)	31.12.2020	31.12.2019
Greece	-	1
Italy	197	168
Portugal	224	157
Russia	-	-
Spain	324	372
Turkey	93	135
Total	838	833

The allocation of business to the individual regions and for the presentation of selected European countries is based on the gross exposure on the basis of the legal country of domicile. The information is reported without any further collateral allocations.

Due to their unfavourable fiscal and economic data, a number of European countries have long been subject to increased monitoring, and in the course of the COVID-19 pandemic also predominantly to stricter limits. These include in particular Greece, Italy, Portugal and Spain. As a result of the increased fiscal cooperation in the context of the EU (reconstruction fund, joint borrowing), the stricter limits were reversed again for Portugal and Spain at the end of the reporting period.

As a result of economic developments and the EU sanctions, the exposure to Russia is subject to significant restrictions. In the current economic and geopolitical environment, new business with Turkey remains suspended, and the existing exposure is subject to sustained increased reduction efforts. The above table shows the EAD of the exposures to the European countries listed.

Overall, the direct country exposure to the countries shown above was kept at the same level as in the previous year. The exposures for Turkey relate primarily to corporate/ship financing arrangements with Hermes coverage, which do not entail country risk (transfer risk) due to the existing collateral.

In addition, in the course of the COVID-19 pandemic and the distortions on the raw materials markets as a result of the collapse in global demand, particularly for crude oil, the Bank has sharpened monitoring of and limits on oil-producing countries in its portfolio.

Given the unresolved details of the trade agreement between the UK and the EU, which was concluded at the end of the transition period and provisionally put into effect, and the related remaining uncertainties as well as the possible structural economic consequences – also due to the COVID-19 pandemic – the exposure in the UK (€ 743 million) will continue to 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 exposure are covered by the recognition of provisions for loans and provisions for off-balance-sheet business (LECL Stage 3 loan loss provisions) in the amount of the potential loss in accordance with Group-wide standards. 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 than 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.-31.12.2020				Total
	Stage 3 loan loss provi- sions	Stages 1 and 2 loan loss provisions	Loss provisions recog- nised for financial invest- ments	Currency translation income on loan loss provisions	
Corporates & Structured Finance	- 77	- 88	-	-	- 165
Shipping	32	88	-	4	124
Real Estate	- 50	- 104	-	4	- 150
Diversified Lending & Markets	-	- 1	1	-	-
Other & reconciliation	4	- 1	-	-	3
Group	- 91	- 106	1	8	- 188

Changes in loan loss provisions in the lending business

(€ m)	01.01. - 31.12.2019				Total
	Stage 3 loan loss provi- sions	Stages 1 and 2 loan loss provisions	Loss provisions recog- nised for financial invest- ments	Currency translation income on loan loss provisions	
Corporates & Structured Finance	- 60	- 3	-	-	- 63
Shipping	97	- 13	-	-	84
Real Estate	-	- 24	-	- 1	- 25
Diversified Lending & Markets	5	1	4	-	10
Other & reconciliation	5	1	-	- 1	5
Group	47	- 38	4	- 2	11

The change in loan loss provisions amounted to € -188 million as at the reporting date (same period of the previous year: € +11 million). The change in loan loss provisions essentially results from a net addition of € -91 million to Stage 3 and a net addition of € -106 million to Stages 1 and 2 of the loan loss provisions model. Currency effects had a slightly positive effect.

Net additions to Stage 3 in line with the difficult market environment relate in particular to the Corporates & Structured Finance segment (€ -77 million). The negative effects in the Real Estate segment (€ -50 million), which were still moderate

in relation to the portfolio as a whole and in light of the de-risking strategy, which was implemented successfully in a difficult environment, were partially offset by net reversals in the Shipping segment (€ 32 million).

The net addition of € -106 million to Stages 1 and 2 is due in particular to the continuation of the Bank's conservative loan loss provisions policy. In view of the ongoing COVID-19 pandemic, even more conservative assumptions for economic developments were applied compared to the 31 December 2019 and 30 June 2020 reporting dates.

Total loan loss provisions

(€ m)	2020	2019
Loans and advances to customers AC	20,998	28,410
Loans and advances to banks AC	1,537	2,466
of which volume of impaired loans (gross carrying amount Stage 3)	544	649
Total loan loss provisions (POCI) for loans and advances to customers	- 1	-
Total loan loss provisions (Stage 3) for loans and advances to customers	- 261	- 343
Total loan loss provisions (Stage 2) for loans and advances to customers	- 216	- 308
Total loan loss provisions (Stage 1) for loans and advances to customers	- 91	- 57
Total loan loss provisions for balance sheet items	- 569	- 708
Provisions for Stage 3 in the lending business	- 35	- 46
Provisions for Stage 2 in the lending business	- 1	- 3
Provisions for Stage 1 in the lending business	- 3	- 4
Total loan loss provisions for off- balance sheet items	- 39	- 53
Total loan loss provisions	- 608	- 761

The volume of impaired loans decreased in comparison with the previous year, in particular due to the successful implementation of the Bank's de-risking strategy, to € 544 million (previous year: € 649 million). The conservative loan loss provisions policy and the high level of risk coverage of the NPE portfolio are reflected in the Bank's continued solid total loan loss provisions.

Total loan loss provisions determined under IFRS 9 amounted to € -608 million as at 31 December 2020 (previous year: -€ 761 million). The NPE coverage ratio AC based on Stage 3 loan loss provisions amounted to a solid 47.9 % as at the reporting date. Due to the high level of loan loss provisions in Stages 1 and 2, the coverage ratio of the total volume of receivables AC increased to a comfortable 2.5 %. Details regarding the total loan loss provisions are presented in Notes 13, 24 and 38 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 risk), share prices, indices and fund prices (equity risk), in each case including their volatilities (volatility risk).

Organisation of market risk management

The Management Board determines the methods and processes for measuring, limiting and managing market risk and budgets the maximum economic capital required by the Group for market risk based on an overall 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, settlement and control, on the one hand, and the trading units 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.

During the reporting period, the material market risks at Hamburg Commercial Bank are primarily interest rate risk as well as credit spread risk and equity risk. Foreign exchange risk only plays a minor role. The VaR of Hamburg Commercial Bank also covers 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, on the one hand, by a VaR limit for the Bank's overall market risk and, on the other, by a stop loss limit for the economic result. In addition, the annualised 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 economic capital required for interest rate risks in the banking book (IRRBB) and the economic capital required for other market risk excluding IRRBB. 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.

There are strict, clearly defined processes in place for limit adjustments and overdrafts. During the reporting period, the limits approved by the Management Board were met at all times. As part of the value-at-risk approach, the trading book VaR, the interest rate VaR in the banking book and the credit spread VaR in the banking book are managed according to risk guidelines set by the Management Board. 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.

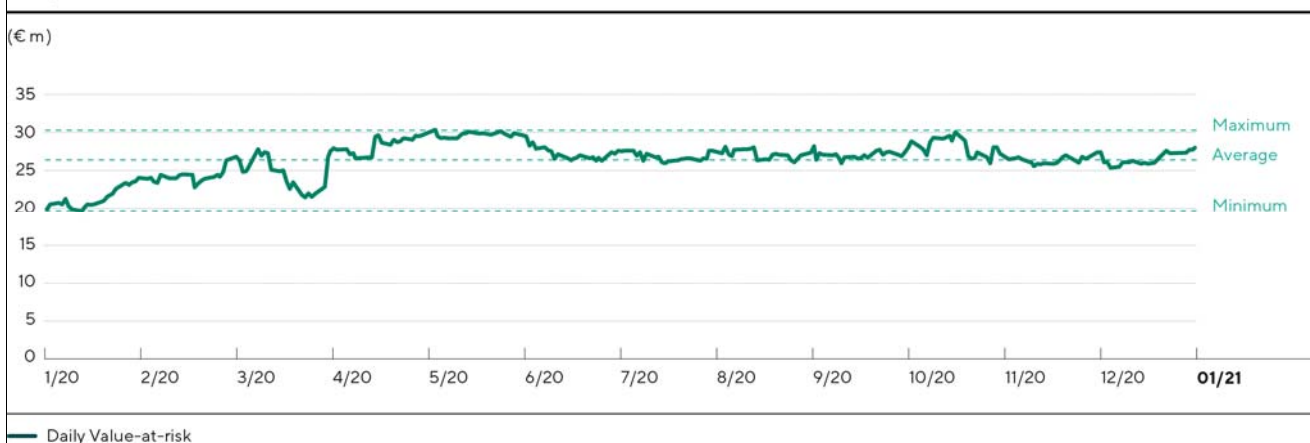
Where necessary, Hamburg Commercial Bank enters into hedging transactions to manage or reduce market risk in order to offset the impact of unfavourable market movements on its own positions. Derivative financial instruments in particular, such as interest rate and cross-currency interest rate swaps, 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 25 "Hedge accounting under IFRS 9" and Note 55 "Report on business in derivatives".

Market risks from the lending business and liabilities of Hamburg Commercial Bank 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.

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 2020.

Daily Value-at-risk in the course of 2020



The daily market risk of the trading book positions was € 0.4 million and that of the banking book positions € 27.8 million as at 31 December 2020. 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 € 28.0 million. The daily interest rate risk in the investment book (IRRBB) amounted to € 18.9 million, and the credit spread risk in the banking book amounted to € 10.4 million. Furthermore, in addition to the risk determined by

the system, the value-at-risk of Hamburg Commercial Bank as at 31 December 2020 includes a VaR add-on of € 2.6 million for residual risks for corporate bonds, Pfandbriefe and government bonds (only included at the Hamburg Commercial Bank Group level).

The following table shows the change in daily VaR for the individual market risk types and the overall VaR. 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⁾	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Average	21.8	14.8	10.2	6.8	1.5	1.8	3.8	0.8	26.4	14.6
Maximum	31.6	27.6	14.1	8.6	3.1	6.2	8.7	1.0	30.3	22.7
Minimum	16.6	6.5	6.9	5.6	0.6	0.4	0.5	0.6	19.7	11.0
Period end amount	19.1	22.0	10.4	8.0	1.8	0.9	8.6	0.6	28.0	19.3

¹⁾ Interest rate risk excluding 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 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, cover pool and strategic investment portfolios, which have good credit quality.

To enable diversified securitisation of assets and to secure the long-term pension liabilities, the Bank has implemented a Contractual Trust Agreement (CTA). The assets consist primarily of investments in liquid exchange-traded funds (ETFs) and alternative investment funds (AIFs). The resulting equity risk forms part of Hamburg Commercial Bank's market risk.

By establishing the CTA portfolio in the second quarter of 2020, a more even distribution between the individual risk types was achieved at the Overall Bank level. Thus, the increase in the credit spread risk as well as the equity risk are in contrast to the reduction in the interest rate risk position.

Overall VaR increased during the reporting period compared to the previous year end. The main driver of the increase, which was mainly measured in the first half of 2020, was the increase in market volatility in the context of the COVID-19 crisis. In the second half of 2020, the overall VaR moved sideways with moderate fluctuations. Since market fluctuations stabilised in comparison with the first half of the year, there were few significant movements during this period.

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 temporarily increased significantly in 2020. 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 at times corrected to include an add-on. In the second half of 2020, the add-on was gradually reduced to zero.

STRESS TESTS

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

Hamburg Commercial Bank makes a distinction for market risk between standardised, historical and hypothetical stress scenarios. Whereas standardised scenarios are defined for specific risk types (e.g. shift in or rotation of the interest rate curve), historical and hypothetical stress tests apply to several market risk factors at the same time. In this regard historical scenarios actually map correlations between risk factors that occurred in the past, whereas hypothetical scenarios are based on fictitious changes in risk factors. With regard to the hypothetical scenarios a distinction is also made between economic scenarios that simulate a downturn in the macroeconomic environment and portfolio-specific scenarios that can represent a potential threat for the value of individual sub-portfolios of

Hamburg Commercial Bank. The hypothetical scenarios are periodically reviewed and adjusted where necessary depending on changes in the market environment.

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

The Capital Markets unit also uses derivative financial instruments to manage market risk arising from loans and advances and liabilities as well as securities. Interest rate swaps and other interest rate or currency swaps are used to hedge the interest rate and foreign exchange risk arising from the underlying transactions. Market risks can be hedged at the micro, portfolio and macro level.

Changes in the value of derivatives are always recognised through profit or loss due to the FVPL classification. If underlying transactions classified as AC or FVOCI are hedged by derivatives, this gives rise to a distortion in the income statement that is not consistent with the economic facts. One way of avoiding these distortions is to use fair value hedge accounting. In fair value hedge accounting, the changes in value of hedged items which are attributable to the hedged risk are recognised through profit or loss. In so doing, the Bank only takes account of hedges of the fair value against interest rate risk. Fixed-interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only external interest rate and interest rate currency swaps are designated as hedging instruments. Hamburg Commercial Bank recognises appropriate hedges of underlying transactions by external derivatives under portfolio fair value hedge accounting as well as micro hedge accounting in individual cases, insofar as the requirements of IFRS 9 are met.

Liquidity risk

Hamburg Commercial Bank assesses liquidity adequacy from both a normative and an economic perspective in accordance with the ECB's Internal Liquidity Adequacy Assessment Process (ILAAP) guide.

The normative perspective is an assessment of the ability to fulfil all regulatory, supervisory and in part internal liquidity requirements and guidelines today and in the future, and covers a multi-year assessment period. The objective is the forward-looking assessment of liquidity adequacy. In addition to a baseline scenario, adverse scenarios are also taken into account in forecasting the parameters.

Conversely, the economic perspective ensures that all material risks that may negatively affect liquidity are identified, quantified and covered by internal liquidity potential, 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 also ensure liquidity adequacy through stress test programmes. For economic liquidity management, internal parameters (Pillar 2 ratios) are considered, which are calculated on the basis of the Bank's current portfolios.

Regarding the liquidity risk, a distinction is made between the illiquidity risk and liquidity maturity transformation risk.

The illiquidity 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 (LMP), 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 pending 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 liquidity 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 has operational responsibility 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 the risk measurement, limit monitoring and the related reporting. 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.

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

The measurement of liquidity risk is broken down into the intra-day risk from payment transactions operations, the short-term illiquidity risk and the structural liquidity maturity transformation risk. A separate liquidity buffer is held for the intra-day liquidity risk. Compliance with the intra-day risk limit, and thus the adequacy of the buffer, 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 illiquidity 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 the illiquidity risk. The net liquidity position, which shows the extent of the illiquidity 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 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 %, risk horizon of one year) 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.

The illiquidity risk over more than one year is managed by means of the run-down liquidity maturity profile. It shows the pure portfolio run down 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 with the regulatory requirements 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 the illiquidity 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 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) and maturities (original and residual maturities).

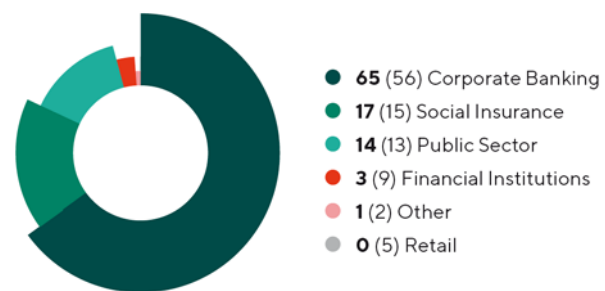
In line with the reduction in total assets, the volume of deposits in 2020 declined significantly year-on-year. As at 31 December 2020, the total volume still amounted to € 9.1 billion (previous year: € 13.6 billion). Despite the significant decline in the volume of deposits, counterparty concentrations are virtually unchanged year-on-year. The ten largest depositors account for around 21.6 % of total deposits (previous year: 21.3 %). The share of retail deposits was temporarily reduced to zero

due to adjustments in the Bank's strategy (previous year: 5.0 %). Based on the maturity structure, the proportion of deposits payable on demand of 51.9 % is still high (previous year: 46.7 %).

