Hamburg Commercial Bank

Clear focus.
Good results.

Clear focus.

"We are clearly positioning ourselves as a specialist finance provider operating in selected segments where we have proven knowledge and offer clients a service they won't get anywhere else."

Stefan Ermisch
Chief Executive Officer
(CEO)

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Good results.

Despite the economic challenges presented by the coronavirus pandemic, Hamburg Commercial Bank can look back on a successful year as also expressed in its strong key financial ratios. In 2020, the Bank systematically reduced risks and focused on its core areas. Funding costs continued to decline in the second year following privatization, cost reduction is making progress and profitability is increasing – our comprehensive transformation is proceeding both successfully and at pace.

Group overview

Income statement (€ million)

Net income before restructuring and transformation 12/31/2020
(12/31/2019: 143)

276

Net income before taxes 12/31/2020
(12/31/2019: 77)

257

Group net result 12/31/2020
(12/31/2019: 12)

102

Balance sheet (€ billion)

Reported equity 12/31/2020
(12/31/2019: 4,4)

4.3

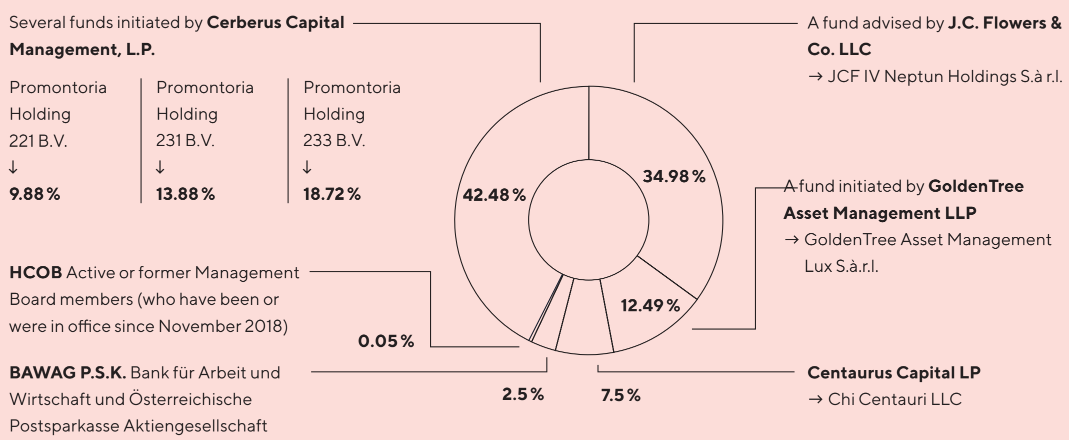
Total assets 12/31/2020
(12/31/2019: 47,7)

33.8

Business volume 12/31/2020
(12/31/2019: 55,6)

39.0

Ownership structure



Capital ratios[1] (%) & RWA

CET1 ratio 12/31/2020
(12/31/2019: 18.5)

27.0

[1] Capital ratios as at 31/12/2020, matching period; Capital ratios as at 31/12/2019, period non-matching (Capital ratios as at 31/12/2019 under matching-period calculation would deviate to an insignificant extent only)

Overall capital ratio 12/31/2020
(12/31/2019: 23.5)

33.3

Risk weighted assets (RWA) (€ billion) (12/31/2019: 21.0)

15.5

Employees (Full time equivalent)

Total 12/31/2020
(12/31/2019: 1,482)

1,122

Germany 12/31/2020
(12/31/2019: 1,421)

1,095

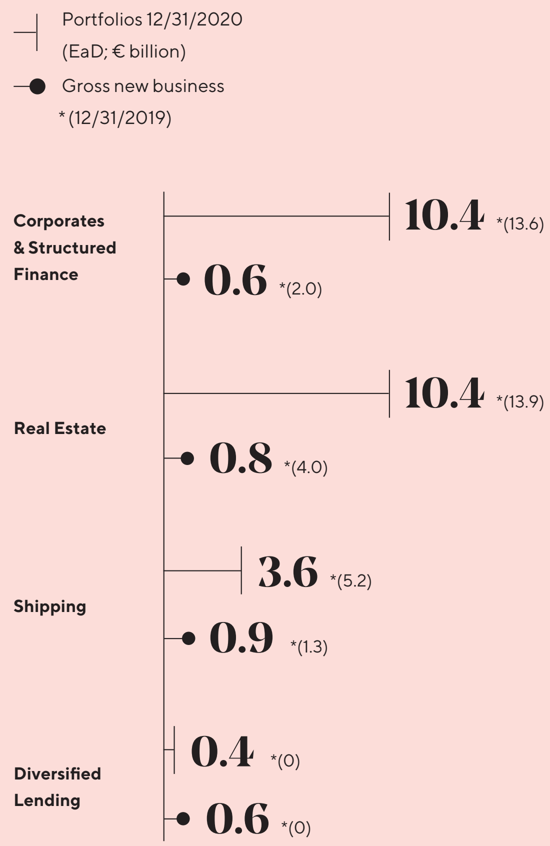
Abroad 12/31/2020
(12/31/2019: 61)

27

Portfolio/New business in 2020[2]

Given the uncertain overall economic situation and the de-risking that the Bank is proactively pursuing, it reduced its total assets as at 31 December 2020 to EUR 33.8 billion (previous year: EUR 47.7 billion) and managed its new business very selectively. All told, the gross volume of new business in 2020 was EUR 2.9 billion (2019: EUR 7.2 billion). The focus was on supporting existing clients, including their loan renewals. Overall, the Bank has further refined its profile as a provider of specialist finance and increased its profitability yet again thanks to lower refinancing costs and improved margins.

The foundations of Hamburg Commercial Bank



Administrative expenses 12/31/2020 (€ million)
(12/31/2019: –413)

–365

[2] Incl. rounding effects

Stefan Ermisch
Chief Executive Officer
(CEO)

"Develop the Bank to a first-rate level"

The year 2020 was heavily marked by the coronavirus. What is your assessment of the year?
Stefan Ermisch → 2020 was not an easy year. We had many reasons for concern, in our personal lives, in society, in business. The global pandemic is also paralyzing our social lives at the start of 2021. For us as a bank, it was important in 2020 to respond to the coronavirus rapidly and comprehensively to protect the health of our colleagues, while at the same time maintaining operations and reducing potential risks to the Bank early on. All this we managed well. Many colleagues are working from home. Which is functioning well, and will to a certain extent – albeit to a much lesser degree than at present – become part of our future world of work. Meanwhile, at least that is my impression, many people long to be able to work normally at the Bank – anyway, that's true in my case. People are social beings; we need direct personal contact without technological interfaces.

What was 2020 like for the Bank from a business perspective?
SE → It went better than we had planned. At EUR 257 million, our profit before tax is not only well above the 2019 figure, when we generated EUR 77 million, it also clearly exceeded our expectations. This is primarily thanks to our operational successes.

What specifically do you mean by that?
SE → In 2020, we continued to work on increasing our profit margins, reducing our administrative expenses and making our balance sheet more robust – the key pillars of our successful restructuring. The quality of our balance sheet is improving steadily; refinancing costs have been falling since privatization. At the same time, we are constantly reviewing how we can improve efficiency in our banking operations. This in turn helps us reduce our costs – thereby improving our profitability. Moreover, in 2020 we were helped by non-recurring effects. As part of our realignment, we divested buildings in Hamburg and Kiel, resulting in additional income of around EUR 150 million. Then again, coronavirus effects can be seen in net allocations to loan loss provisions of EUR -188 million and in negative fair value measurements. The increase in loan loss provisions is an expression of a very cautious risk policy and protects us against possible damage in the future, particularly against the backdrop of the continuing coronavirus crisis. Within a year we were able to realize a significant increase in our CET1 capital ratio, which was already strong, from 18.5 percent to 27.0 percent through the very systematic reduction of risk-bearing assets. This means that our capitalization is more than solid. It protects us, gives us flexibility and provides us with options going forward. All told, the Bank has closed out a difficult year in a stronger position – our transformation, scheduled over three years, has come on apace and is proceeding with great success.

In your opinion, what are the factors driving the transformation successes?
SE → We made major progress with key projects. For instance, we made major advances with our extensive de-risking, which was initiated at an early stage. The same applies for our major IT transformation, which not only helps lower costs over the long term but also makes our IT processes more efficient – going forward, we will have a state-of-the-art, largely cloud-based IT infrastructure. We have integrated sustainability criteria into our lending processes and improved the collaboration between front and back office. At the same time, we have continued the necessary staff reductions as scheduled: The number of employees decreased by 360 to 1,122 Full Time Employees at year-end 2020. This means that the Bank is well on course to reaching its 2022 target of around 700 FTEs. Another positive is that administrative expenses fell by around twelve percent to EUR 365 million despite IT infrastructure spending.
The Bank's total assets have decreased by just under 30 percent to EUR 33.8 billion. Why is that?
SE → As early as autumn 2019 we began to get ready for difficult underlying business conditions. We sought to wind down portfolios and to lower our risk profile to make our Bank less vulnerable to a recession, which was certainly on the cards even then. We succeeded in doing just that. And then, when the pandemic hit the whole world and plunged the economy into a hard recession, we tightened our business further. We now have fewer risks on our books than before the coronavirus crisis. Thanks to de-risking, the quality of our portfolio has improved: Our non-performing exposure (NPE) has decreased, our NPE ratio remains unchanged and respectable at 1.8 percent, while our overall exposure has been substantially reduced.
At EUR 2.9 billion, new business in 2020 was considerably less than in 2019 when it came to EUR 7.2 billion. Why this decline?
SE → We deliberately kept new business at a relatively low level. In 2020 we were dealing with a volatile and uncertain economic environment. We were therefore very cautious and strengthened our capital position – that proved to be the right decision. Our deal signings – this includes renewals – focused on high-quality business with good margins. This together with the lower refinancing costs helped us increase our net interest margin.
What are the new business plans for 2021?
SE → If the economic setting permits, we will sign more business in 2021. We are clearly positioning ourselves as a specialist finance provider operating in selected segments where we have proven knowledge and offer clients a service they will not get anywhere else. In areas where we are unable to realize our margin expectations we rigorously hold back.
Hamburg Commercial Bank is seeking to join the Deposit Protection Scheme (ESF) of the Association of German Banks (Bundesverband deutscher Banken, BdB) at the start of 2022. How are preparations going?
SE → The BdB will make its decision on our membership at the end of 2021 using firmly agreed criteria. At the moment, things are looking quite good for us. I also get the impression that we are building trust at the BdB. At any rate, the work with the BdB is very enjoyable. We deliver what we promise: in terms of our capital position, de-risking, earnings and costs. Ultimately, however, we will have to exceed the stipulated threshold value. I am optimistic that we will achieve this.
On October 1, HCOB integrated environmental, social and governance (ESG) criteria into its lending standards. What does this mean?
SE → ESG criteria will continue to gain in importance in society and the economy. An awareness of these values and their observance is to become a firm part of the Bank's DNA. Consequently, the implementation of ESG aspects in our lending standards marks a milestone. It means that for every new lending decision we will look not only at the purely economic aspects but will also examine to what extent they meet our principles in the areas of the environment, social matters and governance. To this end, we have developed an ESG scoring method based on a school grade system to allow us to assess every single loan and ultimately our entire loan portfolio. And we have adopted a blacklist that is consulted before the scoring. It defines the countries and business areas that are absolute no-nos for us. To give an example, we will not look at countries where corruption is endemic or at business areas such as the tobacco industry, coal mining and arms production. Nor will we be doing business with companies that fail to adhere to certain minimum social standards.
What are the Bank's goals in 2021?
SE → We are in a good and very good position when it comes to capital and risk, respectively – this includes the credit quality of our portfolio. We need to continue our work on profitability. Our current operating return is still below the cost of capital – our entire transformation seeks to remedy this shortcoming over the medium term and to generate a return on equity of at least nine percent on a sustained basis. We will achieve this by lowering costs and adjusting them to our income – since the opportunities for increasing the latter are very limited in the current setting. Our aim is to develop the Bank to take it to a first-rate level. We want to be among the top banks in Germany. If we succeed, we will have many options available to us once we have joined the BdB and will be able to act from a position of flexibility and strength.

> **"All told, the Bank has closed out a difficult year in a stronger position – our transformation, scheduled over three years, has come on apace and is proceeding with great success."**

"Risk and balance sheet reduction started early on"

The past year saw the coronavirus apply the brakes to the economy. Many companies suffered from the slump. Was Hamburg Commercial Bank forced to set aside additional loan loss provisions in 2020?

Ulrik Lackschewitz → Yes, we opted for a cautious approach and set aside -EUR 188 million in loan loss provisions, which is well above the figure you would expect in a normal year. In 2019, we were able to reverse EUR eleven million in loan loss provisions. Nevertheless, the coronavirus had fewer adverse effects on our results than we thought – and had feared in our mid-year planning.

Why is that?

UL → Several factors play a role here: We prepared for an economic downturn as early as the end of 2019, that is, before the outbreak of the coronavirus pandemic. We believed then that the economic trend had passed its peak. And so we cut back on new business and began to reduce risks and the size of our balance sheet early on – something we are now benefiting from. At the same time, it is important to take a differentiated look at the impact of the coronavirus on the economy: The negative consequences vary considerably depending on the sector. Retail experienced a boom online while bricks-and-mortar shops were hit hard. The industrial sector did not perform badly overall. All told, Germany experienced a very strong third quarter in 2020, the comprehensive assistance provided by the state helped many businesses.

How specifically did the Bank respond to the outbreak of the coronavirus pandemic in spring 2020?

UL → We put our loan book under the microscope, analyzing where and how the coronavirus might have an impact. Subsequently, we developed coronavirus scenarios that we applied to adjust our planning. At the same time, we accelerated our de-risking and launched an NPE (non-performing exposure) action plan to further reduce loans at risk of default. Our annual target of winding down risk-weighted assets (RWAs) totaling EUR 1.2 billion as part of the NPE action plan was exceeded by EUR 100 million. On top of this, we have seen fewer new non-performing exposures in our portfolio than we had feared given the pandemic. We now have a clean loan book, as evidenced by a solid NPE ratio of 1.8 percent, which has remained stable even though we have reduced the size of our balance sheet from EUR 47.7 billion to 33.8 billion within a year. This means that we have been as quick in reducing NPEs as we have in reducing the size of the balance sheet. Our aim is to keep the NPE ratio low.

HCOB is engaged in financing commercial real estate. What impact has the crisis had in this area?

UL → The following three areas are of particular importance to us: First, hotels, although we have tended to finance city hotels with solvent investors rather than holiday hotels. So far, this is going quite well but it is clear that the longer the crisis endures, the more difficult the situation will become. Our second area is shopping centers. Here, in a few cases, we will have to take a good long look. For office buildings, we have carried out revaluations and not seen any significant negative changes so far in this area. Much will depend on how the pandemic develops going forward.

The Bank sold portfolios in 2020 to reduce the total sum of its assets. How did this go during the pandemic?