The following chart shows the composition of deposits by sector:

Depositor structure as at 31 December 2020

(%, previous year figures in brackets)

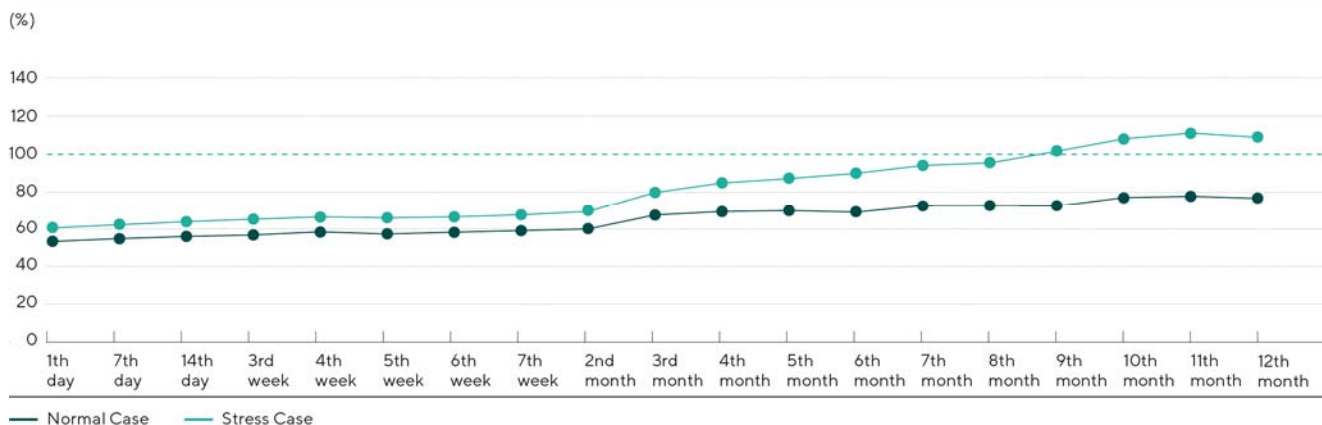


In addition to the analysis of the depositor structure with regard to existing depositor concentrations, risk concentrations are examined with regard to the US dollar asset/liability position. For the purposes of analysing the dependency on the US dollar, a US dollar liquidity maturity profile is additionally 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 2020 as well as at the end of 2019.

Utilisation of Liquidity Potential as at 31 December 2020



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 stress cases for the illiquidity risk.

The utilisation is 76 % in the twelfth month in the normal case assessment, which is based on the assumption of business development in a normal 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 for the minimum survival period of one month defined in MaRisk. Instead, the minimum survival period at the end of 2020 extends beyond an 8-month period. Compared to the 2019 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 show that Hamburg Commercial Bank is prepared accordingly for the scenario assumptions 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. The minimum threshold of 100 % pursuant to CRR was maintained at all times in the reporting period. The LCR amounted to 171 % as at 31 December 2020 (previous year: 165 %).

The net stable funding ratio (NSFR), which must be adhered to from 2021, is calculated as the ratio of available stable funding resources across all maturities to the stable funding required. As at 31 December 2020, the NSFR of the Bank amounted to 111 % under the QIS (Basel framework) (previous

year: 114 %) and thus lies above the minimum ratio of 100% required by the supervisory authorities.

Hamburg Commercial Bank also calculates the additional liquidity monitoring metrics (AMM) including the preparation of the stipulated liquidity maturity profile.

By means of the AMM, the LCP (liquidity capacity period) is determined for the supervisory authorities. In so doing, 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. This figure is determined by the Bank on a daily basis and was at least nine months as at 31 December 2020.

REFINANCING SITUATION

Hamburg Commercial Bank has adjusted its funding strategy to the situation on the financial markets in 2020, in the context of the coronavirus pandemic. To optimise the funding costs, the long-term open market transactions (TLTRO) on favourable terms offered by the European Central Bank were also used. In addition, the refinancing of the business was supported by a € 500 million senior non-preferred benchmark bond, further issuing activities and deposits, particularly from corporates. Retail deposits have been temporarily reduced to zero. The further diversification of the funding structure as well as the reduction of concentrations within deposits continue to pose significant challenges for future refinancing, even if access to the capital markets has improved after privatisation. Execution of funding measures in the market can also be made more difficult by potential tensions in the financial markets, in the context of the unknown duration of the coronavirus pandemic. A less supportive monetary policy adopted by the central banks could also limit the refinancing options and potentially increase funding costs. Due to the current expansionary monetary policy of the ECB in the context of the persistent coronavirus pandemic, the Bank does not anticipate a more

restrictive ECB policy in the medium term. 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 rating position.

Hamburg Commercial Bank's liquidity and funding planning for short-term deposits is based 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 as well as the economic survival period.

Part of the assets denominated in foreign currency are refinanced via derivatives (e.g. via EUR/USD basis swaps). With significantly reduced USD funding requirements, the exchange rate only has a limited influence on the liquidity position.

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.

Non-financial risk

In addition to operational risk, business strategy risk and reputation risk are included in the non-financial risks (NFR) of Hamburg Commercial Bank.

Operational risk (OpRisk) is defined as the risk of 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 losses resulting from legal risks.

The definition of operational risk therefore includes business process risks, legal risks, compliance risks including conduct risk, information risks, HR risk, model risks, outsourcing and insourcing risks and project risks.

Business process risk is the risk of damages and losses as well as the risk of data quality deficiencies, if a business process fails or works incorrectly. Possible causes include missing

or inadequate controls in the individual processes, failures in the implementation of change processes, as well as the loss of buildings, service providers, personnel or IT resources.

Legal risk refers to the risk of financial losses that arise if claims of the Bank cannot be enforced for legal reasons or claims are made against the Bank, because the underlying legal framework conditions (laws including tax laws, regulations and case law) have not been adhered to, or have changed after a transaction has been entered into.

Compliance risk arises as a result of non-compliance with legal regulations and requirements as well as codes of conduct, 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.

Conduct risk refers to the existing or future risk of losses resulting from an inappropriate supply of financial services, including cases of wilful or negligent misconduct.

The information risk is the risk that IT systems, procedures, physical documents, areas or infrastructures as well as networks or communications are breached, regarding at least one of the protection objectives of "integrity", "availability", "confidentiality" or "authenticity". The term "information risk" includes IT risks, information security risks and cyber risks.

HR risk refers to the risk of loss of earnings, losses and operational risks due to personnel problems or shortages, for example due to unplanned departures of key personnel as well as qualitative deficits.

Model risk is defined as the potential loss that could arise from decisions which are fundamentally based on the result of internal models, if these models have errors in their design, execution or use.

Outsourcing risk refers to the risk of losses resulting from contract, supplier and service risks arising from the outsourcing of activities or processes, as well as the loss of know-how and the risk of dependence on service providers. The insourcing risk is the contract and services risk that can arise due to the permanent/regular provision of services by the Bank to third parties.

Project risk is the risk that a project will not deliver the defined results within the agreed quality standards, budget or deadline.

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.

The business strategy risk comprises both financial and non-financial components. It refers to the risk of negative deviations from the qualitative and quantitative strategic goals, which may result from incorrect planning assumptions, unexpected changes in the external framework conditions as well as from strategic decisions.

Organisation of the management of non-financial risk

Hamburg Commercial Bank has adopted a non-financial risk framework that takes into account the diversity of the various sub-types of non-financial risk. It defines the framework for non-financial risk management, and describes the roles and responsibilities that follow the three lines of defence (3 LoD) model.

The responsibility for identifying and managing the risks that they take, along with determining appropriate controls, lies decentrally with the individual organisational units of the Bank (first line of defence). The second line of defence defines the framework for the management of non-financial risk by setting uniform rules and methods, and monitors their implementation. The role of the overall NFR function at Hamburg Commercial Bank lies with the Risk Control business unit. In addition, the second line of defence includes specialised non-financial risk functions, which are carried out by the Compliance, Human Resources, Legal, Board Office & Taxes, Strategy & Transformation and IT / Digital business units, depending on the respective risk type. The third line of defence in the process-independent audit is Internal Audit.

Non-financial risk management

The identification, analysis, evaluation and monitoring of non-financial risk are an important success factor for Hamburg Commercial Bank. Different methods and procedures are used in this process.

Loss events above defined threshold values, which arise from operational risks, are recorded for Hamburg Commercial Bank and the relevant subsidiaries. The recording is carried out uniformly in a central risk event database, categorised according to types of causes and events.

As part of the annual group-wide risk scenario assessment based on defined scenarios, detailed information is collected on the risk situation of the business units. Each business unit assesses its risk situation using defined scenarios, to identify required risk mitigation measures. The most important scenarios are then aggregated into the overall risk.

The regular ascertainment and assessment of risk indicators also aims to identify risks at an early stage and prevent their causes.

The results from the risk event data, the risk scenario assessment and the risk indicators are used for the preventive management and monitoring of non-financial risk. They are analysed, in order to avoid future risk events as far as possible by means of appropriate measures.

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

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

Business continuity management

Hamburg Commercial Bank is exposed to risks arising from unforeseen events, which may result in business interruption. With the involvement of the relevant business units, the business continuity management system has established processes to limit the risks arising from the fact that the information technology fails or service providers, infrastructure 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, and the defined return to normal operations.

Internal control system

One possible cause of loss events arising from operational risks lies in missing or inadequate controls. A functioning internal control system (ICS) helps to prevent business process risks and is thus an essential part of the management of non-financial risk. Detailed information on the ICS is set out in the Risk management system section.

Management of HR risks

HR risks are countered through active HR management. A large number of HR 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.

Management of information risks

A decisive factor in the Bank's business processes is ensuring the protection objectives of availability, integrity, authenticity and confidentiality of information. Hamburg Commercial Bank has implemented appropriate procedures and instruments to identify information risks at an early stage, and to avert or reduce particularly severe losses.

As part of the IT strategy, it has defined the primary objective of IT risk management as identifying IT risks at an early stage and assessing 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 the risks in projects, in line functions and at IT outsourcing partners are actively managed, and reduced by a monitored implementation of measures.

Management of legal risks

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

Management of outsourcing and insourcing risks

Major activities are only outsourced 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, direction and audit rights must be agreed in the contracts for Hamburg Commercial Bank.

Management of compliance risks

The active management and control of compliance risks includes, in particular, the topics of capital market compliance, money laundering, terrorism financing, financial sanctions and embargoes, misconduct, other criminal acts in accordance with Section 25h of the German Banking Act (KWG) and compliance with the General Data Protection Regulation (GDPR).

A firm anchoring of compliance in the corporate culture is essential, in order to strengthen compliance with the law and applicable regulations at Hamburg Commercial Bank. As a binding code of behaviour for all employees, the Code of Conduct serves as a central framework for this purpose.

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

Regular risk analyses form an essential basis for risk-oriented planning of the monitoring, control, management and prevention activities of the Compliance business unit.

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 whistleblowing office also enables anonymous reporting of suspicions both by employees of the Bank and by external third parties, via an independent ombudsman.

The data protection officer is responsible for monitoring the implementation of and compliance with data protection regulations, as well as for consulting on data protection issues. 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 is naturally associated with uncertainties. 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.

Management of reputation risks

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.

Management of business strategy risks

The business strategy risks are 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 is responsible for the process involved in preparing the business strategy. The Bank Steering business unit is in charge for the quantitative strategy controlling.

The controlling of the non-financial business strategy risk is incumbent on the Strategy & Transformation business unit.

Non-financial risks in the reporting year

The Bank's realignment is associated with a comprehensive transformation process. This includes measures such as implementing the IT transformation process and the staff reduction measures.

The IT risks of this IT transformation process will be reduced by a step-by-step approach with four parallel phases of the old and new system environment, as well as by sustainable partnerships, effective management and independent quality assurance.

Against the backdrop of the current staff reduction, the Human Resources business unit is focusing increasingly on measures to reduce HR risk and actively supporting the planned reduction in staff.

Along with the transformation, the year 2020 was characterised by the COVID-19 crisis and the resulting uncertainties. Ensuring and maintaining the business operations is controlled by an interdisciplinary coronavirus working group within the framework of the business continuity management system. Further information is provided in the section "Business development - significant developments and events" and "Employees of Hamburg Commercial Bank" in the management report. The impact of COVID-19 on loss events has so far been limited to additional costs, for example for increased hygiene measures, as well as IT measures for the increased use of digital services and teleworking.

Hamburg Commercial Bank recognised provisions within the legal risk category, which is a component of operational risk, of € 122 million for litigation risks and costs as at the reporting date (previous year: € 144 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 later filed further claims in the Turkish courts, under which further damages were asserted based on loss of profits and due to third-party liabilities in connection with measures taken to realise loan collateral, which was provided to the Bank. In one of the current cases, a Turkish court has now issued a judgement in the first instance in the third quarter of 2020. Service of the full written judgement is expected soon and it will then be checked by Hamburg Commercial Bank and its legal advisers. Hamburg Commercial Bank and its legal advisers believe that the verdict is unlawful, and will therefore pursue all legal avenues to contest it.

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 in connection with a non-performing loan. Judgements in the first instance in the second quarter of 2019 dismissed the action predominantly in favour of Hamburg Commercial Bank. After both parties had appealed, a judgement was issued in the second instance in the fourth quarter of 2020, in which the original first instance judgement was amended again in favour of Hamburg Commercial Bank. Leave to appeal was not granted. The plaintiff has lodged an appeal against refusal of leave to appeal.

An agreement that is positive from the Bank's perspective has been reached with all the individual and groups of investors in hybrid financial instruments, who had 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 or a corresponding payment made for the difference between the repayment amount and nominal value, as well as damages to compensate for lost interest payments, which has led to all claims being withdrawn.

Summary of risk assessment and outlook

The 2020 financial year was significantly characterised by the uncertainties in the context of the COVID-19 pandemic. Despite the difficult framework conditions, Hamburg Commercial Bank has consistently continued its perennial transformation programme.

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

Hamburg Commercial Bank AG is reporting a positive net result for the 2020 financial year, following a significant net loss in the previous year due to a substantial negative extraordinary result. In the year under review, the earnings situation of Hamburg Commercial Bank AG was characterised by encouraging operational development in the Bank's core business, as well as a lower cost base as planned. Net interest income increased

and administrative expenses decreased accordingly. Income from profit transfers also had a clearly positive effect on the net result. Negative effects resulted from additions to loan loss provisions to address risks associated with the economic impact of the ongoing COVID-19 pandemic. The composition and year-on-year development of the statement of income can be seen in the following overview.

Statement of Income

(€ m)	2020	2019	Change in %
Net interest income	334	298	12
Income from profit transfers	210	-	> 100
Net commission income	48	58	-17
Net income from the trading portfolio	-12	-4	> -100
Administrative expenses	-393	-465	-15
of which: Personnel expenses	-167	-196	-15
of which: Operating expenses	-226	-269	-16
Other operating result	25	53	-53
Operating result before loan loss provisions/valuation	212	-60	> 100
Loan loss provisions/valuation	-161	29	> 100
Operating result after loan loss provisions/valuation	51	-31	> 100
Extraordinary result	-67	-572	88
Income tax expense	-53	19	> -100
Income from the assumption of losses	77	236	-67
Result for the year	8	-348	> 100

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

Net interest income amounted to € 334 million compared to € 298 million in the previous year. The increase as against the previous year is due to the following developments:

Net interest income from lending and money market transactions increased slightly despite a significant reduction in total assets as a result of the de-risking process. This encouraging operational development was driven by a further significant reduction in funding costs, higher margins in the lending business and an improved product mix, all as a result of the profitability-focused repositioning of the balance sheet.