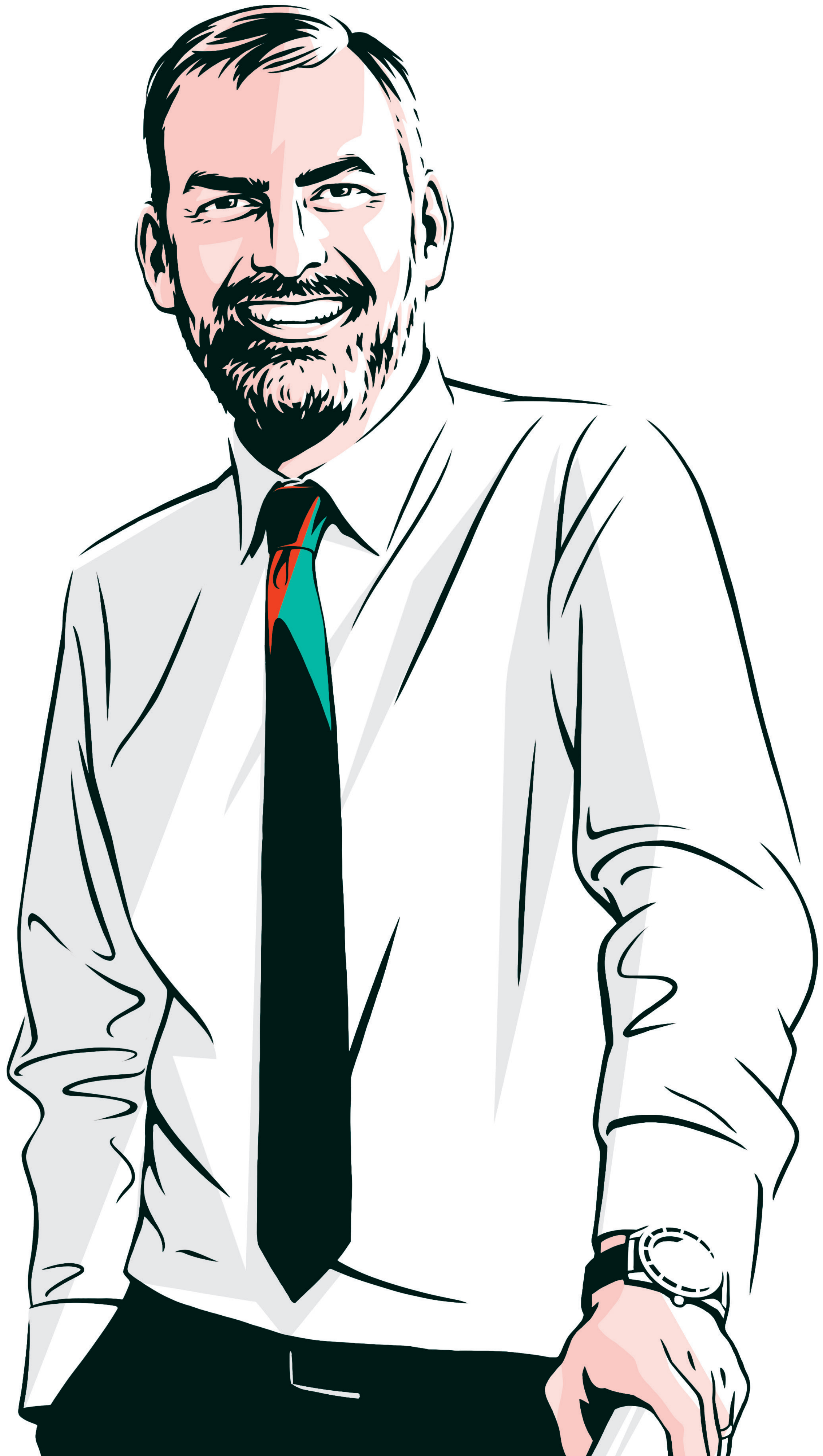
UL → We had expected to see a certain degree of buying restraint. But this did not happen. We were able to sell our portfolios consistently well.

Following muted gross new business of EUR 2.9 billion in 2020 the Bank wants to sign more deals in 2021. The world is still in the grip of a pandemic. Is this the right time for new business?

UL → A bank lives on business. The important thing is to do the right kind of business with the right risks and right price. We expect the economy to recover in the course of 2021. And so, to some extent, it may even be worth taking some countercyclical action. Portfolios are coming on the market, and here opportunities may arise.

The Bank is aiming for a return on equity after tax of at least nine percent. To achieve this, demanding profitability targets have to be reached in new business. Does this lead to higher risks?

UL → No. As early as 2019 we made our lending standards tighter, if anything. We are consistent in only doing business in areas where our services are rewarded appropriately. And, apart from this, the return on equity depends not only on our new business margins but also on our costs – and we have been successful in reducing these.



Ulrik Lackschewitz
Chief Risk Officer and
Deputy CEO

Ian Banwell
Chief Financial Officer

"We have a strong focus on capital efficiency"

Corona caused a lot of turbulence in the capital markets all over the world. What impact did it have on Hamburg Commercial Bank?
Ian Banwell → The biggest impact is that the crisis accelerated our transformation and change. That turned out to be a very positive outcome in a difficult year. All of our colleagues were disrupted, their health was threatened. I am sure they spent a lot of time with their families, concerned about the difficulties that came with the crisis. But the people at the Bank have worked really hard – very often remotely – to improve our company.
Usually during a crisis, risks become more evident, capital ratios worsen. Hamburg Commercial Bank strengthened its capital position in 2020 significantly.
IB → Our management team has a strong focus on capital efficiency. Before the corona crisis started, in the last quarter 2019, we decided to de-risk the company and to reduce the balance sheet. We now stand at EUR 33.8 billion after EUR 47.7 billion at the end of 2019. We were very concerned with the German manufacturing economy operating at stall speed or near recession, well before Covid. In 2020, we also focused on raising our capital ratios – we reached a CET1 ratio of 27% after an already strong CET1 ratio of 18.5% in 2019 – and on being recurrently profitable. We are now in reach of being one of Germany's best banks: strong capital situation, very low cost of funds, sustainably profitable, more and more data focused.
2020 was the second year after the privatization. One aim of the Bank was to lower the funding costs. Did you succeed?
IB → We did. Our costs of funds have continued to decline in Euro and in US-Dollars, which we need for Shipping and to a lesser degree for Diversified Lending. The good news is that funding costs are still coming down and asset yields are rising, and net interest margins are widening nicely.
The Bank's rating is decisive for the funding costs. How is Hamburg Commercial Bank meanwhile perceived by the rating agencies?
IB → They perceive us better. The progress we are making is well recognized by the analyst community. With our very strong capital ratio we have a good argument. They also look at our low NPE ratio of 1.8% and at the fact that we are very well risk-provisioned, and our core earnings are likely to improve this year and in the following years.
After all the accomplishments of the transformation: Do you expect a rating upgrade in 2021?
IB → I think so, but I am an optimistic guy. I think the company is doing a lot of things right. We have to demonstrate core earnings stability and be really clear about what we do and how we make money. When we enter the Bundesverband deutscher Banken in 2022, it will signal approval of our capabilities.
In 2020, the Bank successfully issued a Senior Non-Preferred Bond with a volume of EUR 500 million. How about bond issuances in 2021?
IB → In March, we issued a Senior Preferred Bond with a duration of five years. We are generally lengthening durations as the markets accept our name. We also plan to issue a Senior Non-Preferred later in the year. It is a pretty light year for us in terms of market issuance. Our balance sheet is still projected to decline a little bit, so our demand for money is relatively low. Nevertheless, we are trying to build a successful track record to get investors comfortable with our story. We want to make a clear statement on what a well-run bank in Germany looks like.

Dr. Nicolas Blanchard
Chief Clients and Products Officer

"Our performance must make the difference"

"Banking is a people business" – this motto applies particularly to sales. How has that been going during the coronavirus pandemic?
Nicolas Blanchard → Coronavirus is a huge challenge for everyone, and also for sales. We focused on remaining in close touch with clients even if we have not been able to meet in person. But, of course, selling while working from home is not something that has been particularly easy, either for me or my colleagues. Our clients are in similar positions. We are all trying to make the best of the situation and are looking forward to face-to-face meetings in the course of the year.

What does that mean?
NB → Among other things, we have developed new online formats we can use to communicate with our client. We have learnt a lot in 2020, and we want to use the crisis to get results. Our message is simple: "Dear clients, we are here for you even when things get difficult." I have received very positive feedback for this clear stance, and in the end, it is the face-to-face exchanges that count.

What is your impression of the mood among your clients?
NB → The mood has been up and down, matching the waves of the pandemic. In spring and summer 2020 it was about analyzing and reducing risks quickly. In late summer and autumn, we were able to sign new business in addition to tackling the crisis. At the beginning of this year, the mood among clients tended to be quite reflective. There is concern about the virus variants, vaccinations are not proceeding as fast as hoped – all this is causing uncertainty. In general terms, a crisis produces both winners and losers. In the corporate clients business, business was good in the food industry while the supply industry and parts of the retail trade, especially brick-and-mortar retail, tended to struggle. By contrast, container shipping had a very good second half, and the digital infrastructure sector has also proved itself a winner.

Your gross new business in 2020 came to EUR 2.9 billion and fell well short of the 2019 figure of EUR 7.2 billion. Why is that?
NB → We had already applied the brakes at the end of 2019 because we took a skeptical view of future economic performance, particularly in Germany. When coronavirus was added to this in 2020, we proceeded with caution; we wound down portfolios and risks and strengthened our capital base further. At the same time, we pushed ahead with our focus on being a provider of specialist finance. We deliberately concentrate on our niches. In general, for us new business is not about volume but about the quality of the deals – which was pleasing in 2020. We have achieved good risk/return terms and were able to increase our net interest margins. This was possible because we focused on transactions where our performance was appropriately rewarded. In cross-selling we achieved above-average success, in addition we assisted clients successfully in payments, foreign trade and in the forex business – here our personalized advice is particularly appreciated. This year we want to increase our new business, provided that the underlying economic conditions permit it.

Competition in the corporate clients business in particular is very tough – how can the Bank be successful in this segment?
NB → Here, it is particularly true to say that we are successful if we operate as a specialist. With intelligent acquisition finance, a good factoring or leasing solution, tailored structured finance or a successful working capital solution. Our performance has to make the difference.

At EUR 900 million, Shipping made a big contribution to new business.
NB → We traditionally have an excellent knowledge and good network in shipping. Our clear focus contributes to our success in this area. On top of this, our team in Hamburg collaborates closely with our colleagues in Greece. Above all, we focus on the financing of existing tonnage in the three traditional segments of container, bulk and tanker shipping, areas where we are able to offer tailored solutions.

The Bank has extensive experience in project finance. How do you see this segment going forward?
NB → The financing of infrastructure projects and the renewables segment, for example, is something close to our heart. It is one of our focal areas and also plays an important role in terms of sustainability, even though we underwrote relatively little new business in 2020 with a final take of more than EUR 300 million. We are concentrating on deals that fit in with our risk awareness and the size of our balance sheet. At the same time, we have strengthened our investor network. This is important because we want to syndicate part of the business we generate. This financing, some of which is long-term, is of increasing interest to insurers and pension funds in the current environment of low interest rates and focus on ESG. All told, we are well-equipped in the client business for 2021. We know how to make a difference on the market. And yet we continue to exercise the requisite caution due to the pandemic.

“The German real estate market is very resilient”

Corona shaped our lives in 2020. With a EUR 10.4 billion portfolio, Hamburg Commercial Bank is very strong in Commercial Real Estate. How did the pandemic affect this business area?
Christopher Brody → Covid-19 affected certain parts of the real estate business more than others. Anything that had to do with hospitality faced real challenges, and certain parts of retail, like fashion and restaurants, had problems, too. On the other hand, supermarkets, do it yourself and furniture did well. The good news is: The German real estate market is very resilient and does not suffer from overcapacity like other markets. We are working closely with our borrowers to get through this period, and we do believe that a recovery will happen incrementally over the next years. 2021 will continue to be challenging, but there is a light at the end of the tunnel with the vaccines.

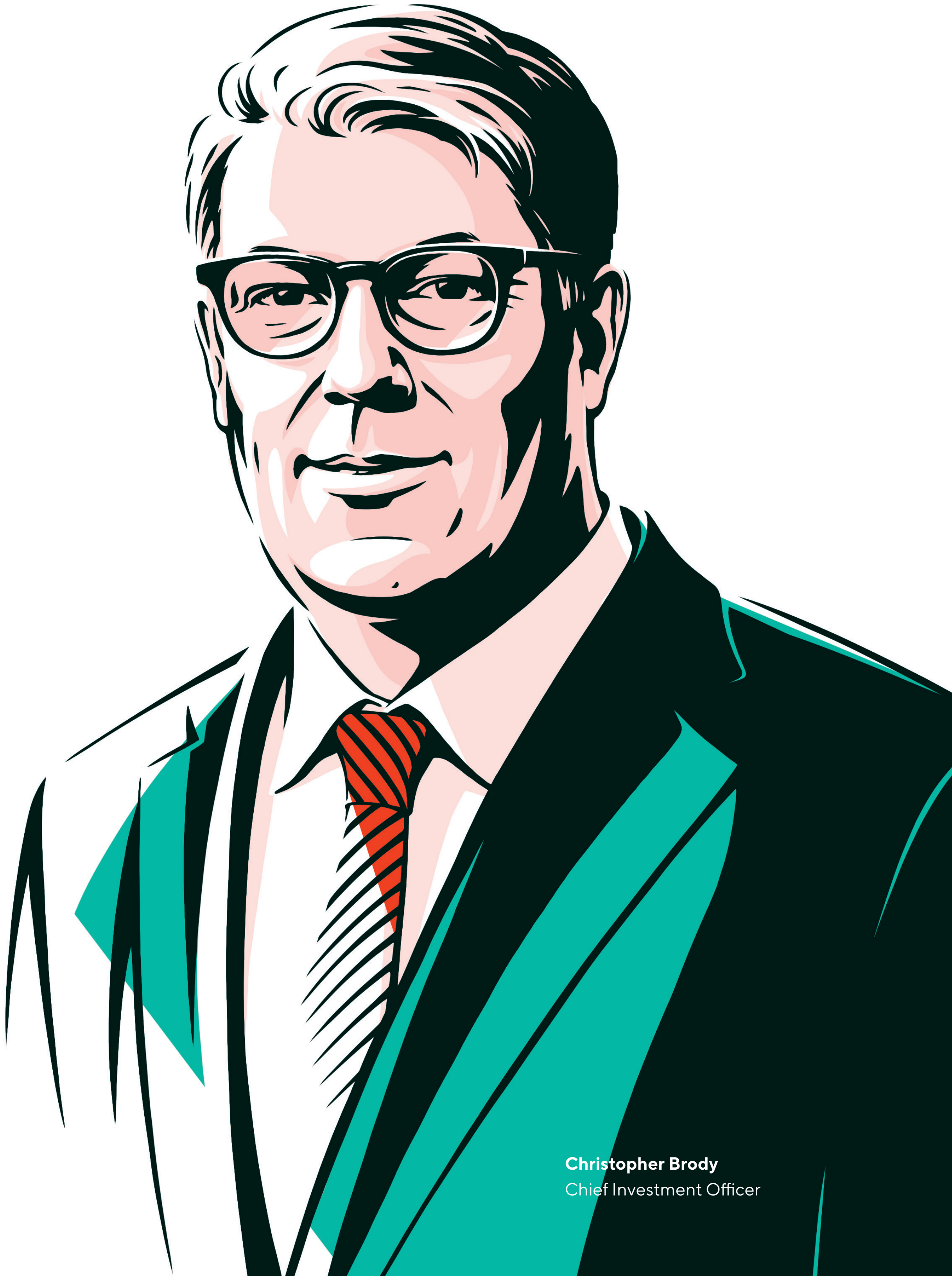
In 2020, at roughly EUR 800 million, HCOB wrote relatively little new business in Commercial Real Estate, after EUR 4 billion in 2019. How do you see this business area in 2021?
CB → We decided in 2019 to scale back new business and to reduce our exposure in Commercial Real Estate, because we were skeptical about the development of the economy. Now we are cautiously optimistic. We see a lot of opportunities across all Commercial Real Estate sectors. But one has to understand what the long-term trends are. Even if the demand for offices goes down, because more people are working remotely, you will still be able to find good business. We are very cautious and do not think rents will go up year after year – our assumptions are very realistic.