In addition, net interest income was characterised by the sales/repurchases of certain assets and liabilities as part of the repositioning of the balance sheet and the de-risking process. This resulted in a significant drop in interest expenses for subordinated and securitised liabilities, as well as a (comparatively slightly less pronounced) decline in interest income from fixed-interest securities and book-entry securities. In addition, there was a significant increase in income from the sale of receivables and, with the opposite effect, a clearly negative result from prepayment penalties paid and received. All in all, the latter two effects largely offset each other in a year-on-year comparison.

The **income from profit transfers** in the amount of € 210 million (previous year: € 0 million) relates primarily to the profits transferred from the affiliated companies HCOB Private Equity GmbH and BINNENALSTER-Beitiligungsgesellschaft mbH ("Binnenalster"), both based in Hamburg, to Hamburg Commercial Bank AG under the existing profit and loss transfer agreements. The profit transferred by HCOB Private Equity GmbH is related to the sale of the limited partner's shares in CAPCELLENCE Holding GmbH & Co. KG, Hamburg, in the year under review, and the distribution of liquid funds in connection with the sale. The profit transferred by Binnenalster is essentially based on the property sales completed in the reporting year by the limited liability company Altstadt Grundstücksgesellschaft mbH, Hamburg, which in turn transferred its profit to Binnenalster.

Net commission income came to € 48 million (previous year: € 58 million), slightly higher than expected. The decline as against the previous year reflects the planned drop in business volume as well as the withdrawal from certain product groups.

Net income from the trading portfolio fell to € -12 million (previous year: € -4 million). The year-on-year decline is attributable to the more negative net result from interest rate transactions. The negative result meant that, as in the previous year, no allocation was made to the fund for general banking risks in accordance with Section 340e HGB.

As a result of the cost measures taken as part of the transformation programme, **administrative expenses** were reduced by 15% in the financial year under review and amounted to € -393 million (previous year: € -465 million). Personnel and operating expenses developed as follows:

The staff reduction measures, which are going more or less to plan to date, led to a further reduction in the number of employees from 1,311 to 1,080 (calculated in terms of full-time equivalents, FTE) at the year-end. In line with the timing of the staff reduction measures, the resulting cost reductions are clearly visible in the income statement for the first time in the reporting year. In the year under review, personnel expenses fell by around 15% to € -167 million (previous year: € -196 million).

Operating expenses also decreased considerably by € 43 million (corresponds to around 16%) to total € -226 million (previous year: € -269 million). The lower regulatory expenses made a significant contribution to this. The contributions for the bank levy and the deposit guarantee fund were reduced by a total of € 19 million to € -32 million. In addition, the development of operating expenses was characterised by declining expenses in ongoing operations ("run the bank" costs), as well as by investments for the large-scale IT reorganisation measures and other forward-looking transformation projects ("change the bank" costs). In addition, significantly lower costs were incurred for legal advice compared to the previous year.

The **other operating result** amounted to € 25 million (previous year: € 53 million). Other operating income fell by € 132 million, a slightly more pronounced drop than the € 104 million reduction in other operating expenses. With regard to income, the development is due in particular to significantly lower reversals of provisions for litigation risks, as well as lower income in connection with options trading. The main reasons behind the drop in expenses were lower compounding amounts for provisions, lower expenses in connection with options trading and lower allocations to provisions for litigation risks.

Significantly increased operating result before loan loss provisions/valuation

The operating result before loan loss provisions increased considerably and amounted to € 212 million as against € -60 million in the previous year. The increase is due to the rise in net interest income, income from profit transfers and the planned drop in administrative expenses.

Additions to loan loss provisions put pressure on the result from loan loss provisions/valuation

The result from loan loss provisions/valuation put pressure on the net result in the reporting year and amounts to € -161 million (previous year: € 29 million). The positive valuation result from equity holdings was more than offset by higher net additions to loan loss provisions, in particular, but also by the negative net result in the securities business. In detail, the individual sub-items showed the following significant developments.

Hamburg Commercial Bank AG recorded an expense of € -211 million for loan loss provisions in the lending business in the reporting period (previous year: € -74 million). In view of the ongoing COVID-19 pandemic, the Bank has once again applied more conservative assumptions for economic developments than in the previous year when calculating loan loss provisions.

This is the Bank's way of addressing negative effects that could still potentially arise from the environment characterised by the pandemic in a timely and conservative manner. The loan loss provisions of € -211 million result from considerable net additions to individual valuation allowances and, with the opposite effect, the moderate reversal of portfolio valuation allowances. With regard to the development of individual and portfolio valuation allowances, it is important to bear in mind that net additions to individual valuation allowances are attributable, to a far from insignificant extent, to exposures (most of which had already been repaid by the balance sheet date) that had no significant impact on the income statement in net terms in the reporting year. This is because we were able to reverse portfolio risks associated with these exposures, which had already been taken into account as portfolio valuation allowances at the end of the previous year's reporting period, with the opposite effect in 2020. At segment level, there were marked negative effects in Corporates & Structured Finance as well as in Real Estate, whereas Shipping reported net reversals.

The net result in the securities business was negative and amounted to € -51 million. The negative result in this item was driven by effects associated with the repayment of an own issue. The early termination of interest rate hedging instruments associated with this issue resulted in positive effects on net interest income. The clearly positive net result achieved in the previous year (€ 100 million) was due to realisation gains from the sale of securities. These gains were offset by negative effects on net interest income in a corresponding amount resulting from the premature termination of associated interest rate hedging instruments.

By contrast, a significant positive valuation result from equity holdings was realised in the reporting year. The net result amounted to € 101 million (previous year: € 3 million). The main driver for the valuation result related to write-ups to the shares in the affiliated company HCOB Securities S.A., Luxembourg.

Extraordinary result

The extraordinary result amounted to € -67 million, meaning that it once again put pressure on the net result for the year, albeit to a considerably lesser extent than in the previous year (€ -572 million). This item mainly includes effects in connection with the repurchase of hybrid instruments (€ -48 million, previous year: € -511 million) and transformation expenses in connection with the Bank's realignment (€ -18 million, previous year: € -29 million). The other components of the extraordinary result (the restructuring result and follow-up expenses relating to privatisation) were almost balanced in the year under review. In the previous year, there were negative effects within this context totalling € -32 million.

At € -56 million, the effects from hybrid capital relate in particular to expenses from repayment losses on bilateral silent participations and SPARC securities. On the other hand, there is a small amount of income from write-ups on repurchased hybrid instruments placed on the international capital market (€ 6 million) and other income (€ 2 million).

The transformation expenses relate to operating expenses that are directly connected to the Bank's transformation and restructuring. In the year under review, these included, in particular, expenses in connection with the change of payment service provider, measures relating to IT transformation, legal and consultancy costs.

Positive net result

Net income before taxes amounted to € -16 million (previous year: € -603 million). After taking account of income taxes of € -53 million (previous year: € 19 million) and income from the assumption of losses of € 77 million (previous year: € 236 million), Hamburg Commercial Bank AG reports a positive net result of € 8 million (previous year: € -348 million). The net result is slightly higher than the Bank's expectations.

Income tax expense amounted to € -53 million, whereas in the previous year, this item had still made a positive contribution to the net result at € 19 million. This item includes income from current taxes amounting to € 2 million, most of which is attributable to previous years, as well as deferred tax expense of € -55 million. Deferred tax expense comprises an expense from the recognition of deferred taxes on temporary differences in the amount of € -122 million and, on the other side, income from the recognition of deferred taxes on loss carryforwards in the amount of € 67 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. The silent participations were terminated with effect from 31 December 2020 and will be repaid in 2021. As at 31 December 2020, the silent participations previously reported under equity are recognised as liabilities under other liabilities. In accordance with their contractual agreement, the silent participations must participate in the group net loss or net loss for the year (before loss participation) of Hamburg Commercial Bank AG. In the 2020 financial year, the loss participation attributable to silent participations amounted to € 77 million (previous year: € 236 million). The hybrid capital instruments listed on the capital market participated in the group net loss (incl. group net loss carried forward from the 2019 annual financial statements). The carrying amounts of the hybrid instruments, which are listed on the capital markets, correspond to 1.8% of the original nominal amount on the reporting date due to the attributed losses.

Net assets and financial position

Balance sheet

(€ m)	2020	2019	Change in %
Assets			
Cash reserve, debt instruments issued by public authorities, bills eligible for rediscount	1,718	4,844	-65
Loans and advances to banks	1,184	1,614	-27
Loans and advances to customers	22,325	29,777	-25
Securities	8,131	7,969	2
Trading portfolio	969	1,519	-36
Equity holdings in non-affiliated companies and interests in affiliated companies	725	670	8
Other assets	1,883	2,171	-13
Total assets	36,935	48,564	-24
Equity and liabilities			
Liabilities to banks	7,807	5,425	44
Liabilities to customers	13,539	24,390	-44
Securitised liabilities	8,638	9,870	-12
Trading portfolio	694	982	-29
Subordinated debt	930	1,058	-12
Fund for general banking risks	2,366	2,366	-
Equity	1,714	1,893	-9
Other liabilities	1,247	2,580	-52
Total assets	36,935	48,564	-24
Contingent liabilities	976	1,521	-36
Other obligations	4,400	6,694	-34
Derivatives held in the banking book (credit equivalents)	291	450	-35
Total off balance sheet business	5,667	8,665	-35
Business volume	42,602	57,229	-26

Substantial reduction in total assets slightly higher than planned

In the 2020 financial year, total assets declined considerably again as planned, by around 24% to € 36,935 million (31 December 2019: € 48,564 million), and the planned targets were actually slightly exceeded due to the accelerated reduction drive in the second half of the year. This development is the result of the Bank's active balance sheet management strategy. Its key strategic objective is to increase the Bank's net interest margin in the long run by repositioning of the balance sheet to focus on profitability, while maintaining both good asset quality in the loan book and an adequate liquidity position.

The significant drop in total assets is reflected in almost all major items. On the assets side, this is reflected in particular in loans and advances to customers, but also in the cash reserve. On the liabilities side, the decline is particularly evident in liabilities to customers, but also in securitised liabilities and other liabilities. In detail, the developments were as follows:

The cash reserve was down considerably compared with the end of the previous year to € 1,718 million (31 December 2019: € 4,844 million). The decrease reflects the continuous optimisation of the Bank's liquidity position and contributes to the increase in the proportion of total assets attributable to interest-bearing assets. Hamburg Commercial Bank AG continues to report comfortable liquidity ratios as at the reporting date.

Loans and advances to banks also decreased and amounted to € 1,184 million (31 December 2019: € 1,614 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.

In the case of loans and advances to customers, scheduled and unscheduled repayments significantly exceeded the disbursement volume (in connection with approved credit lines, new business concluded and prolongations). In addition, the Bank has been able to reduce its loan book by way of selective disposals as part of the implementation of its de-risking strategy. Accordingly, the carrying amount of loans and advances to customers decreased significantly by around 25% and amounted to € 22,325 million (31 December 2019: € 29,777 million).

The securities position increased slightly from € 7,969 million to € 8,131 million. The development of this item was characterised by a drop in the number of debentures and other fixed-interest securities issued by public institutions, which was more than offset by an increase in own debentures as a result of the further repurchase of own issues.

Trading assets were down on the end of the prior-year reporting period, falling to € 969 million (31 December 2019: € 1,519 million). This was mainly due to a lower carrying amount of derivative financial instruments. This development is due to the fact that the Bank has been able to substantially reduce its derivatives book since the start of the transformation phase. The debentures and other fixed-interest securities reported in the trading portfolio also decreased.

On the liabilities side, liabilities to banks increased considerably to € 7,807 million (31 December 2019: € 5,425 million). The increase is due to the fact that the Bank raised funds under the ECB's TLTRO programme to optimise its funding costs during the COVID-19 pandemic.

The significant 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 very significant decline in liabilities to customers to € 13,539 million (31 December 2019: € 24,390 million). The above-mentioned expansion of refinancing via the ECB also had an impact here.

The carrying amount of the securitised liabilities was also down year-on-year to € 8,638 million (31 December 2019: € 9,870 million).

Subordinated liabilities have been reduced by scheduled repayments on a promissory note loan and two bearer debentures to total € 930 million (31 December 2019: € 1,058 million).

Despite the positive net result, the reported equity as at 31 December 2020 came to € 1,714 million, lower than on the prior-year reporting date (31 December 2019: € 1,893 million). The reason for the decrease is the fact that the silent participations terminated with effect from 31 December 2020 and to be repaid in 2021, the carrying amounts of which have been reduced by repurchases, repayments and loss allocations, are no longer classified as equity at the end of the reporting period, but are reported under other liabilities. 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.

The drop in other liabilities from € 2,580 million to € 1,247 million is mainly due to provisions for pensions and similar obligations. This is related to the establishment of fund assets via a contractual trust agreement (CTA). The fair value of the fund assets is offset against the pension obligations in accordance with section 246 (2) sentence 1 HGB.

Business volume also reduced significantly as part of the de-risking process

The business volume decreased at a faster rate than total assets to € 42,602 million (31 December 2019: € 57,229 million), as off-balance-sheet business also declined significantly. Contingent liabilities, which essentially comprise guarantees and warranties, fell to € 976 million (31 December 2019: € 1,521 million). Other commitments, which largely consist of irrevocable loan commitments, decreased and amounted to € 4,400 million as at 31 December 2020 (31 December 2019: € 6,694 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, 16 March 2021

Stefan Ermisch

Ulrik Lackschewitz

Ian Banwell

Dr Nicolas Blanchard

Christopher Brody

Annual financial statements of Hamburg Commercial Bank AG

Balance sheet of Hamburg Commercial Bank AG

as at 31 December 2020

Assets

(€ k)	(Note)		31.12.2020	31.12.2019
1	Cash reserve			
	a) Cash on hand		1	6
	b) Balances with central banks		1,718,442	4,773,672
	thereof:			
	with Deutsche Bundesbank	1,717,885		
		(previous year: 4,769,326)	1,718,443	4,773,678
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-sector institutions		-	70,573
			-	70,573
3	Loans and advances to banks	(5, 6, 23-26)		
	a) Payable on demand		191,057	373,724
	b) Other loans and advances		992,910	1,239,844
			1,183,967	1,613,568
4	Loans and advances to customers	(5, 6, 23-26)	22,324,745	29,776,996
	thereof:			
	secured by mortgages	8,686,930		
		(previous year: 10,495,451)		
	public-sector loans	1,563,042		
		(previous year: 2,858,051)		
	secured by ship mortgages	2,856,246		
		(previous year: 3,928,751)		
5	Debentures and other fixed-interest securities	(8, 23-28, 31)		
	a) Money market instruments			
	aa) from other issuers		-	-
			-	
	b) Bonds and debentures			
	ba) from public-sector issuers		2,154,257	2,733,679
	thereof:			
	eligible as collateral at Deutsche Bundesbank	2,130,342		
		(previous year: 2,662,487)		
	bb) from other issuers		3,084,842	3,035,621
	thereof:			
	eligible as collateral at Deutsche Bundesbank	2,590,742	5,239,099	
		(previous year: 2,837,600)		
	c) Own debentures		2,879,606	2,188,312
	Nominal value	2,873,171	8,118,705	7,957,612
		(previous year: 2,183,637)		
To be carried forward			33,345,860	44,192,427