Will the pandemic change our behaviors, our way of living and working?
CB → People have often changed their habits after a huge crisis. We currently see a quicker shift towards technology. Virtual meetings might have taken ten years to become the accepted norm, now they have done so in one year. Online sales spiked in Germany. Working at home became more popular, but I do not think that people are going to work at home all of the time. We also see people happy to live outside of big cities. Most German cities have an undersupply of housing, and opportunities still exist for financing residential developments.

In 2020, the Bank launched Diversified Lending. How was the first year?
CB → We are extremely satisfied. The whole team and all the related business units have done an excellent job, we deployed around EUR 625 million. Our book is stable and performing. We had the benefit of putting all the money to work post-Covid. We plan to originate more this year – it is up to us to deploy money cautiously in this environment.

Diversified Lending also means investments abroad, for example in the UK. Is Great Britain still an interesting market after Brexit?
CB → It is. There are some opportunities in the UK. The good thing about Brexit is: The UK had been trying to leave the European Union for several years. There was no sudden shock. Most people and organizations were prepared for it. But of course: Whenever we do an underwriting of a UK company, we look at what the effects from Covid and Brexit are. Anyway, we are investing in UK companies that have extensive international business operations.

The Bank has set itself clear sustainability rules. What does that mean for new business?
CB → New business is not difficult because of our sustainability rules, which are important and good. The regulators, the rating agencies, our shareholders, our employees and our clients all want us to have a good sustainability model. We will deliver on this.



Christopher Brody
Chief Investment Officer

Report of the Supervisory Board

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

2020 annual financial statements and Group financial statements of Hamburg Commercial Bank AG

Report of the Supervisory Board on the 2020 financial year

In the 2020 financial year, the Supervisory Board performed the tasks incumbent on it by law and in accordance with the articles of association. In particular, it monitored the management of the company and provided advice to the Management Board in matters relating to corporate governance.

Like the previous year, the 2020 financial year was another year dominated by the radical, multi-year transformation process for Hamburg Commercial Bank. The COVID-19 pandemic and the associated global recession also had an impact on business development. The Supervisory Board addressed the related issues in detail and received detailed reports on them throughout the year. Both in terms of its market presence and within the Bank, the comprehensive transformation program is continuing to change the Bank considerably. In the year under review, the focus was on the development of profitable and risk-oriented growth strategies and stringent portfolio management in line with clearly defined profitability and earnings targets. In light of the COVID-19 pandemic and with a view to the economic developments, the Bank accelerated the implementation of its de-risking strategy, which it had already initiated at the end of 2019, and closely monitored its exposure. In addition, the funding structure was optimized further and costs were reduced again thanks to the systematic implementation of cost-cutting programs. The Bank's entire organizational structure has been more clearly adapted to reflect the refined business model and the reduced number of employees. The Bank has implemented a clear approach to incorporating sustainability criteria in its business activities, including the integration of environmental, social and governance (ESG) criteria into the Bank's credit standards.
The Supervisory Board was kept informed of the status of these key milestones on an ongoing basis and – where necessary – passed corresponding resolutions. The Supervisory Board sought legal advice within this context where necessary.

In the 2020 reporting year, the Management Board provided the Supervisory Board with regular, timely and comprehensive information on the Bank's business policy and other fundamental issues relating to corporate governance and planning, financial development, operating performance and the Bank's risk, liquidity and capital management, as well as on major legal disputes, compliance issues and transactions and events of fundamental significance to the Bank.

The Supervisory Board was involved in any decisions that were of key significance to the Bank. The Management Board also provided the Chairperson of the Supervisory Board and the Chairpersons of both the Risk and Audit Committees with information on key issues and upcoming decisions, also between the planned meetings. For example, in the first two months after the start of the COVID-19 pandemic, the chairmen of the Supervisory Board and the Risk and Audit Committee held weekly discussions with the CEO on the current situation. In addition, since April 2020, the Chairmen have been receiving the daily management report, the 'Corona Dashboard', with the current status of key performance indicators to monitor the impact of the COVID-19 pandemic for the Bank. Furthermore, regarding the search and selection of the new head of internal audit the chairperson of the Audit Committee was consulted. Moreover, with regard to the IT transformation, the implementation of which is closely monitored by the Supervisory Board, HCOB's consultant that was engaged to support HCOB's IT transformation may – in addition to the reporting to the CEO – also directly report to the chairperson of the Supervisory Board and the chairperson of the Audit Committee. This ensures a constant high-level of information in this important business area.

Where resolutions had to be passed between meetings, the Supervisory Board passed these resolutions using the written procedure.

Meetings of the Supervisory Board

The Supervisory Board held nine meetings in the 2020 financial year, two of which were convened as extraordinary meetings. In addition, the Supervisory Board was briefed on current developments with regard to the COVID-19 pandemic at a conference call held on March 17, 2020. Due to the COVID-19 pandemic, the meetings of the Supervisory Board were held as video conferences or conference calls, except for the meeting on February 5, 2020.

The Management Board provided the Supervisory Board with regular information on the Bank's situation.
Within this context, it provided the Supervisory Board in particular with information based on the figures available for each quarter on the Bank's current financial situation, business developments on the whole and in the individual business areas also in relation to the current business plan, on the risk situation, capital development and on the liquidity and funding situation. In addition, the Supervisory Board was provided with a regular outlook for the following quarters and the year as a whole. One key component of the reporting on the Bank's situation was also the management of the effects of the COVID-19 pandemic, the progress made in the implementation of the de-risking strategy, regulatory issues, and progress regarding the targeted move to the deposit guarantee fund of the Federal Association of German Banks (BdB).

The Management Board also reported to the Supervisory Board on a regular basis on the status of the transformation program, focusing on employee restructuring and the associated cost-cutting program, IT transformation, the change of payment transaction provider and the integration of ESG criteria into the Bank's business activities. The Supervisory Board also dealt with compliance-related issues on a regular basis, in particular related parties and potential conflicts of interest.
The Supervisory Board examined the reports critically and, in some cases, requested additional information and documents, which were always provided promptly and to its satisfaction.

The Supervisory Board also dealt with various Management Board matters.

The auditor of the annual financial statements took part in the Supervisory Board meetings on a regular basis and was available to provide the Supervisory Board with supplementary information.

In addition, since the third quarter of 2020, the Supervisory Board has been provided with information at the beginning of each month on the preliminary key figures for the previous month-end.

Furthermore, the Supervisory Board was informed in writing between meetings regarding significant matters. For example, the Supervisory Board was informed of the preliminary outcome of the 2020 pragmatic SREP by the CEO on October 21, 2020 directly after the ex-change between the Bank and ECB. A further discussion of the outcome from the pragmatic SREP took place at the following ordinary meeting of the Supervisory Board on December 3, 2020.

At its meetings, the Supervisory Board also focused on the following topics.

At the meeting held on February 5, 2020, the Supervisory Board discussed the forecast for the 2019 group net result as part of the usual report on the Bank's situation. The Management Board also reported on ongoing ECB audits in detail. At the meeting, the Supervisory Board also dealt with the closure of the Singapore branch, the IT Strategy for 2022, the status of major legal disputes, and the outline of the further process with regard to target achievement in 2019 and the Management Board target agreements for 2020.

The meeting of the Supervisory Board held on February 12, 2020 served exclusively to discuss the preliminary results for 2019, which were published as part of a press release on February 13, 2020. The Supervisory Board discussed the small number of significant changes compared with the forecast that had already been presented on February 5, 2020.

The subject of the meeting held on April 1, 2020 (annual financial statements meeting, part 1) was primarily the presentation of the results of the audit of the 2019 annual and Group financial statements by the auditor and the report of the Audit Committee on the audit of the 2019 annual and Group financial statements. The resolutions concerning the 2019 annual financial statements and the recommendation to the ordinary general meeting were passed during the meeting of the Supervisory Board on April 15, 2020 (annual financial statements meeting, part 2). This is because the audit reports could only be sent to the Supervisory Board at short notice after the Supervisory Board meeting on April 1, 2020 due to DIP (Debt Issuance Program) process.
In connection with the annual and Group financial statements for 2019, the combined separate non-financial report pursuant to Section 289b of the German Commercial Code ("CSR Report") for 2019 was also reviewed and approved. In addition, the usual resolution was passed on the recommendations to be made to the ordinary annual general meeting on the selection of the auditor for the 2020 financial year. The Supervisory Board also passed resolutions on further recommendations to be made to the annual general meeting: the conclusion of two enterprise agreements in connection with BINNENALSTER-Beteiligungsgesellschaft mbH and GmbH Altstadt Grundstücksgesellschaft, as well as a further agreement with bilateral silent participations as part of the LME (Liability Management Exercise).
In addition to the resolutions relating to the annual/Group financial statements, the Supervisory Board also dealt with the annual discussions on the „Overview of the secondary activities of Hamburg Commercial Bank AG's Management Board members" and the „Report on significant donations" (donations > EUR 10,000).
Furthermore, the Supervisory Board adopted an amendment to the Related Party Transactions Policy.
The Supervisory Board also used this meeting to discuss the target achievement level of the Management Board for the 2019 financial year. The resolution on target achievement was scheduled for the Supervisory Board meeting on April 15, 2020, at which the 2019 annual financial statements were adopted and the 2019 Group financial statements approved.
The Management Board also discussed with the Supervisory Board the current status of projects relating to the future rating model landscape, the reorganization of the first and second lines of defense (project 'Paris'), the pension management and the data management. Finally, the Supervisory Board received a report from Internal Audit on the findings of its „AML, Financial sanctions and related party" audit.

The main issue covered at the meeting held on April 15, 2020 (annual financial statements meeting, part 2) was the adoption, based on the recommendation made by the Audit Committee, of the annual financial statements for 2019 and the approval of the Group financial statements for 2019 following the Supervisory Board's own assessment and prior discussion with the auditor of the annual financial statements. The standard resolutions to be passed regarding the recommendations to be made to the ordinary annual general meeting were also passed. In addition, the Supervisory Board discussed the current situation, particularly with regard to the impact of the COVID-19 pandemic, on the basis of the report of the Management Board. Finally, the Supervisory Board approved the 2019 target achievement level for the Management Board.
At the meeting held on June 4, 2020, the Supervisory Board also received a report on the status of the consultancy services provided by the subsidiary (GTA) of BAWAG P.S.K., which was engaged to support the Bank in certain areas of the transformation program starting on May 1, 2020 until April 30, 2021. The Supervisory Board also passed resolutions on formal amendments to the rules of procedure for the Supervisory Board and the Management Board. In addition, the Supervisory Board discussed the current status of the 2020 target agreements for the Management Board, taking into account the situation and development of the Bank as a result of the COVID-19 crisis. Finally, the Supervisory Board received a report on the status of the implementation of the performance-related compensation to be granted in shares (share bonus) for the Management Board, approved the conclusion of the necessary Fulfillment and Contribution Agreements with the shareholders of HCOB and authorized the Chairman of the Supervisory Board to execute the Fulfillment and Contribution Agreement with the shareholders of HCOB.

At the extraordinary meeting on July 15, 2020, the Supervisory Board discussed the strategic guidelines for the new 2021 medium-term plan in detail and declared its consent to the plan. In addition, the Management Board reported on the main issues concerning the Bank's current situation, a legal dispute and the current status of BAWAG support/GTA consultancy services in the context of HCOB's transformation program. The Supervisory Board also received reports from the extraordinary Risk Committee meetings held on July 2 and July 13, 2020, which focused on de-risking. Furthermore, the Supervisory Board approved the 2020 target agreement for the Management Board following a report on the corresponding discussion on this matter within the Compensation Monitoring Committee. The 2020 targets for the Management Board were approved subject to the proviso that they would be reviewed for any necessary adjustments to the KPIs following the resolution on the new 2021 medium-term plan (Supervisory Board meeting on August 26, 2021). (The 2020 target agreement for the Management Board was confirmed by the Supervisory Board by written resolution procedure on September 28, 2020.)

At its meeting held on August 26, 2020, the Supervisory Board dealt with the 2020 semi-annual financial statements and current developments. Within this context, the Supervisory Board was also provided with information on the progress made in embedding sustainability criteria in the Bank's strategic orientation (ESG = Environment, Social, Governance). In addition, the Supervisory Board confirmed and approved the new medium-term plan for 2021, which had already been discussed in detail at the meeting on July 15, 2020. As part of the usual report on the transformation program, the Supervisory Board again received a report on the status of the consultancy services provided by BAWAG P.S.K.'s subsidiary (GTA). Furthermore, the Supervisory Board provided its feedback on the draft „Flash

Report" it had requested, which includes preliminary results as at the month-end for the main KPIs. Since the beginning of September 2020, the Supervisory Board is receiving this report on a monthly basis. The Supervisory Board also dealt with Management Board matters. 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. Furthermore, the Supervisory Board adopted the Suitability Policy, which is to be observed by, and complied with, by the members of HCOB's Management Board and the Supervisory Board. The Suitability Policy is designed to help ensure the suitability, including the ongoing suitability, of members of the Management Board and Supervisory Board in the light of the ECB's requirements and in line with the EBA Guidelines.

The last ordinary meeting of the year was held on December 3, 2020. At this meeting, the Supervisory Board dealt with the results of its own efficiency review in accordance with Section 25d of the German Banking Act (KWG) and the evaluation of the Management Board. The Supervisory Board also approved the update of the 2021 medium-term plan, which was revised based on the realization of the second half of 2020 and responded to the COVID-19 crisis with a clear de-risking strategy and a focus on a very resilient CET1 ratio, positioning HCOB well for achieving admission to the BdB. As part of the usual report on the transformation program, the Supervisory Board received additional reports on the status of the pending sale of the HCOB headquarters building and the product strategy for client derivatives. The Supervisory Board also received a progress report on HCOB's sustainability project (ESG). Finally, the Supervisory Board passed further resolutions on the sale of the stake in CAPCELLENCE Holding GmbH & Co. KG, a formal amendment to the Related Party Transactions Policy, the involvement of the ad hoc committee with regard to the Supervisory Board's obligations under the Market Abuse Regulation (MAR) and, in Management Board matters, on the amendment of HCOB's remuneration principles for Management Board members and on the extension of the contracts of two Management Board members (Stefan Ermisch and Ullrik Lackschewitz).

At the extraordinary meeting held on December 10, 2020, the Supervisory Board addressed the Bank's 2020+ building strategy, which also included the sale of the HCOB headquarters site in downtown Hamburg. Following a detailed discussion with the Management Board, the Supervisory Board approved the building transaction.

In the reporting year, the Supervisory Board also adopted seven resolutions using the written procedure. The resolutions mainly related to legal disputes. The Supervisory Board also passed written resolutions on the election of a new Supervisory Board member to the committees (March 23, 2020), the confirmation of the 2020 target agreement for the Management Board (September 28, 2020), the integration and merger of HCOB Facility Management GmbH with Hamburg Commercial Bank AG (October 14, 2020), and the update of the Lending Guideline (October 28, 2020).

The Supervisory Board continued its further training in various areas in the year under review. In addition to the onboarding/introductory events on the role and duties of the Supervisory Board for new Supervisory Board members, further training was provided on legal requirements and accounting regulations, as well as in-depth training on the German Ordinance on the Remuneration of Financial Institutions. Individual Supervisory Board members also received further specialized in-depth training.

Where individual members of the Supervisory Board were affected by resolutions passed by the Supervisory Board or its committees, either in person or on account of their function, or if other potential conflicts of interest arose, then these members did not participate in the deliberations and resolutions in the executive body concerned. The number of other significant mandates held by the Supervisory Board members can be found in the Corporate Governance Report in this Annual Report. All members of the Supervisory Board took part in well over half of the meetings of the Supervisory Board and the committees of which they are members.