Assets

(€ k)	(Note)	31.12.2020	31.12.2019
	Carried forward	33,345,860	44,192,427
6 Shares and other non-fixed-interest securities	(8, 27, 28, 31)	12,163	11,847
6a. Trading portfolio	(9, 29)	968,797	1,518,664
7 Equity holdings in non-affiliated companies	(15, 27, 31, 63)	11,752	11,837
thereof:			
in banks	8,077 (previous year: 8,077)		
8 Interests in affiliated companies	(15, 27, 31, 63)	712,894	658,356
thereof:			
in banks	185,370 (previous year: 82,590)		
9 Trust assets	(30)	10,638	2,464
thereof:			
trust loans	10,638 (previous year: 2,464)		
10 Intangible fixed assets	(16, 31)		
a) Industrial property rights acquired in-house and similar rights and assets		151	199
b) Licenses, industrial property rights and similar rights and assets as well as licenses to use such rights and assets purchased		15,087	5,542
		15,238	5,741
11 Tangible fixed assets	(17, 31)	5,556	79,089
12 Other assets	(32)	1,149,027	1,416,603
13 Prepaid expenses	(5, 19, 33)	17,607	28,475
14 Deferred tax assets	(18, 34)	574,463	638,815
15 Difference resulting from asset offsetting	(37)	110,652	-
Total assets		36,934,647	48,564,318

Liabilities

(€ k)	(Note)	31.12.2020	31.12.2019
1	Liabilities to banks (19, 38-40)		
a)	Payable on demand	91,969	84,696
b)	With agreed maturities or notice periods	7,714,868	5,340,553
		7,806,837	5,425,249
2	Liabilities to customers (19, 38-40)		
a)	Savings deposits		
aa)	With agreed notice period of three months	6,923	9,392
		6,923	9,392
b)	Other liabilities		
ba)	Payable on demand	4,897,274	6,935,050
bb)	With agreed maturities or notice periods	8,634,889	17,446,014
		13,532,163	24,381,064
		13,539,086	24,390,456
3	Securitised liabilities (19, 40,68)		
a)	Debentures issued	8,637,708	9,869,492
		8,637,708	9,869,492
3a.	Trading portfolio (9, 41)	694,091	981,559
4	Trust liabilities (42)	10,638	2,464
	thereof:		
	trust loans	10,638	
	(previous year: 2,464)		
5	Other liabilities (43)	520,544	783,974
6	Deferred income (5, 19, 44)	64,915	76,149
6a.	Deferred tax liabilities (18, 45)	7,857	17,328
7	Provisions (20)		
a)	Provisions for pensions and similar obligations	115,937	892,414
b)	Tax provisions	16,178	16,123
c)	Other provisions	511,265	791,726
		643,380	1,700,263
8	Subordinated debt (47)	929,552	1,057,908
9	Fund for general banking risks (48)	2,366,156	2,366,156
	thereof special items under Section 340e (4) HGB	56,355	
	(previous year: 56,354)		
To be carried forward		35,220,764	46,670,998

Liabilities

(€ k)	(Note)	31.12.2020	31.12.2019
	Carried forward	35,220,764	46,670,998
10 Equity capital	(49)		
a) Subscribed capital			
aa) Share capital		3,018,225	3,018,225
ab) Silent participations		-	193,801
		3,018,225	3,212,026
b) Capital reserves		83,204	76,535
c) Accumulated loss		-1,387,546	-1,395,241
		1,713,883	1,893,320
Total liabilities		36,934,647	48,564,318
1 Contingent liabilities	(61)		
a) Liabilities from guarantees and indemnity agreements		976,447	1,520,583
2 Other commitments	(61)		
a) Irrevocable loan commitments		4,399,539	6,693,666

Income statement of Hamburg Commercial Bank AG

for the period 1 January to 31 December 2020

(€ k)	(Note)	2020	2019
1 Interest income from	(50, 51)		
a) lending and money market transactions		2,096,956	2,157,200
less negative interest resulting from loan and money market transactions		-75,110	-106,151
b) fixed-interest securities and book-entry securities		82,183	138,352
less negative interest resulting from securities and book entry securities		-	-
		2,104,029	2,189,401
2 Interest expenses	(51)		
from the banking business		1,855,279	1,980,981
less positive interest resulting from the banking business		-54,888	-57,015
		1,800,391	1,923,966
		303,638	265,435
3 Current income from	(50)		
a) shares and other non-fixed-interest securities		592	8
b) equity holdings in non-affiliated companies		376	226
c) interest in affiliated companies		29,797	32,657
		30,765	32,891
4 Income from profit pooling, profit transfer and partial profit transfer agreements		209,836	-
5 Commission income	(50, 52)	58,923	76,973
6 Commission expenses	(52)	11,288	18,555
		47,635	58,418
7 Net income/Net expenses from the trading portfolio	(50)	-12,395	-3,782
8 Other operating income	(50, 53)	154,343	284,458
9 General administrative expenses			
a) Personnel expenses			
aa) Wages and salaries		145,225	168,341
ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits		21,657	28,388
		166,882	196,729
thereof:			
for retirement pensions		2,057	
		(previous year: 6,530)	
b) Other administrative expenses	(58)	221,187	262,029
		388,069	458,758
10 Depreciation, amortisation and impairments on intangible fixed assets and tangible fixed assets	(31)	4,755	6,928
11 Other operating expenses	(54)	128,597	230,448
12 Write-down and impairment of loans and advances and certain securities and additions to provisions in the lending business		218,662	-
To be carried forward		-6,261	-58,714

(€ k)	(Note)	2020	2019
	Carried forward	-6,261	-58,714
13	Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business	-	7,449
14	Income from additions to equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets	59,984	28,891
15	Expenses from the transfer of losses	2,189	7,708
16	Profit on ordinary activities	51,534	-30,082
17	Extraordinary income (55)	14,823	19,368
18	Extraordinary expenses (55)	82,112	591,408
19	Extraordinary result (55)	-67,289	-572,040
20	Income tax expenses (56)	52,424	-19,165
21	Other taxes not shown under item 10	704	1,116
		53,128	-18,049
22	Income from the assumption of losses (57)	76,578	236,337
23	Profit discharged based on profit pooling, profit transfer and partial profit transfer agreements	-	224
24	Net income/loss for the year	7,695	-347,960
25	Loss carried forward from the previous year	-1,395,241	-1,047,281
26	Accumulated loss	-1,387,546	-1,395,241

Notes for the 2020 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 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 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 2020:

Shareholder 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 Manage- ment LP	Centaurus Capital LP	BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktien- gesellschaft	HCOB Current and former Management Board Members (who are or were in office from November 2018)
Promontoria Holding 221 B.V. 9.88 %	Promontoria Holding 231 B.V. 13.88 %	Promontoria Holding 233 B.V. 18.72 %	JCF IV Neptun Holdings S.à r.l.	GoldenTree Asset Management Lux S.à r.l.	Chi Centauri LLC		
42.48 %			34.98 %	12.49 %	7.5 %	2.5 %	0.05 %

2. Impact of COVID-19 on the Annual financial statements of Hamburg Commercial Bank

I. Estimates and discretionary decisions

Uncertainties with regard to the estimates required in line with impairment provisions have increased due to the COVID-19 pandemic. This relates both to the integration of forward-looking macroeconomic scenarios and their weighting in determining expected losses in Stage 1 and Stage 2 credit exposures and to the estimation of future cash flows in Stage 3 credit exposures.

Determining the extent to which a significant deterioration in credit quality occurs and the associated movement between Stages 1 and 2 is per se a key discretionary decision. As institutions such as IASB, EBA and ESMA have clarified that the COVID-19 pandemic does not automatically lead to any movements between the Stages, this requires discretionary decisions determining whether the credit default risk of a debtor has increased significantly or whether the debtor in question only suffers a temporary liquidity bottleneck because of COVID-19 while the credit default risk has not increased

significantly. In line with the Bank's conservative loan loss provisioning policy, the Bank retains its stage transfer concept as previously applied. Moreover, credit exposures particularly affected by the COVID-19 pandemic were already classified as Stage 2 even before this would have been required pursuant to the stage transfer concept.

II. Change in loan loss provisions as at 31 December 2020

The impact of forward-looking information on the credit risk parameters Probability of default (PD) and Loss given default (LGD) is generally determined using statistical procedures and is taken into account when calculating the expected credit losses. In this process, various macroeconomic forecasts (cf. table on "Macroeconomic forecasts for 2021") are taken into account and regular checks are performed to analyse whether alternative macroeconomic developments have a material non-linear impact on the amount of loan loss provisions. Additional information on the calculation of loan loss provisions is provided in Note 6.

So-called model overlays take risk factors that are relevant to the valuation into account, unless they are already included in the calculation parameters of the models. Loan loss provisions are then adjusted either directly or indirectly by altering the credit risk parameters to reflect these effects.

In the light of the COVID-19 crisis in the year under review, the resulting economic effects on loan loss provisions were calculated in separate scenarios. For this purpose, the Bank developed two new scenarios in the first quarter of the reporting year (the COVID-19 Basis Scenario and the COVID-19 Stress Scenario). These scenarios are based on the following macroeconomic forecasts.

Macroeconomic forecasts for 2021 (as at 31 December 2020)

	Basis Scenario	Stress Scenario
GDP USA (%)	4.2	-2.0
GDP eurozone (%)	3.9	0.4
GDP Germany (%)	3.0	-0.2
Fed Funds rate (%)	0.125	0.000
ECB MRO rate (%)	0.00	-0.50
3M EURIBOR (%)	-0.56	-0.80
10Y Bunds (%)	-0.50	-0.90
EUR/USD exchange rate	1.24	1.15
Unemployment rate Germany (%)	6.4	7.2

Here, the COVID-19 Basis Scenario (60 % probability of occurrence) represents the expected development, while the COVID-19 Stress Scenario (40 % probability of occurrence) takes into account the additional uncertainties regarding the severity and length of the pandemic.

In addition to the purely macroeconomic forecasts, potential impacts on individual counterparties in the banking portfolio are also considered if they are expected to be significantly affected by the COVID-19 pandemic.

The Bank has therefore analysed its loan portfolio at the level of sub-portfolios as well as at a case-by-case level with respect to the impact of the COVID-19 pandemic. In close collaboration between front office and back office, the Bank has identified its customers with a medium to strong negative dependency on current economic developments. This pertains to EAD of € 4,498 million. These credit exposures have also been allocated to Stage 2 and the risk parameters were adjusted accordingly.

At the portfolio level, the sub-portfolios hotels and retail properties (in particular department stores and shopping centres) were identified as being particularly affected by the COVID-19 pandemic. In total, this pertains to EAD of € 3,174 million. This breaks down to the sub-portfolios Hotels with EAD of € 1,111 million and Retail with EAD of € 2,063 million. Where these exposures were still allocated to Stage 1, they were now also assigned to Stage 2; the risk parameters were adjusted accordingly.

Loan loss provisions (for on- and off-balance-sheet transactions) amount to € 680 million as at 31 December 2020. € 71 million of this amount is attributable to the aforementioned macroeconomic scenarios and € 136 million to the other adjustments outlined above. A further € 31 million was added for upcoming adjustments to Internal Models.

If the duration and impact of the COVID-19 crisis turn out to be either more or less significant than currently assumed in the ECL model, the macroeconomic assumptions taken into account will have to be adjusted. The sensitivity of Hamburg Commercial Bank's ECL model to future adjustments is shown by an upward and downward shift in the forecast assumptions.

Greater or lesser impacts of the crisis would particularly influence the ratings of borrowers that are expected to be significantly affected by the COVID-19 pandemic in the ECL model. To illustrate the effects of a corresponding rating shift on the loan loss provisions, a rating shift of two notches and one notch respectively was simulated.

A rating downgrade for the portfolios that are particularly affected by the COVID-19 pandemic by two notches would result in an increase in loan loss provisions of € 52 million, while a downgrade by one notch would result in an increase of € 24 million. A rating upgrade by two notches reduces the loan loss provisions by € 33 million, while an upgrade by one notch leads to a reduction of € 18 million.

There were no other modification effects caused by forbearance measures in connection with COVID-19 in the reporting year.

An increase or decrease in deferred tax assets has the corresponding offsetting effect on the Group net result.

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

Hamburg Commercial Bank AG is a member of the support fund of the Landesbank 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 Private 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 2020 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 MEASUREMENT PRINCIPLES

Accounting and valuation are based on the assumption that the Bank is a going concern. The Bank's corporate planning forms the basis for the going concern assumption.

5. Loans and advances

We recognise 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 pre-paid 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 principles by rigorously applying our risk provisioning principles, which are described below.

If, in the case of non-genuine securitisation transactions, our loans and advances are not derecognised and the risk on such loans and advances remains fully with Hamburg Commercial Bank AG, any necessary loan loss provisions are recognised solely on our original loans and advance amounts.

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

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 BFA7 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, i.e. not broken down into the latent and the significantly increased credit default risk.

As part of the allocation to loan loss provisions for loans and advances to customers in accordance with the expected

credit loss model, adjustments in the form of model overlays were also taken into account as at 31 December 2020. These adjustments result from elements of the methodology that cannot be processed electronically and reflect the probability of occurrence of macroeconomic scenarios both at the level of the Overall bank and at the level of individual business units according to certain standards, thus taking the expected developments into account in the calculation parameters. Primarily, these overlays address the economic uncertainties associated with the current COVID-19 pandemic.

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 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 greatest uncertainty results from the assessment of expected cash flows, as these are dependent on borrowers, industries, the assessment of the overall economy and other factors. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary

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 loan must be classified as un-recoverable (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-model 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 unobservable market data or measurement 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 unobservable market parameters in the form of estimates.

If the measurement 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 made 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 unobservable 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 14 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-interest 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 that 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. 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) 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, at least 10 % of this net income is allocated to the special item Fund for General Banking Risks (liability item 9). 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 expenses of the trading portfolio. € 0 million was added to the special item during the past financial year (previous year: € 0 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 66.

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 term 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 RS 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 RS 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 German Commercial Code (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 € 893 million (previous year: € 1,010 million), interest expense in the amount of € 797 million (previous year: € 825 million), Other operating income of € 2 million (previous year: € 41 million) and Other operating expense of less than € 1 million (previous year:

€ 12 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 (impairity principle).

In cases involving financial instruments featuring a margin system (futures and OTC derivatives), initial margin payments made/received are recognised under Other assets (cf. Note 32) or Other liabilities (cf. Note 43). 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 RS 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 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 (impairity 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 German Commercial Code (HGB) in accordance with the IDW RS HFA 35 in cases where the requirements for the application of Section 254 German Commercial Code (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.

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 hedged item is hedged by a singly 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 recognition-of-loss principle as 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 loan 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 recognition-of-loss 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 amounts of assets and liabilities included in the valuation units by balance sheet item. The carrying amounts include accrued interest. Derivative financial instruments included in valuation units are disclosed under the items Positive market value of derivatives/Negative market value of derivatives at their respective fair values.

Hedged items

(€ k)	31.12.2020		31.12.2019	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Assets				
Loans and advances to customers	-	-	-	-
Debentures and other fixed-interest securities	-	3,386,673	-	3,770,911
Liabilities				
Liabilities to banks	-	-	-	-
Liabilities to customers	-	-	-	-
Securitised liabilities	15,331	-	31,407	-
Positive market value of derivatives	-	-	-	-
Negative market value of derivatives	98	-	253	-

Hedging instruments

(€ k)	31.12.2020		31.12.2019	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Positive market value of derivatives	145	-	721	453
Negative market value of derivatives	-	118,105	88	137,758

In relation to the underlying nominal values, predominantly interest rate risk is being hedged. Other risks relate to credit 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)	31.12.2020				31.12.2019			
	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	-	-	-	-	-	-	-	-
Debentures and other fixed-interest securities	-	-	62,806	-	-	-	96,613	-
Liabilities								
Liabilities to banks	-	-	-	-	-	-	-	-
Liabilities to customers	-	-	-	-	-	-	-	-
Securitised liabilities	-	296	-	-	-	525	-	-
Derivatives	145	-	-	-	10	230	-	-

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, and negative changes in value on

the part of the hedged items are offset by corresponding positive changes 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 RS 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 2020.

Derivative financial instruments not allocated to the trading book and 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 impairment 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. As in the previous year, research and development costs of € 0 million attributable to the development of software were incurred in the financial year.

Purchased software is valued at acquisition cost. In connection with the Bank's IT transformation, which mainly in-

volves the renewal of IT applications and IT infrastructure, development costs of € 12 million were recognised in the reporting year (previous year: 1 million) and reported under Intangible fixed assets.

Intangible fixed assets are subject to scheduled, straight-line amortisation. We assume a useful life of three years for acquired standard software. A useful life of five years is used for the amortisation of intangible assets that were developed in-house. If the useful life cannot be reliably estimated, the amortisation period is ten years. 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 life:

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 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 tax benefit from the losses carried forward is expected to be realised within the next five years. Deferred taxes are calculated using the tax rates expected to apply to the respective domestic and foreign operations when the differences reverse or the tax loss carryforwards are utilised. The overall tax rate for Germany is currently 32.05 %, while the overall tax rate assumed for Luxembourg is 24.94 %. In accordance with the relevant regulations, deferred taxes are not discounted. 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 of 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 versions applicable 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 53 and 54).

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 obligation:

	2020	2019
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 obligation are discounted, in accordance with Section 253 (2) sentence 2 German Commercial Code (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 2.30 % p.a. (previous year: 2.71 % p.a.). The non-distributable difference in accordance with Section 253 (6) German Commercial Code (HGB) based on the average seven-year interest rate of 1.60 % p.a. (previous year: 1.97 % p.a.) amounts to €102 million as at 31 December 2020 (previous year: €103 million) (cf. Note 59).

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 €956 million (previous year: €7 million), while the amortised costs of the assets amount to €932 million (previous year: €7 million). The increase in fund assets results primarily from a trust structure set up by Hamburg Commercial Bank in the first half of 2020. This involved the establishment of an association, HCOB Trust e.V. ("Trust"), Hamburg, which has concluded a bilateral contractual trust agreement (CTA) with the Bank. The CTA is used to

build up an insolvency-protected asset fund, which provides additional security for pension liabilities in the event of the Bank's insolvency. This structure enables the Bank to actively manage its pension obligations in order to make targeted investments in a wide range of assets from a risk-return perspective and thus generate the necessary funds to cover its pension obligations. On the balance sheet, the assets tied up in the trust qualify as fund assets pursuant to Section 246 (2) German Commercial Code (HGB).

In accordance with Section 246 (2) sentence 2 German Commercial Code (HGB), fund assets are offset with Provisions for pension obligations and similar obligations. On balance, the amount required to meet the resultant liability was €848 million as at 31 December 2020 (previous year: €10 million). If the fair value of the assets exceeds the amount of liabilities, the excess amount is disclosed under the separate item Difference resulting from asset offsetting in accordance with Section 246 (2) sentence 3 German Commercial Code (HGB). Expenses of €73 million were offset by income of €24 million from fund assets in the reporting period, leaving net expenses of €49 million.

21. Currency translation

Currency translation is performed pursuant to Section 256a German Commercial Code (HGB) in conjunction with Section 340h German Commercial Code (HGB) as well as the IDW interpretation IDW RS BFA 4.

Currency translation with regard to financial instruments included in the trading portfolio is an implicit part of the valuation of such transactions.

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 divide the agreed-upon forward exchange rate into the spot exchange rate and swap positions, and allocate the swap positions over the term of the transactions. 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 transaction 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. 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 German Commercial Code (HGB) in conjunction with Section 253 (1) sentence 2 German Commercial Code (HGB) and Section 253 (2) German Commercial Code (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 is sufficiently certain or can be quantified – e.g. through the signing of agreements – it is transferred to Other liabilities or Provisions for pensions and similar obligations as a matter of principle.

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)	31.12.2020	31.12.2019
Loans and advances to banks	370,978	455,427
Loans and advances to customers	49,367	182,345
Debentures and other fixed-interest securities		
Bonds and debentures	12,110	22,884

24. Non-affiliated companies

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

(€ k)	31.12.2020	31.12.2019
Loans and advances to banks	2,121	611
Loans and advances to customers	-	9,233

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)	31.12.2020	31.12.2019
Loans and advances to banks		
subordinated loans and advances to other banks	58,546	66,355
Loans and advances to customers		
subordinated loans and advances to customers	31,673	47,655
Debentures and other fixed-interest securities		
Bonds and debentures	94,680	9,464
Shares and other non-fixed-interest securities	-	-

26. Residual maturities

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

(€ k)	31.12.2020	31.12.2019
Loans and advances to banks		
Other loans and advances		
Up to 3 months	115,128	194,039
Between 3 months and 1 year	501,155	606,421
Between 1 year and 5 years	14,999	30,537
More than 5 years	361,628	408,847
Loans and advances to customers		
Up to 3 months	1,961,215	3,347,566
Between 3 months and 1 year	2,401,697	4,945,003
Between 1 year and 5 years	9,159,517	14,469,294
More than 5 years	8,800,122	7,006,463
With an indefinite term	2,194	8,670
Debentures and other fixed-interest securities		
Due in the following year	1,851,764	1,765,951

27. Negotiable securities

(€ k)	Listed		Unlisted		Total	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Debentures and other fixed-interest securities	7,370,252	7,294,034	748,454	663,578	8,118,706	7,957,612
Shares and other non-fixed-interest securities	4,616	7,158	7,466	4,581	12,082	11,739
Equity holdings in non-affiliated companies	-	-	7,750	7,750	7,750	7,750
Interests in affiliated companies	-	-	185,370	82,590	185,370	82,590

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

(€ k)	31.12.2020	31.12.2019
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	619,563	523,559
Carrying amount of securities reported above their fair value	42,642	-
Market value of securities reported above their fair value	42,356	-
Unrealised losses	286	-
thereof unrealised losses on securities that are not part of a valuation unit	286	-
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	425	513

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 2020 (previous year: € 0 million). The unhedged risk 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).

As at the balance sheet date, there were no hidden liabilities from securities in valuation units, while there were hidden liabilities in non-valuation units (€ 286 thousand, previous year € 0 thousand). There were no "trigger events" either in the year under review or in the previous year. Like in the previous year, hidden liabilities with an investment grade rating amounted to € 0 thousand.

29. Trading portfolio (assets)

The trading portfolio is reported under the following balance sheet items:

(€ k)	31.12.2020	31.12.2019
Derivative financial instruments	815,588	1,270,922
Debentures and other fixed-interest securities	155,802	254,349
Other assets	42	108
Risk discount	-2,635	-6,715
Total	968,797	1,518,664

30. Trust assets

Trust assets are reported under the following balance sheet items:

(€ k)	31.12.2020	31.12.2019
Loans and advances to customers	10,638	2,464
Total	10,638	2,464

31. Statement of changes in fixed assets

Development of fixed assets

(€ k)	01.01.2020		2020				31.12.2020		31.12.2020		31.12.2020		31.12.2019	
	Historical cost of acquisition	Additions	Disposals	Transfers	Exchange rate differences	Consolidation	Historical cost of acquisition	Accumulated depreciation	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Securities	815,697	552,244	356,689	-	-4,123	-	1,007,129	369,321	637,808					533,535
Equity holdings in non-affiliated companies	85,829	-	13	-	-	-	85,816	74,064	11,752					11,837
Interests in affiliated companies	1,308,077	462	258	-	-48,559	25	1,259,747	546,853	712,894					658,356
Land and buildings	85,838	-	85,712	-	-	-	126	109	17					72,906
Plant and equipment	56,065	2,475	5,125	103	-	1,601	55,119	49,580	5,539					6,080
Assets under construction	103	-	-	-103	-	-	-	-	-					103
Intangible fixed assets	162,252	12,302	2,537	-	2	962	172,981	157,743	15,238					5,741
Total	2,513,861	567,483	450,334	-	- 52,680	2,588	2,580,918	1,197,670	1,383,248	1,288,558				

Development in depreciation/amortisation

(€ k)	01.01.2020		2020					31.12.2020		31.12.2020	
	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 differences	Consolidation	Accumulated depreciation	Accumulated depreciation	
Securities	282,162	92,169	4,983	-	27	-	-	-	369,321		
Equity holdings in non-affiliated companies	73,992	243	171	-	-	-	-	-	74,064		
Interests in affiliated companies	649,721	-	102,780	-	52	-	-36	-	546,853		
Land and buildings	12,932	144	-	-	12,967	-	-	-	109		
Plant and equipment	49,985	2,467	-	-	4,444	-	-	1,572	49,580		
Intangible fixed assets	156,511	2,144	-	-	1,731	-	-	819	157,743		
Total	1,225,303	97,167	107,934	-	19,221	-	- 36	2,391	1,197,670		

In the year under review, no land and buildings used for the Bank's own business activities are included in the Land and buildings item (previous year: € 73 million).

32. Other assets

The major components of other assets are:

(€ k)	31.12.2020	31.12.2019
Initial and variation margins from OTC derivatives (cf. Note 11)	863,014	1,192,195
Receivables from profit and loss transfer agreements and from dividends	148,936	40,365
Adjustment item for currency translation	48,804	37,516
Tenant loans	47,354	44,432
Receivables from fiscal authorities	13,561	64,454
Premiums paid from options trading and from interest limitation agreements	9,244	9,013
Swap deferrals under forward exchange transactions	74	42

33. Prepaid expenses

The major items disclosed here are:

(€ k)	31.12.2020	31.12.2019
Discount accruals from issuing business	6,124	11,556
Premium accruals from claims	56	62
Deferred income from derivatives	457	5,237
Discount accruals from liabilities	1,136	1,515

34. Deferred tax assets

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

(€ k)	31.12.2020	31.12.2019
Assets		
Loans and advances to customers	108,072	249,322
Debentures and other fixed-interest securities	22,023	23,221
Equity holdings in non-affiliated companies	3,185	3,298
Interests in affiliated companies	1,596	1,596
Intangible fixed assets	-	-
Property, plant and equipment	2	10,491
Other assets	55,474	2,209
Deferred income	794	901
Liabilities		
Other liabilities	1,196	1,088
Deferred income	4,424	-
Provisions	198,363	234,808
Loss carryforwards	179,334	111,881
Total	574,463	638,815

The deferred tax assets decreased by € 64 million in the financial year.

Deferred tax assets on loss carryforwards in the amount of approximately € 142 million are attributable to the Head Office, while € 37 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).

In contrast to the presentation in the previous year, deferred tax assets were recognised under "Other assets" due to a deferred tax deduction for operating expenses in accordance with sections 4e and f German Income Tax Act (EStG) (in the previous year under "Loans and advances to customers").

35. Genuine repurchase agreements

No genuine repurchase agreements were concluded in the year under review and the previous year.

36. Assets transferred as collateral

We have assigned further assets as collateral to the receivables serving as cover for bonds issued (cf. Note 68). 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)	31.12.2020	31.12.2019
Assets transferred as collateral	8,584,424	7,195,452
thereof for		
Liabilities to banks	7,572,711	5,691,949
Liabilities to customers	148,699	311,308
Trading portfolio (liabilities)	863,014	1,192,195

37. A Difference resulting from asset offsetting

As at 31 December 2020, fund assets in accordance with Section 246 (2) sentence 2 German Commercial Code (HGB), which result from the CTA, amount to € 949 million and thus

exceed the pension obligations of € 839 million. On balance, the excess amount after netting is € 110 million.

Notes on balance sheet liabilities

38. Affiliated companies

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

(€ k)	31.12.2020	31.12.2019
Liabilities to banks	551,405	667,825
Liabilities to customers	491,660	638,969

39. Non-affiliated companies

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

(€ k)	31.12.2020	31.12.2019
Liabilities to banks	-	-
Liabilities to customers	7,461	11,169

40. Residual maturities

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

(€ k)	31.12.2020	31.12.2019
Liabilities to banks		
With an agreed maturity or notice period		
Up to 3 months	100,555	433,562
Between 3 months and 1 year	635,553	791,038
Between 1 year and 5 years	3,561,980	2,605,858
More than 5 years	3,416,780	1,510,095
Liabilities to customers		
Other liabilities with an agreed maturity or notice period		
Up to 3 months	2,184,830	5,096,463
Between 3 months and 1 year	2,572,518	3,473,188
Between 1 year and 5 years	1,557,918	4,669,565
More than 5 years	2,319,623	4,206,798
Securitised liabilities		
Debentures issued		
Due in the following year	1,629,433	2,054,689

41. Trading portfolio (liabilities)

The trading portfolio is reported under the following balance sheet items:

(€ k)	31.12.2020	31.12.2019
Derivative financial instruments	693,978	981,419
Other liabilities	113	140
Total	694,091	981,559

42. Trust liabilities

Trust liabilities are reported under the following balance sheet items:

(€ k)	31.12.2020	31.12.2019
Liabilities to banks	835	37
Liabilities to customers	9,803	2,427
Total	10,638	2,464

43. Other liabilities

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

(€ k)	31.12.2020	31.12.2019
Variation margin OTC derivatives	174,571	239,805
Security deposits for assumption of debts	159,206	331,089
Pro rata interest on subordinated debt, profit participation rights and silent participations	98,478	85,540
Adjustment item for currency valuation	37,369	53,390
Liabilities to employees	30,441	40,013
Tax liabilities	5,724	6,279
Liabilities from profit and loss transfer agreements and from dividends	680	8,201

44. Deferred income

The major components of deferred income are the following:

(€ k)	31.12.2020	31.12.2019
Deferrals from advance loan fees	50,683	57,416
Deferred income from derivatives	3,726	5,080
Discount deferrals from receivables	4,035	5,927
Premium deferrals from issuing business	4,770	5,788

45. Deferred tax liabilities

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

(€ k)	31.12.2020	31.12.2019
Assets		
Interests in affiliated companies	-	949
Intangible fixed assets	48	64
Property, plant and equipment	-	10,957
Other assets	-	645
Difference resulting from asset offsetting	7,809	-
Liabilities		
Deferred income	-	1,980
Provisions	-	2,733
Total	7,857	17,328

The deferred tax liabilities have decreased by approximately € 9 million in the year under review. This was mainly driven by the disposal of tangible assets.

The different valuation of fund assets for pension provisions for tax purposes resulted in deferred tax liabilities of € 8 million, which were allocated to the balance sheet item Difference resulting from asset offsetting.

46. Other provisions

Other provisions primarily relate to the following items:

(€ k)	31.12.2020	31.12.2019
Restructuring measures	125,094	224,780
Litigation risks and costs	117,094	138,231
Outstanding invoices	57,432	45,168
Regulatory expenses	54,308	55,481
Personnel expenses	51,425	49,081
Lending business	49,390	55,246
Securities transaction and financial derivatives	17,288	36,593
Provisions for pending losses	11,781	-
Archiving expenses	4,852	4,697
Transformation expenses	4,623	22,216
Processing fees for commercial loans	3,500	3,932
Interest on corporate tax and trade tax	3,288	-
Impending losses from pending transactions	-	145,900

Provisions for restructuring measures of € 91 million (previous year: € 166 million) refer to personnel expenses and € 34 million (previous year: € 59 million) to operating expenses. The provisions were formed primarily in connection with the extensive restructuring programmes resulting from the privatisation respectively the transformation of Hamburg Commercial Bank AG.

The provisions for pending losses were formed in connection with the sale of the main building and the associated sale-and-lease-back.