Committees of the Supervisory Board
The Supervisory Board has set up four committees from among its members that support it in its work.

The *Nominating Committee* met three times last year. The Nominating Committee prepared the resolutions for the Supervisory Board in accordance with the rules of procedure for the Supervisory Board. Where necessary, the Committee passed its own resolutions or the Supervisory Board was provided with recommendations on the passing of resolutions.

The *Risk Committee* met a total of ten times in the past financial year, five times in ordinary meetings and five in extraordinary meetings. In the reporting year, the Risk Committee also adopted five resolutions using the written procedure. Representatives of the auditor of the annual financial statements also took part in the meetings on a regular basis.

The Risk Committee took an intensive look at the Bank's risk position and risk management system. Within this context, it addressed the updates to the Strategic Risk Framework, which provides the risk framework for business strategy and planning. In particular, and also and in particular against the backdrop of the COVID-19 pandemic, reports on current events and developments, and their impact on the risk situation, were made to the Committee at all of its meetings. The Risk Committee regularly reviewed the status of the Bank's strategic projects, in particular the de-risking process, the Future Model Landscape and the restructuring of the first and second lines of defense (Project Paris). The Risk Committee also discussed the current regulatory issues and the status of supervisory reviews in detail.

The Risk Committee also discussed important individual exposures for the Bank and received reports on progress made in winding down NPL holdings. The Risk Committee discussed all Lending Guidelines and business transactions requiring submission and approved those transactions requiring approval in accordance with the law and the HCOB Related Party Transactions Policy. Furthermore, the Risk Committee dealt with adjustments to the Related Party Transactions Policy and, where appropriate, made recommendations to the Supervisory Board for resolutions regarding updates. Another meeting topic that the Risk Committee discussed in depth was the building transaction related to the sale of HCOB's headquarters.

Regular reports on compliance, information security and the effectiveness of the internal control system were also submitted to the Risk Committee. In addition, the Risk Committee received regular information from the Internal Audit function on the basis of excerpts from its quarterly reports, as well as from the Legal department regarding major legal disputes.
At a joint meeting with the Compensation Monitoring Committee, the Risk Committee also reviewed the Bank's compensation systems to see whether the incentives set by these compensation systems took the Bank's risk, capital and liquidity situation, as well as the probability and due date of revenue, into account.

The *Audit Committee* met six times in 2020. Representatives of the auditor of the annual financial statements took part in all of the meetings. The members of the Audit Committee discussed the annual and Group financial statements of the Bank for 2019 and the corresponding audit reports with the auditor PwC. The Committee reviewed the independence of the auditor of the annual financial statements in accordance with the requirements set out in the German Corporate Governance Code based on the declaration of independence issued by the auditing firm, and prepared the appointment of PwC Wirtschaftsprüfungsgesellschaft as the auditor of the annual financial statements for 2020.
The auditor reported to the Audit Committee on the current results of its audit on a regular basis and presented the current status of the planning for the audit of the annual and Group financial statements. The Committee was also informed about the engagement of the auditor for non-audit assignments (Independence Compliance Process). The Committee discussed the corresponding reports to satisfy itself as to the effectiveness of the risk management system – in particular the internal audit and internal control system. Furthermore, the Committee addressed the results of the securities account audit and the audit of investment services pursuant to the German Securities Trading Act (WpHG). Finally, the Audit Committee took a regular and detailed look at the status of the IT transformation process. The meeting topics also included reports on the change of payment service provider and the building transaction in connection with the sale of HCOB's headquarters building.

The *Compensation Monitoring Committee* met eight times in the reporting year, once at an extraordinary meeting and once in what was, in part, a joint meeting with the Risk Committee. In the reporting year, the Compensation Monitoring Committee also adopted one resolution using the written procedure.

It took an in-depth look at compensation issues relating to Management Board members. In particular, the Compensation Monitoring Committee dealt with the compensation system, as well as the target agreements and target achievement levels of Management Board members. It also dealt with the Bank's compensation system. Furthermore, the Compensation Monitoring Committee received regular reports on the status of implementation of the requirements set out in the German Ordinance on the Remuneration of Financial Institutions.
The Compensation Monitoring Officer also reported to the Compensation Monitoring Committee on the results of his control activities and presented his Compensation Monitoring Report, which has to be prepared once a year, to the Committee. The Chairperson of the Remuneration Control Committee consulted the Compensation Monitoring Committee on relevant issues on a regular basis even outside of the meetings.

The Chairpersons of the Committees regularly reported to the Supervisory Board during the subsequent plenary sessions about the work and results of the Committees' deliberations.

Audit and adoption of the annual financial statements and consolidated financial statements for 2020
The accounts, the annual financial statements and the Group financial statements, including the combined management report, for 2020 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, which had been appointed as the auditor of the annual and Group financial statements by the ordinary annual general meeting held on May 25, 2020. The audits led to an unqualified audit opinion being issued in each case.

The documents relating to the annual financial statements and the audit reports, including all appendices, were sent to all Supervisory Board members prior to the meetings. The auditor of the annual financial statements initially reported on the performance and principal findings of its audit to the Audit Committee at the latter's meeting held on March 30, 2021. On this basis, and on the basis of its own assessment, the Audit Committee discussed the results with the auditor of the annual financial statements in detail. The Chairperson of the Audit Committee informed the Supervisory Board of the outcome of its deliberations in the Audit Committee at the Supervisory Board meeting held on March 31, 2021. The auditor of the annual financial statements also took part in the meeting of the Supervisory Board and reported on the principal findings of its audit. Based on the recommendation made by the Audit Committee, the Supervisory Board ultimately agreed with the findings of the audits, following its own examination of the reports of the auditor and an in-depth discussion, and established that, following the final result of its own reviews, there were no objections to be raised. The Supervisory Board approved the 2020 annual financial statements drawn up by the Management Board, meaning that they have been formally adopted, and approved the 2020 Group financial statements. It also approved the Report of the Supervisory Board for the 2020 financial year.

Changes in personnel

On the shareholder side, the following changes were made to the Supervisory Board in 2020. As of February 28, 2020, Allen Gibson left the Supervisory Board; as of March 1, 2020, Sat Shah joined the Supervisory Board. J. Christopher Flowers left the Supervisory Board effective April 23, 2020 and Dr. Ilinca Rosetti joined the Supervisory Board effective April 24, 2020. Frederick Haddad has been appointed to the Supervisory Board to replace Geoffrey Adamson since August 22, 2020. In the first quarter of 2021, further changes were made in the representation of the shareholder side on the Supervisory Board: Friedrich Spandl has been appointed to the Supervisory Board in place of Sat Shah since January 1, 2021.

The Management Board was reduced from six to five members in the 2020 reporting year: Oliver Gatzke left the Management Board effective August 31, 2020.

The Supervisory Board would like to thank the Management Board and all of the Bank's employees for their considerable personal commitment and achievements in another decisive year for the Bank's transformation.

Hamburg, March 31, 2021

The Supervisory Board

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

Corporate Governance

All statements in this Corporate Governance Report reflect the situation that prevailed on 16 March 2021 in the absence of any references to the contrary.

As an unlisted company, Hamburg Commercial Bank has been recognising the German Corporate Governance Code (GCGC) voluntarily since 2005. Corporate governance at Hamburg Commercial Bank is also principally based on the provisions of the German Stock Corporation Act, the German Banking Act and internal rules such as the Articles of Association and the Rules of Procedure that apply to the Management Board and the Supervisory Board, as well as the Code of Conduct of Hamburg Commercial Bank. By presenting the system of corporate governance and control and with the transparent reporting on conformity to the recommendations of the Code, the aim is to strengthen the confidence that investors, clients and employees, as well as the general public, have in Hamburg Commercial Bank.