47. Subordinated debt

Subordinated debt was issued in the form of registered or bearer bonds and is denominated in EUR and USD. The original maturities range from under ten years

to 40 years. The interest rates payable are between 0 % p.a. and 6.44 % p.a.

Individual items exceeding 10 % of total subordinated debt:

(€ m)	Currency	Interest rate	Maturity date	Termination rights
117	USD	0.64%	21 March 2031	None

In principle, subordinated debt meets the requirements of Article 63 Capital Requirements Regulation (CRR) for recognition as Tier 2 capital. Subordinated debt in the amount of € 28 million (previous year: € 128 million) will mature in less than

two years. Interest expense on subordinated debt amounted to € 12 million in the year under review (previous year: € 16 million).

48. Fund for general banking risks

Additions from the net income from the trading portfolio amounted to € 0 million (previous year: € 0 million), and no other amounts were allocated in the reporting period to the Fund for general banking risks in accordance with Section

340g German Commercial Code (HGB) (previous year: € 0 million).

49. 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.

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

As in the previous year, several funds launched by Cerberus Capital Management L.P., New York, indirectly held a total of 42.48 % of the voting rights as at 31 December 2020 via three acquisition companies (Promontoria Holding 221 B.V. 9.88 %, Promontoria Holding 231 B.V. 13.88 % and Promontoria Holding 233 B.V. 18.72 %). Funds advised by J.C. Flowers & Co LLC, New York, indirectly hold a 34.98 % 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 12.49 % 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 2.50 % stake is held by BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft, Vienna, and by the members of the Management Board as well as a former member of the Managing Board with a share of 0.05 %.

JCF IV Neptun Holdings S.à r.l., Luxembourg, informed us in November 2018 that it directly owned more than one quarter of the shares of Hamburg Commercial Bank AG pursuant to Section 20 (1) of the German Stock Corporation Act (AktG). In addition, the following companies and natural persons notified us in November 2018 that they indirectly owned more than one quarter of the shares of Hamburg Commercial Bank AG pursuant to Section 20 (1) sentence 1, sentence 2 in conjunction with Section 16 (4) German Stock Corporation Act (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 (SolV) 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 Silent participations terminated in 2018 effective 31 December 2020, the regulatory recognition as AT1 or T2 capital for the regulatory capital ratios and 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. Furthermore, based on the corresponding contractual agreement, Silent participations must participate in the net loss for the year. In the 2020 financial year, Silent participations of € 77 million (previous year: € 236 million) shared in the Bank's net loss for the year. 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 1.8 % of the original nominal amount due to the attributed losses. Due to reaching maturity on 31 December 2020, the remaining carrying amounts of the Silent participations are recognised as Other liabilities until repayment in 2021.

The capital reserve includes amounts from share-based compensation of € 6 million.

Notes on the income statement

50. Breakdown of income items by geographical markets

(€ k)	2020			2019		
	Germany	Rest of Europe	Asia	Germany	Rest of Europe	Asia
Interest income	2,091,234	11,130	1,665	2,150,654	12,805	25,942
Current income from share and other non-fixed-interest securities, equity holdings in non-affiliated companies and interests in affiliated companies	24,181	6,584	-	32,891	-	-
Income from profit pooling, profit transfer and partial profit transfer agreements	209,836	-	-	-	-	-
Commission income	53,429	4,932	562	73,293	2,225	1,455
Net income from the trading portfolio	-12,500	-	105	-3,600	-	-182
Other operating income	151,181	2,256	906	283,188	1,059	211

51. Net interest income

Net interest income includes one-time expenses from the disposal of receivables in the amount of € 216 million (previous year: € 9 million).

52. Net commission income

Net commission income is composed of the following:

(€ k)	2020	2019
Lending business	21,609	32,099
Payment transactions and foreign business, documentary business	15,433	17,144
Guarantee business	8,450	9,568
Securities business	-1,102	-195
Other	3,245	-198
Total	47,635	58,418

53. Other operating income

Other operating income is mainly composed of the following in the year under review:

(€ k)	2020	2019
Income from the disposal of tangible assets	30,123	1
Income from the reversal of other provisions	29,327	18,282
Cost allocations and reimbursement of expenses	26,105	25,547
Income from the reversal of provisions for contingent losses from valuation units (cf. Note 13)	10,413	1,384
Income from legal disputes	8,750	30,245
Income from reversals of provisions for litigation	8,642	127,869
Income on exchange from transactions not specifically hedged	7,924	-
Interest income from claims against tax authorities	2,258	3,985
Income from option premiums received as well as compensation payments received for options held in the non-trading portfolio	292	56,329

The income from the reversal of other provisions mainly relates to income from the reversal of pension provisions. The income

from the sale of property, plant and equipment results from the sale of buildings.

54. Other operating expenses

Other operating expenses primarily include the following items:

(€ k)	2020	2019
Expenses for the compounding of provisions outside the lending business	52,276	90,095
Expenses from additions to other provisions	20,450	13,477
Expenses paid in advance for transaction fees, legal fees, servicing	18,020	17,752
Expenses relating to option premiums paid as well as compensation payments for options held in the investment portfolio	17,130	54,534
Expenses from additions to provisions for litigation risks	5,101	40,563
Interest expenses pursuant to Section 233 AO	1,964	-
Loss on exchange from transactions not specifically hedged	-	2,434

The expenses for the compounding of provisions include not only the expenses resulting from the change in the ten-year mean interest rate in the amount of € 28 million (previous year: € 60 million), but also the interest expense from discounting in the amount of € 23 million (previous year: € 25 million).

55. Extraordinary result

The Extraordinary result comprises transformation expenses of € 18 million (previous year: € 29 million). Expenses in connection with the privatisation of the Bank amount to € 1 million (previous year: € 14 million). The remainder pertains to current expenses for the realignment programme agreed in 2018/2019.

For information on the accounting treatment of the restructuring, please refer to our remarks under Note 22.

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 of the year under review. The Bank has subsequently repurchased additional hybrid instruments with a nominal value of approximately € 383 million.

In addition, the Bank also repurchased all remaining bilateral Silent participations in the year under review.

At € 56 million, the extraordinary result relates in particular to expenses from repayment losses on bilateral silent participations and SPARC securities. On the other hand, there is a small amount of income from write-ups on repurchased hybrid instruments placed on the international capital market (€ 6 million) and other income (€ 2 million).

56. Income tax expense

Income tax expense is composed of the following:

(€ k)	2020	2019
Deferred income taxes	-54,882	-18,731
from temporary differences	-122,335	38,168
from losses carried forward	67,453	-56,899
Current income taxes	2,458	37,896
Total	-52,424	19,165

The deferred tax expense in the year under review of € 55 million (previous year: deferred tax expense of € 19 million) results from the deferred tax expense on temporary differences of € 122 million (previous year: income of € 38 million) offset

by deferred tax income on loss carryforwards of € 67 million (previous year: expense of € 57 million). The deferred tax income on temporary differences is almost exclusively attributable to the Head Office. The deferred tax income on loss carryforwards is attributable to the Head Office with € 35 million and to the Luxembourg branch with € 32 million. The Singapore branch was closed at the beginning of the year under review. Current income taxes are largely attributable to tax income for previous years. This resulted primarily from the capitalisation of a refund claim for 2018, as a change in the law made it possible for Hamburg Commercial Bank AG to retroactively claim tax credits related to its former branch in New York, USA.

57. Income from loss-sharing

Income from loss-sharing relates to the participation in losses attributable to Silent participations in the amount of € 77 million (previous year: € 236 million).

58. Fees and activities of the auditor

AUDITOR'S ACTIVITIES

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statement and Group fi-

ancial statement of Hamburg Commercial Bank as at 31 December 2020 and conducted an audit of the annual financial statement at the GmbH Altstadt Grundstücksgesellschaft

subsidiary. In addition, the review of the half-year financial report as at 30 June 2020, 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 statement of Hamburg Commercial Bank AG. Accordingly, in accordance with Section 285 no. 17 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.

59. Non-distributable amounts

A total of € 693 million (previous year: € 725 million) of freely available reserves are blocked for distribution. The amount blocked for distribution is made up as follows: € 574 million (previous year: € 621 million) corresponds to the amount by which the deferred tax assets recognised in the balance sheet exceed the deferred tax liabilities - insofar as these are not taken into account in the amounts below. An amount of €102 million (previous year: €103 million) is attributable to the difference in accordance with section §253 (6) German Commercial Code (HGB) in connection with the discount rate for pension provisions.

The distribution block in accordance with section 268 (8) sentence 3 German Commercial Code (HGB) amounts to €16 million (previous year: €0 million) and results from the difference between the fair value of the cover assets and their amortised cost less the deferred tax liabilities created for this purpose. As in the previous year, the distribution block of € 1 million results from the capitalisation of internally generated intangible fixed assets less the deferred tax liabilities formed for this purpose.

Other disclosures

60. Leasing business

Assets related to the leasing business include € 50 million (previous year: € 57 million) shown under Loans and advances to customers. Liabilities from the Leasing business amount to

€ 14 million (previous year: € 17 million) and are disclosed under Liabilities to customers.

61. 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 provision 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 indication that the borrower's financial situation makes the fully 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 loan 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 loan commitments mainly relate to domestic customers with € 3,015 million (previous year: € 4,679 million) and to foreign customers with € 1,385 million previous year: € 2,015 million).

As was the case in the previous year, there were not placement or underwriting commitments as at 31 December 2020.

62. 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.

63. 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 assessments are not provided for.

Further obligations in the amount of € 16 million result from long-term leases for land and buildings used for business purposes (previous year: € 31 million).

Furthermore, Hamburg Commercial Bank AG has concluded a lease agreement for premises in the new construction project "Elbtower" in Hamburg in order to relocate its headquarters to this building once it has been built. The offices are expected to be moved to the new rented premises in the first half of 2025.

Additional obligations amounting to € 17 million (previous year: € 42 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: € 2 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.

64. 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

Se- rial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective cur- rency	Income/loss in respective currency
1	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	205,084,656.00	6,584,656.18

Affiliated companies – other domestic companies

Se- rial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective cur- rency	Income/loss in respective currency
2	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg ²⁾	100.00	100.00	EUR	843,373.72	-1,526.95
3	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	33,870.58	7,576.07
4	GmbH Altstadt Grundstücksgesellschaft, Mainz ¹⁾	89.90	89.90	EUR	138,695.43	276,558.35
5	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,506,969.79	2,852.68
6	HCOB Care+Clean GmbH, Hamburg ²⁾	51.00	51.00	EUR	25,000.00	140,893.25
7	HCOB Move+More GmbH, Kiel ²⁾	51.00	51.00	EUR	25,000.00	531,372.89
8	HCOB Private Equity GmbH, Hamburg ²⁾	100.00	100.00	EUR	550,000.00	-5,538,411.69
9	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg	56.44	56.44	EUR	4,147,064.83	-3,063,497.79
10	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	36,335.75	2,401.00

Affiliated companies – other foreign companies

Se- rial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective cur- rency	Income/loss in respective currency
11	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong ¹⁾	51.00	51.00	USD	114.00	-
12	Avia Management S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	-29,402.40	10,360.47
13	European Capital Investment Opportunities Limited, St. Helier, Jersey ¹⁾	51.00	51.00	EUR	25.00	-99.00
14	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey ⁷⁾	100.00	100.00	EUR	409,491.00	63,327.00
15	HCOB Funding II, George Town, Cayman Islands	56.33	100.00	USD	687,255,772.00	55,691,044.00
16	HCOB Investment Management S.à.r.l., Findel, Luxembourg	100.00	100.00		³⁾	³⁾
17	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	4,046,072.00	52,849.00
18	HCOB Structured Situations Limited, St. Helier, Jersey ⁴⁾	100.00	100.00	USD	346,449.00	-68.00
19	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg ⁶⁾	100.00	100.00	USD	62,763.63	-
20	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	73,894.70	-
21	Next Generation Aircraft Finance 2 S.à.r.l., Findel, Luxembourg ^{1) 8)}	49.00	49.00	EUR	-37,301.00	-387,784.00
22	Next Generation Aircraft Finance 3 S.à.r.l., Findel, Luxembourg ^{1) 8)}	49.00	49.00	EUR	-18,846.00	-213,838.00
23	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		³⁾	³⁾
24	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong ¹⁾	0.01	100.00	USD	-1,457,300.00	-9,147.00
25	RESPARCS Funding II Limited Partnership, St. Helier, Jersey ¹⁾	0.01	100.00	EUR	-	-134,803.00

Equity holdings in non-affiliated companies

Se- rial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective cur- rency	Income/loss in respective currency
26	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland ¹⁾⁵⁾	49.00	49.00	USD	20,674.00	- 21,122.00
27	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main ⁷⁾	1.33	1.33	EUR	246,672,103.15	12,040,000.00
28	Deutsche WertpapierService Bank AG, Frankfurt am Main	2.51	2.51	EUR	211,436,017.45	15,655,778.07
29	EDD AG, Düsseldorf ⁷⁾	0.89	0.89	EUR	22,491,403.37	- 5,300,916.61
30	GLB GmbH & Co. OHG, Frankfurt am Main ⁷⁾	15.77	15.77	EUR	2,891,543.84	- 61,301.09
31	GLB-Verwaltungs-GmbH, Frankfurt am Main ⁷⁾	15.80	15.80	EUR	55,665.10	1,957.27
32	Global Format GmbH & Co. KG, Munich ⁷⁾	28.57	28.57	EUR	1,949,701.82	1,609.10
33	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekte Hamburg und Potsdam KG, Hamburg	5.15	5.16	EUR	5,559,846.89	413,596.34
34	HGA Objekt München GmbH & Co. KG, Hamburg	5.23	5.23	EUR	3,604,658.30	- 22,425.57
35	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	8,883,056.56	- 1,693,606.51
36	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg	5.10	5.09	EUR	6,116,221.87	517,366.64
37	Hines European Development Fund Limited Partnership, Wilmington, USA ¹⁾	9.90	9.90	EUR	60,898,000.00	- 519,000.00
38	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	1,710,932.81	- 242,381.21
39	RSU Rating Service Unit GmbH & Co KG, Munich	13.60	13.60	EUR	9,060,754.55	- 2,270,032.63
40	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T. SCRL), La Hulpe, Belgium	0.04	0.04	EUR	442,950,000.00	39,830,000.00
41	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,928,143.76	119,247.90
42	Vofü-Fonds I Hamburgische Grundbesitz und Anlage GmbH & Co. KG, Hamburg	5.10	5.09	EUR	1,382,911.21	1,636,639.64

¹⁾ Indirect holding.

²⁾ A profit transfer agreement with the company is in place.

³⁾ No data available.

⁴⁾ Data as at 31 December 2016 is available.

⁵⁾ Data as at 31 December 2017 is available.

⁶⁾ Data as at 9 December 2018 is available.

⁷⁾ Data as at 31 December 2018 is available.

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 2020

USA	USD	1.2271
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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.

The relatively significant reduction in the list of shareholdings compared with the previous year's reporting date is due in particular to the sale of the Capcellence Group and the intra-Group reintegration of HCOB Facility Management (two mergers).

The sale of the Capcellence Group is based on the disposal of the limited partner's share of HCOB Private Equity GmbH, Hamburg, in Capcellence Holding GmbH & Co. KG (purchase and transfer agreement of 16 December 2020) and entailed the disposal of a total of 15 companies from the list of shareholdings.

65. Notes on foreign currencies

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

(€ k)	31.12.2020	31.12.2019
Assets	3,130,493	7,887,432
Liabilities	2,748,357	4,105,459

66. 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)	31.12.2020			31.12.2019		
	Value before netting	Netting	Value after netting	Value before netting	Netting	Value after netting
Trading portfolio (assets)						
thereof derivative financial instruments	762,941	759,742	3,199	1,454,691	1,453,321	1,370
Other assets	942,722	456,669	486,053	1,817,855	871,369	946,486
Total assets	1,705,663	1,216,411	489,252	3,272,546	2,324,690	947,856
Trading portfolio (liabilities)						
thereof derivative financial instruments	1,006,680	980,286	26,394	1,981,158	1,956,269	24,889
Other liabilities	264,156	236,125	28,031	572,186	368,421	203,765
Total liabilities	1,270,836	1,216,411	54,425	2,553,344	2,324,690	228,654

67. 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 amounts to € 534 million as at 31 December 2020 (previous year: € 29 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 risk, 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	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Interest rate swaps	24,122	53,333	1,464	2,461	908	1,841
FRA	-	-	-	-	-	-
Swaptions						
Purchases	963	3,321	17	25	11	13
Sales	1,089	3,201	7	11	100	102
Caps, floors	4,686	11,104	17	16	8	41
Exchange-traded contracts	95	419	-	-	-	-
Other forward interest rate transactions	36	112	1	14	2	18
Interest rate risks	30,991	71,490	1,506	2,527	1,029	2,015
Interest rate/currency swaps	1,506	3,990	13	49	15	17
Interest rate and foreign exchange risk	1,506	3,990	13	49	15	17
Forward exchange transactions	525	856	8	7	5	7
Currency options						
Purchases	-	66	-	3	-	-
Sales	-	9	-	-	-	-
Foreign exchange risks	525	931	8	10	5	7
Exchange-traded contracts	1	5	-	-	-	-
Equity and other price risks	1	5	-	-	-	-
Collateral taker	-	67	-	11	-	-
Credit derivatives	-	67	-	11	-	-
Structured products	641	1,347	45	124	54	211
Total	33,664	77,830	1,572	2,721	1,103	2,250

Non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Interest rate swaps	4,722	3,721	143	239	574	918
Swaptions						
Purchases	-	-	-	-	-	-
Sales	-	100	-	-	-	-
Caps, floors	285	20	-	-	-	-
Exchange-traded contracts	-	-	-	-	-	-
Other forward interest rate transactions	-	-	-	-	-	-
Interest rate risks	5,007	3,841	143	239	574	918
Interest rate/currency swaps	64	77	-	-	29	32
Interest rate and foreign exchange risk	64	77	-	-	29	32
Forward exchange transactions	2,863	4,245	48	31	7	23
Foreign exchange risks	2,863	4,245	48	31	7	23
Equity options						
Purchases	-	10	-	-	-	-
Equity/index-based swaps	8	26	1	10	-	-
Equity and other price risks	27	36	1	10	-	-
Collateral provider	-	-	-	-	-	-
Collateral taker	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-
Structured products	628	1,031	55	124	61	99
Total	8,589	9,230	247	404	671	1,072

II. Counterparty classification

Trading and non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
OECD banks	30,657	50,362	965	1,465	1,592	2,463
Non-OECD banks	5	59	1	1	-	1
Non-banks (incl. stock exchanges)	11,321	32,941	811	1,407	168	525
Public authorities	270	3,698	42	252	14	333
Total	42,253	87,060	1,819	3,125	1,774	3,322

III. Maturities

Trading and non-trading portfolio nominal values

(€ m)	Interest rate risks		Credit risks		Foreign exchange risks		Equity and other price risks		Structured products	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Residual maturity										
Up to 3 months	1,340	4,848	-	-	2,630	4,775	23	8	-	37
Up to 1 year	3,859	9,622	-	-	750	380	3	24	8	59
Up to 5 years	17,956	39,183	-	-	8	21	2	9	110	453
Over 5 years	14,414	25,745	-	67	-	-	-	-	1,151	1,829
Total	37,569	79,398	-	67	3,388	5,176	28	41	1,269	2,378

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 at 31 December 2020, the net amount of reconciliation items shown under Other assets amounted to € 49 million (previous year: € 38 million) and the reconciliation items shown under Other liabilities amounted to € 37 million (previous year: € 53 million).

(€ m)	Option premiums paid		Option premiums received	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Interest rate contracts	2	1	1	-
Equity and other contracts	7	8	-	-
Total	9	9	1	-

We have created provisions for contingent losses in the amount of € 8 million (previous year: € 17 million) for derivative financial instruments outside of the trading portfolio with re

gard to which an effective hedging relationship could not be shown. Payments resulting from the transition from EONIA to ESTR were immediately recognised in profit or loss.

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

The total amounts 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 pre

sent value and risk-adjusted present value in accordance with PfandBarwert¹⁾ are as follows:

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Mortgage bonds	3,883	4,188	3,969	4,296	3,911	4,204
Cover funds	4,363	4,647	4,711	5,009	4,562	4,885
thereof: derivatives	-	-	-	-	-	-
Surplus coverage	480	459	742	713	651	681

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Public-sector mortgage bonds	1,165	2,320	1,468	2,759	1,381	2,608
Cover funds	1,269	2,495	1,798	3,214	1,613	2,948
thereof: derivatives	-	-	-	-	-	-
Surplus coverage	104	175	330	455	232	340

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Ship mortgage bonds	1,968	1,843	1,998	1,863	2,051	1,906
Cover funds	2,258	2,257	2,393	2,419	2,203	2,256
thereof: derivatives	-	-	-	-	-	-
Surplus coverage	290	414	395	556	152	350

Composition of the additional cover assets

(€ m)	Receivables within the meaning of Section 19 (1)no. 2 PfandBG				Mortgage bonds	
	Registered receivables 2020	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	
	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 19 (1) no. 3 PfandBG	Total
Registered receivables 2019					
Germany	-	5	-	150	155
Total	-	5	-	150	155

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 (PfandBG).

(€ m)	Receivables within the meaning of Section 20 (2) no. 2 PfandBG			Public-sector mortgage bonds	
	Equalisation claims	Total	thereof covered debentures	Total	
Registered receivables 2020					
Germany	-	-	-		-
Total	-	-	-		-

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

(€ m)	Receivables within the meaning of Section 26 (1) no. 3 PfandBG			Ship mortgage bonds	
	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 26 (1) no. 4 PfandBG	Total
Registered receivables 2020					
Germany	-	-	-	377	377
Total	-	-	-	377	377

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

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 (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	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Nominal value				
Up to 6 months	21	163	298	392
Between 6 and 12 months	515	554	352	330
Between 12 and 18 months	1,080	71	350	211
Between 18 months and 2 years	10	575	445	230
Between 2 years and 3 years	1,597	1,090	648	658
Between 3 years and 4 years	310	1,425	528	781
Between 4 years and 5 years	350	310	363	538
Between 5 years and 10 years	-	-	1,374	1,488
More than 10 years	-	-	5	19
Total	3,883	4,188	4,363	4,647

(€ m)	Public-sector mortgage bonds		Cover funds	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Nominal value				
Up to 6 months	106	156	37	39
Between 6 and 12 months	27	356	36	90
Between 12 and 18 months	124	421	87	84
Between 18 months and 2 years	126	27	40	151
Between 2 years and 3 years	30	325	122	281
Between 3 years and 4 years	89	30	79	158
Between 4 years and 5 years	154	103	35	93
Between 5 years and 10 years	281	580	141	693
More than 10 years	228	322	692	906
Total	1,165	2,320	1,269	2,495

(€ m)	Ship mortgage bonds		Cover funds	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Nominal value				
Up to 6 months	30	15	214	220
Between 6 and 12 months	300	310	459	252
Between 12 and 18 months	335	30	201	247
Between 18 months and 2 years	80	300	329	293
Between 2 years and 3 years	523	415	576	471
Between 3 years and 4 years	700	523	254	460
Between 4 years and 5 years	-	250	175	137
Between 5 years and 10 years	-	-	50	177
More than 10 years	-	-	-	-
Total	1,968	1,843	2,258	2,257

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:

(in %)	Mortgage bonds	
	31.12.2020	31.12.2019
Proportion of fixed interest-bearing cover funds	49	46
Ratio of fixed interest-bearing bonds	77	92

(in %)	Public-sector mortgage bonds	
	31.12.2020	31.12.2019
Proportion of fixed interest-bearing cover funds	94	94
Ratio of fixed interest-bearing bonds	92	96

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

(€ m)	Mortgage bonds	
Foreign currency	31.12.2020	31.12.2019
CHF	1	1
GBP	53	58
SEK	6	7

(€ m)	Public-sector mortgage bonds	
Foreign currency	31.12.2020	31.12.2019
CHF	109	110
JPY	24	25

(€ m)	Ship mortgage bonds	
Foreign currency	31.12.2020	31.12.2019
JPY	6	7
USD	1,975	2,249

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	31.12.2020	31.12.2019
Up to € 300,000 €	15	18
Between € 300,000 and € 1 million	46	60
Between € 1 million and € 10 million	896	1,078
More than € 10 million	3,251	3,336
Total	4,208	4,492

(B) Public-sector mortgage bond

(€ m)	Covering mortgages	
Nominal value	31.12.2020	31.12.2019
Up to € 10 million	93	102
Between € 10 million and € 100 million	526	1,338
More than € 100 million	650	1,055
Total	1,269	2,495

(C) Ship register

(€ m)	Covering mortgages	
Nominal value	31.12.2020	31.12.2019
Up to € 500,000 €	1	-
Between € 500,000 and € 5 million	307	253
More than € 5 million	1,574	1,933
Total	1,882	2,186

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)	31.12.2020	31.12.2019
Used for residential purposes	702	828
Used for commercial purposes	3,506	3,664

(€ m)	Apartment-ments	Single and semi-detached dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commercial properties	Unfinished new buildings	Building plots	Total
2020										
Germany	-	3	635	1,279	1,080	14	668	282	25	3,986
Great Britain/Northern Ireland/Brit. Channel Islands	-	-	-	-	48	-	-	-	-	48
Netherlands	-	-	12	69	78	-	1	8	-	168
Sweden	-	-	-	-	6	-	-	-	-	6
Total	-	3	647	1,348	1,212	14	669	290	25	4,208

(€ m)	Apartment-ments	Single and semi-detached dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commercial properties	Unfinished new buildings	Building plots	Total
2019										
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)	31.12.2020	31.12.2019
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:

		31.12.2020	31.12.2019
Total amount of receivables that exceed the limits set out in Section 13 (1) PfandBG	€ m	-	-
Volume-weighted average age of the receivables	in years	4	4
Average weighted loan-to-value ratio	%	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 the borrowers and the countries in which the borrowers are domiciled.

									Total	thereof guarantees received for export promotion reasons
	Public sector		Regional public authority		Local public		Other			
	owed	guaran- teed	owed	guaran- teed	owed	guaran- teed	owed	guaran- teed		
2020										
Germany	-	83	534	15	157	53	9	42	893	83
Belgium	250	-	-	5	-	-	-	-	255	-
Italy	-	-	-	-	-	-	-	-	-	-
Poland	24	-	-	-	-	-	-	-	24	-
Switzerland	-	-	97	-	-	-	-	-	97	-
Total	274	83	631	20	157	53	9	42	1,269	83

									Total	thereof guarantees received for export promotion reasons
	Public sector		Regional public authority		Local public		Other			
	owed	guaran- teed	owed	guaran- teed	owed	guaran- teed	owed	guaran- teed		
2019										
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	-
Austria	-	-	-	-	-	-	-	-	-	-
EU institutions	-	-	-	-	-	-	-	-	-	-
Total	345	158	1,263	35	518	58	46	72	2,495	172

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

					Total
	Public sector	Regional public authority	Local public authority	Other	
2020					
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	-	-	-	-	-

					Total
	Public sector	Regional public authority	Local public authority	Other	
2019					
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 breakdown of loans and advances used to cover ship mortgage bonds by the country in which the ships pledged are registered:

(€ m)	31.12.2020		31.12.2019	
	Ocean-going vessels	Inland water vessels	Ocean-going vessels	Inland water vessels
Bahamas	20	-	37	-
Belgium	12	-	5	-
Germany	285	-	479	-
Denmark	85	-	75	-
Gibraltar	2	-	3	-
Greece	60	-	91	-
Great Britain/Northern Ireland/Brit. Channel Islands	38	-	28	-
Hong Kong	94	-	123	-
Liberia	358	-	491	-
Malta	143	-	195	-
Marshall Islands	361	-	359	-
Panama	152	-	113	-
Sweden	-	-	-	-
Singapore	145	-	73	-
Cyprus	127	-	114	-
Total	1,882	-	2,186	-

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

(€ m)	31.12.2020	31.12.2019
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) 2020	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) 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	-	-	-	-	-

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

(€ m) 2020	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Total amount of arrears on interest to be paid	-	-	-	-	-

(€ m) 2019	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 € 20 million (previous year: € 52 million) and € 9,944 million of loans and advances to customers (previous year: € 11,735 million) are used to cover debentures issued.

69. Average number of employees

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

	2020			2019		
	Male	Female	Total	Male	Female	Total
Full-time employees	705	254	959	814	299	1,113
Part-time employees	46	234	280	65	329	394
Total	751	488	1,239	879	628	1,507
Apprentices/trainees	9	3	12	11	9	20

70. 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 the Supervisory Board of Hamburg Commercial Bank AG have given the Declaration of Conformity pursuant to Section 161 German Stock Corporation Act (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.

71. 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 Reg-

ulation 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 remuneration 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).

The targets relevant for the share bonus (as well as for the cash bonus) and their weightings are to be determined by the Supervisory Board of the Bank on the basis of agreed targets (KPIs) within the first three months of the respective performance year at the latest and include targets relating to the overall success of the Bank or Group, the success of the Management Board where applicable, and individual performance targets. After the end of the respective performance year, the Supervisory Board determines the target achievement and the amount of the share bonus in euros for the respective performance year. 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. 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 and a review by the Supervisory Board. Before the shares are granted, the beneficiaries have no claim or entitlement to the shares of the share bonus that have not yet been transferred. The portions of the share bonus that have not yet been transferred do not bear interest and do not carry any dividend entitlement. All shares transferred under the share bonus are subject to a holding period of one year from the date of transfer.

In the reporting year, Hamburg Commercial Bank AG concluded a Fulfilment and Contribution Agreement with its shareholders. Under this agreement, the shareholders have undertaken to assume the Bank's obligation to the beneficiaries to transfer the shares under the share bonus for the 2019 performance year, free of debt and without consideration. In 2020, a total of 161,119 shares were transferred to eligible persons under the share bonus programme. This corresponds to 40 % of the share bonus granted by the Supervisory Board for financial year 2019.

The share bonus represents a share-based payment settled in equity instruments and is accounted for in accordance with IFRS 2. The performance-related variable remuneration under the share bonus represents a service received that is recognised as personnel expense in the income statement.

The consideration for the service received is recognised in equity. At Hamburg Commercial Bank AG, the consideration is recognised in the Capital reserve item.

As at 31 December 2020, the Capital reserve includes an amount of € 7 million for share-based remuneration. This includes an amount of € 1 million attributable to shares already transferred by the shareholders.

The following table shows the remuneration paid to active and former members of corporate bodies (and their surviving dependants). The amounts for 2020 take into account that, as a sign of solidarity and in view of the enormous social and economic consequences of the COVID-19 crisis in 2020, the Management Board has decided to waive 30 % of their variable remuneration for the 2019 financial year. The majority of the amount thus retained was donated on behalf of the Bank to a number of aid organisations in Hamburg and Schleswig-Holstein in the year under review.

Total remuneration of active members of corporate bodies comprises short-term benefits, payments to pensions schemes and variable compensation. In the previous year, the total remuneration of active members of corporate bodies only included variable compensation resulting from share-based payments. For the year under review, all variable remuneration components are disclosed (cash bonus and share bonus payments). The prior-year figures have been adjusted accordingly.

Remuneration of corporate bodies

(€ k)	2020	2019
Total remuneration of all active members of corporate bodies		
Management Board	18,826	18,931
Supervisory Board	3,247	3,173
Total	22,073	22,104
Total remuneration of former members of corporate bodies and their surviving dependants		
Management Board	5,219	2,809

As at 31 December 2020, a total of € 49,590 thousand (previous year: € 49,026 thousand) 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 or other liabilities to members of the Management Board or members of the Supervisory Board as at 31 December 2020. In the 2020 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 € 0 thousand in 2020, as in the previous year.

Disclosure of Supervisory Board remuneration

The members of the Supervisory Board receive remuneration for their activities in a financial year without any further resolution by the Annual General Meeting being required. In accordance with the resolution of the Annual General Meeting of Hamburg Commercial Bank AG on 19 December 2019, effective 1 January 2020, the total annual remuneration will be paid in four equal instalments after the end of each quarter. The remuneration for the 2019 financial year had still been paid out in one total sum in 2020.

The remuneration system for the Supervisory Board is based on the requirements of the German Corporate Governance Code. The remuneration system in force since 12 March 2019 was adopted at an Extraordinary General Meeting of Hamburg Commercial Bank AG on 12 March 2019 and is structured as follows:

(€)	Remuneration
Supervisory Board member	200,000
Addition (cumulative) for	
Chairperson	450,000
Chairperson of a Committee	200,000
Member of a Committee	15,000

The maximum remuneration amounts to € 850 thousand. The remuneration is paid pro rata temporis based on the member-

ship in a committee. A presentation of the compensation system in effect until 11 March 2019 is included in the 2019 Annual Report.

On 1 April 2020, the Supervisory Board decided because of the COVID-19 crisis to waive 20 % of their total remuneration for financial year 2020 in order to support a good cause. For this purpose, a provision of € 812 thousand was formed as at 31 December 2020.

Compared to an amount set aside in financial year 2019 of € 3,747 thousand (thereof value-added tax: € 598 thousand) remuneration of € 3,776 thousand to the members of the Supervisory Board for their activities in the Supervisory Board in financial year 2020. This includes € 603 thousand of value-added tax.

An amount of € 2,395 thousand was paid in the reporting period to the members of the Supervisory Board for their activities in the Supervisory Board in financial year 2020. For the portion of Supervisory Board remuneration for financial year 2020 (fourth quarter) paid out at the beginning of 2021, a provision of € 852 thousand was recognised as at 31 December 2020.

Since 2020, no value-added tax has been payable on Supervisory Board compensation.

The remuneration paid to the members of the Supervisory Board in 2020 and at the beginning of 2021 breaks down as follows:

(€)	Fixed remuneration		Attendance fee		Total	
	2020	2019	2020	2019	2020	2019
Members of the Supervisory Board						
Juan Rodriguez Inciarte, Chair	680,000	696,959	-	500	680,000	697,459
Olaf Behm, Vice Chair (until 12 March 2019)	172,000	182,205	-	500	172,000	182,705
Klaus Heinemann, Vice Chair (from 12 March 2019 to 28 August 2019)	341,396	335,411	-	-	341,396	335,411
Simone Graf, Vice Chair (from 28 August 2019)	172,000	179,521	-	500	172,000	180,021
Geoffrey Adamson ¹⁾ (until 22 August 2020)	-	-	-	-	-	-
Peter Axmann (until 12 March 2019)	-	3,452	-	250	-	3,702
Michael Christner ¹⁾ (until 31 August 2019)	-	-	-	-	-	-
Oliver Dircks (from 12 March 2019)	172,000	173,767	-	-	172,000	173,767
Bert Ehlers (from 12 March 2019)	172,000	173,767	-	-	172,000	173,767
James Christopher Flowers ¹⁾ (until 23 April 2020)	-	-	-	-	-	-
Allen Gibson (until 29 February 2020)	30,330	190,301	-	250	30,330	190,551
Manuel González Cid ¹⁾	-	-	-	-	-	-
Frederick Haddad (from 22 August 2020)	62,000	-	-	-	62,000	-
Cornelia Hintz (until 12 March 2019)	-	2,110	-	250	-	2,360
Chad Leat	332,000	340,397	-	250	332,000	340,647
Rieka Meetz-Schawaller	172,000	177,219	-	250	172,000	177,469
Bert Michels (until 12 March 2019)	-	3,452	-	250	-	3,702
Mark Neporent ¹⁾	-	-	-	-	-	-
Dr. Ilinca Rosetti (from 24 April 2020)	109,890	-	-	-	109,890	-
Stefan Schlatermund	172,000	177,219	-	250	172,000	177,469
Sat Shah (from 1 March 2020)	143,022	-	-	-	143,022	-
Klaus-Dieter Schwettcher (until 12 March 2019)	-	2,110	-	250	-	2,360
Mark Werner	172,000	178,562	-	250	172,000	178,812
Stephan Wilcke (from 12 March 2019)	172,000	173,767	-	-	172,000	173,767
Paulus de Wilt	172,000	178,753	-	250	172,000	179,003
Peter Yordán ¹⁾ (from 1 September 2019)	-	-	-	-	-	-
Total	3,246,638	3,168,972	-	4,000	3,246,638	3,172,972

¹⁾ Supervisory Board remuneration waived.

The members of the Supervisory Board have again not provided any advisory or brokerage services or any other personal

services to the Bank in the year 2020. Accordingly, no additional remunerations were granted.

72. Seats on supervisory bodies

On the reporting date, the following seats are 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

73. The Supervisory Board of Hamburg Commercial Bank AG

JUAN RODRÍGUEZ INCIARTE, MADRID

Chairman
CEO of Sareema Inversiones S.A.

SIMONE GRAF, ALTENHOLZ

Vice Chairperson
Employee of Hamburg Commercial Bank AG

GEOFFREY ADAMSON, NEW YORK

Partner GoldenTree Asset Management
(until 22 August 2020)

OLAF BEHM, HAMBURG

Employee of Hamburg Commercial Bank AG

OLIVER DIRCKS, KIEL

Employee of Hamburg Commercial Bank AG

BERT EHLERS, SEEVETAL

Employee of Hamburg Commercial Bank AG

JAMES CHRISTOPHER FLOWERS, NEW YORK

Founder and Managing Director of J.C. Flowers & Co. LLC
(until 23 April 2020)

ALLEN GIBSON, COLUMBUS

Chief Investment Officer Centaurus Capital LP
(until 29 February 2020)

MANUEL GONZÁLEZ CID, MADRID

Senior Advisor Cerberus Global Investment Advisors, LLC

FREDERICK HADDAD, RUMSON

Partner & Manager Family Office FLGC
(from 22 August 2020)

KLAUS HEINEMANN, PALMA DE MALLORCA

Founding Partner and Managing Director HH Kapital B.V.

CHAD LEAT, NEW YORK

Financial Advisor

RIEKA MEETZ-SCHAWALLER, KIEL

Employee of Hamburg Commercial Bank AG

MARK NEPORENT, ARMONK

Chief Operating Officer, Senior Legal Officer and
Senior Managing Director Cerberus Capital Management, L.P

DR ILINCA ROSETTI, LONDON

Operating Partner J.C. Flowers & Co. UK LLP
(from 24 April 2020)

STEFAN SCHLATERMUND, HAMBURG

Employee of Hamburg Commercial Bank AG

SAT SHAH, LONDON

Chief Operating Officer BAWAG PSK
(from 1 March 2020)

MARK WERNER, NEW YORK

Financial Advisor

STEPHAN WILCKE, LONDON

Independent professional Supervisory Board member

PAULUS DE WILT, BREUKELEN

Chief Executive Officer NIBC Bank NV

PETER YORDÁN, LONDON

Managing Director J.C. Flowers & Co. LLC

(a) Members of the Risk Committee**CHAD LEAT**

Chair

GEOFF ADAMSON

(until 22 August 2020)

BERT EHLERS**ALLEN GIBSON**

(until 29 February 2020)

FREDERICK HADDAD

(from 26 August 2020)

STEFAN SCHLATERMUND**SAT SHAH**

(from 20 March 2020)

MARK WERNER**PETER YORDÁN**

(b) Members of the Audit Committee**KLAUS HEINEMANN**

Chair

OLAF BEHM**OLIVER DIRCKS****MANUEL GONZÁLEZ CID****PAULUS DE WILT****(c) Members of the Executive/
Nominating Committee****JUAN RODRÍGUEZ INCIARTE**

Chair

MANUEL GONZÁLEZ CID**SIMONE GRAF****PETER YORDÁN**

(d) Members of the Compensation Monitoring Committee

JUAN RODRÍGUEZ INCIARTE
Chair

ALLEN GIBSON
(until 29 February 2020)

KLAUS HEINEMANN
(from 20 March 2020)

RIEKA MEETZ-SCHAWALLER

STEPHAN WILCKE

74. 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

Chief Financial Officer (CFO)

(until 31 August 2020 Chief Operation Officer [COO])

DR NICOLAS BLANCHARD

Born in 1968

Chief Clients and Products Officer (CCO)

CHRISTOPHER BRODY

Born in 1968

Chief Investment Officer (CIO)

OLIVER GATZKE

Born in 1968

Chief Financial Officer (CFO) and

Chief Technical Officer (CTO) (until 31 August 2020)

Hamburg, 16 March 2021

Stefan Ermisch

Ulrik Lackschewitz

Ian Banwell

Dr Nicolas Blanchard

Christopher Brody

The following copy of the auditor's report also includes a "Report on the audit of the electronic renderings of the financial statements and the management report prepared for disclosure purposes in accordance with § 317 Abs. 3b HGB" ("Separate report

on ESEF conformity"). The subject matter (ESEF documents to be audited) to which the separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette".

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 December 2020, and the income statement for the financial year from 1 January to 31 December 2020 and notes, 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 2020. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

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 2020 and of its financial performance for the financial year from 1 January to 31 December 2020 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. 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 2020. 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:

- ① Loan loss provisions in the customer lending business
- ② Accounting for litigations
- ③ Deferred Taxes

Our presentation of these key audit matters has been structured in each case as follows:

- ① Matter and issue
- ② Audit approach and findings
- ③ Reference to further information

Hereinafter we present the key audit matters:

① Loan loss provisions in the customer lending business

① In the Company's annual financial statements loan receivables amounting to EUR 22,325 million are reported under the "Loans to customers" balance sheet line item. As at 31 December 2020, risk provisions for the loan portfolio consisting of individual and general valuation allowances are reported. The measurement of the risk provisions for the customer lending business is determined in particular by the structure and quality of the loan portfolios, general economic factors and the executive directors' estimates with respect to future loan defaults, among other things also against the background of the expected effects of the ongoing COVID-19 pandemic on the customer lending business. 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. The measurement of general loan loss provisions was done using the IFRS 9 methodology. 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 also due to the COVID-19 pandemic, 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. Thereby, we considered the business organization, the IT systems and the relevant measurement models. Moreover, we evaluated the assessment 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. With the as-

sistance of our specialists in mathematical finance, we examined the suitability and appropriate use of the models applied to calculate the risk provisions.

We assessed the appropriateness of the inclusion of additional valuation-relevant risk factors based on the current economic uncertainties. In this context we especially evaluated the assessment of the executive directors regarding the expected effects of the COVID-19 pandemic on the economic situation of borrowers and the valuation of collateral and examined their consideration in the valuation of the customer loans. We questioned the necessity of creating model overlays and assessed their measurement. Based on our audit procedures, we were able to satisfy ourselves that the assumptions made by the executive directors for the purpose of testing the recoverability of the loan portfolio are justifiable overall, and that the controls 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)'. In addition, the management report contains the relevant disclosures in the report on economic performance (results of operations) and the risk report.

② Accounting for litigations

① In the Company's annual financial statements other provisions amounting to EUR 511 million are reported. Of this amount, EUR 117 million relate to provisions for litigation risks and costs for court and out-of-court proceedings with (mostly former) customers and investors of the bank. The assessment of the litigation risks and the estimate of whether it is necessary to recognize a provision to cover the risk and, if so, the amount of the provision, is to a large extent determined by the estimates and assumptions made by the executive directors. The assessment of the executive directors is based on estimates of the legal situation by the bank's inhouse and external lawyers. Against this background and due to the significance of the amounts in dispute and the underlying assumptions and discretionary judgement of the executive directors, this matter was of particular significance during our audit.

② In accordance with § 249 Abs. 1 Satz 1 HGB, provision 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 seriously expected. In the context of our audit, we assessed, among others, the process set up by the bank to govern the recognition, risk assessment, and accounting presentation of a legal dispute. This assessment also included a substantive discussion of the material legal risks. Our assessment took into account the information obtained in the course of our regular discussions with the bank's legal department as well as the assessments of the respective outcome of the proceedings provided to us in

writing. In addition, for more complex legal cases, external lawyers' confirmations were obtained as of the balance sheet date, which support the risk assessments made by the bank. In our view, the estimates and assumptions made by the executive directors underlying the determination of the provisions for litigation are appropriate overall in order to appropriately measure the provisions for litigations.

③ Other provisions are explained in more detail in the notes to the annual financial statements in section 20. 'Provisions' and section 46 'Other provisions'.

④ Deferred Taxes

① In the Company's annual financial statements deferred tax assets amounting to EUR 574.5 million and deferred tax liabilities of EUR 7.9 million are reported. The resulting surplus of deferred tax assets amounting to EUR 566.6 million is reported in accordance with the recognition option pursuant to § 274 Abs. 1 Satz 2 HGB. Deferred tax assets are recognized in accordance with the principle of prudence to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses to be realized. For this purpose, insofar as sufficient deferred tax liabilities arising from taxable temporary differences are not available, future taxable profits are projected on the basis of the medium-term business plan including expected effects resulting from the ongoing COVID-19 pandemic prepared by the executive directors, whereby material tax differences are carried forward due to planning assumptions. Tax loss carryforwards are only recognized – in the absence of sufficient deferred tax liabilities – if they can be expected with sufficient certainty on the basis of the projections to be realized within the following five years.

In our view, the accounting treatment of deferred taxes was of particular significance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore, also against the background of the effects of the COVID-19 pandemic, subject to uncertainties.

② As part of our audit, we assessed, among others, the internal processes and controls for recording tax matters as well as the methodology used for the determination, accounting treatment and measurement of deferred taxes. We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unused tax losses on the basis of the Company's internal forecasts of its future earnings situation, and the appropriateness of the underlying estimates and assumptions. In this connection so, we also evaluated the assessment of the executive directors regarding the effects of the COVID-19 pandemic on the Company's business activities and examined how they were taken into account in determining the future earnings situation. Based on our audit

procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

③ The Company's disclosures relating to deferred tax assets and tax loss carryforwards are contained in the notes of the financial statement in note 18 'deferred taxes'.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards).

The other information comprises further the remaining parts of 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 Accounting 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

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Annual Financial Statements and the Management Report Prepared for Publication Purposes

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file HCOB_AG_JA+LB_ESEF-2020-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2020 contained in the "Report on the Audit of the Annual Financial Statements and on the Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the annual financial statements and the management report contained in the above mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in

the "Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the annual financial statements and the management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and audited management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF-documents as part of the financial reporting process.

Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.

- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited annual financial statements and to the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 25 May 2020. We were engaged by the supervisory board on 25 May 2020. 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, 17 March 2021
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber
German Public Auditor
[Wirtschaftsprüfer]

ppa. Tim Brücken
German Public Auditor
[Wirtschaftsprüfer]

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 manage-

ment 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, 16 March 2021

Stefan Ermisch

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Notice

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

This Financial Report was published on 1 April 2021 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

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