Declaration in accordance with Section 161 of the German Stock Corporation Act

In accordance with Section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of listed companies must publish an annual declaration of how their management and supervision systems conform to, or deviate from, the recommendations set out in the German Corporate Governance Code. The Bank's aim is to conform to the GCGC as fully as possible even as a non-listed company. As a result, in March 2021, the Management Board and the Supervisory Board of Hamburg Commercial Bank (HCOB) voluntarily issued the Declaration of Conformity set out below, in which the deviations from the GCGC recommendations are disclosed.

Declaration of Conformity

On 16 December 2019, the "Government Commission on the German Corporate Governance Code" presented a new version of the German Corporate Governance Code, which entered into force on 20 March 2020 when it was published by the Federal Ministry of Justice and Consumer Protection in the official section of the German Federal Gazette. The new version restricts the applicability of the Code's recommendations to credit institutions such that the recommendations only apply to them to the extent that there are no statutory provisions to the contrary.
Hamburg Commercial Bank's last Declaration of Conformity was issued on 19 March 2020, still in accordance with the old version of the Code dated 7 February 2017.

The Management Board and Supervisory Board of Hamburg Commercial Bank declare that Hamburg Commercial Bank has complied with the recommendations of this new version, with the exception of the aspects listed below:

According to Recommendation B.2, the Supervisory Board should ensure, together with the Management Board, that there is long-term succession planning. The approach is to be described in the Corporate Governance Statement.
The Supervisory Board, in which all of HCOB's institutional private investors are represented and an appropriate number of independent shareholder representatives are members, works together with HCOB's Management Board to ensure long-term succession planning. The approach is not described in the Corporate Governance Statement.

Pursuant to Recommendation B.5, an age limit should be specified for members of the Management Board and disclosed in the Corporate Governance Statement.
So far, no age limit has been set and there is no corresponding disclosure in the Corporate Governance Statement. The HCOB Management Board currently has an average age of around 54.

According to Recommendation C.1, the Supervisory Board should determine specific objectives regarding its composition, and prepare a profile of skills and expertise for the entire Board while taking the principle of diversity into account. Proposals by the Supervisory Board to the annual general meeting are to take these objectives into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board. The status of implementation is to be published in the Corporate Governance Statement. This is also to provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members.
No publication has been made in the Corporate Governance Statement. As part of its annual efficiency review, which was conducted in December 2020, the Supervisory Board looked at the skills, competencies and experience within the Supervisory Board and updated its competence profile, which was prepared in 2019 (see 2020 Corporate Governance Report and Report of the Supervisory Board). The shareholder representatives on the Supervisory Board consider the number of independent shareholder representatives to be appropriate. The names can be found in the 2020 Corporate Governance Report.

According to Recommendation C.2, an age limit should be specified for members of the Supervisory Board and disclosed in the Corporate Governance Statement.
According to the Rules of Procedure for the Supervisory Board, members of the Supervisory Board should generally not be older than 68 when they start their term of office (see 2020 Corporate Governance Report). No publication on the age limit has been made in the Corporate Governance Statement.

According to Recommendation C.3, the term of Supervisory Board membership should be disclosed.
The term of membership of the Supervisory Board has not been disclosed. The Supervisory Board has deliberately decided against setting a limit for the term of membership, which is why is does not report this at present (see 2020 Corporate Governance Report).

According to Recommendation D.1, the Supervisory Board shall adopt Rules of Procedure and publish them on the company's website.
The Supervisory Board of Hamburg Commercial Bank AG, in which all of HCOB's institutional private investors are represented, has adopted Rules of Procedure. The Rules of Procedure for the Supervisory Board form part of HCOB's written rules. The Rules of Procedure for the Supervisory Board have not been published on the website of Hamburg Commercial Bank AG.

According to Recommendation D.2, depending on the specific circumstances of the enterprise and the number of Supervisory Board members, the Supervisory Board should form committees of members with relevant specialist expertise. The respective committee members and the committee chairs should be provided in the Corporate Governance Statement.
The names of the respective committee members and the committee chairs can be found in the notes to the annual financial statements and the notes to the 2020 Group financial statements. No publication has been made in the Corporate Governance Statement.

According to Recommendation D.5, the Supervisory Board is to form a Nominating Committee, composed exclusively of shareholder representatives, which names suitable candidates to the Supervisory Board for its proposals to the annual general meeting.
The Nominating Committee of HCOB's Supervisory Board is currently composed of three shareholder representatives and one employee representative. Nevertheless, in accordance with the Rules of Procedure for the Supervisory Board, only the shareholder representatives on the Nominating Committee propose suitable candidates to the Supervisory Board for its election proposals to the annual general meeting.

According to Recommendation D.8, the report of the Supervisory Board should state how many meetings of the Supervisory Board, and of the committees, the individual members attended in each case. Participation by telephone or video conference also counts as attendance, but this should not be the rule.
A list of the number of meetings attended by individual Supervisory Board members was not included in the current Report of the Supervisory Board. The members of the Supervisory Board all attended the meetings of the Supervisory Board and the committees, with only very few and well-justified exceptions. Against the backdrop of the COVID-19 pandemic, most of the meetings in 2020 were held as video or telephone conferences.

According to Recommendation D.13, the Supervisory Board should assess, at regular intervals, how effective the Supervisory Board as a whole and its committees fulfil their tasks. The Supervisory Board should report in the Corporate Governance Statement if (and how) the self-assessment was conducted.
HCOB's Supervisory Board assesses the efficiency of its work as a whole and that of its committees on a regular basis (cf. 2020 Corporate Governance Report and Report of the Supervisory Board). There is no report on this in the Corporate Governance Statement.

According to Recommendation F.2, the Group financial statements and the Group management report are to be made publicly accessible within 90 days from the end of the financial year, while mandatory interim financial information is to be made publicly accessible within 45 days from the end of the reporting period.
Hamburg Commercial Bank did not publish the Group financial statements or the Group management report for the 2019 financial year or the interim report for 2020 by the specified deadlines.

Hamburg Commercial Bank has complied with the recommendations set out in the Code insofar as they make sense for an unlisted corporation.

Hamburg, 31 March 2021

For the Management Board	For the Supervisory Board
Stefan Ermisch	Juan Rodríguez Inciarte

Supervisory Board

Composition

In accordance with the Articles of Association, the Supervisory Board of Hamburg Commercial Bank currently consists of 18 members. In line with the one-third participation system, the Supervisory Board is composed of twelve shareholder representatives and six employee representatives.

The Supervisory Board has specified concrete objectives for its composition in its Rules of Procedure. Based on these Rules of Procedure, the following aspects are to be taken into account: the company's international activities in the context of the company-specific situation, preventing potential conflicts of interest, the number of independent Supervisory Board members, the setting of an age limit for Supervisory Board members and a standard limit for the term of Supervisory Board membership, as well as diversity. The latter objective shall, in particular, provide for an appropriate degree of female representation. Information on the ratio of women can be found in the Corporate Governance Statement pursuant to Section 289f (4) of the German Commercial Code (HGB) in the combined Management Report of HCOB.

The Supervisory Board of Hamburg Commercial Bank has deliberately refrained from setting a limit on the term of membership of the Supervisory Board so far. The Supervisory Board considers it difficult to determine an ideal term of membership and consequently to define this sort of standard limit. This is also because the Supervisory Board considers it important to be able to retain existing expertise on the Supervisory Board during HCOB's transformation process.

With regard to Recommendation C.6 GCGC, the Supervisory Board is to include what it considers to be an appropriate number of independent members from the group of shareholder representatives, thereby taking into account the shareholder structure. Within the meaning of this recommendation, a Supervisory Board member is considered independent if he/she is independent from the company and its Management Board, and independent from any controlling shareholder. With regard to Recommendation C.7 GCGC, more than half of the shareholder representatives should be independent from the company and the Management Board. Supervisory Board members are to be considered independent from the company and its Management Board if they have no personal or business relationship with the company or its Management Board that may cause a substantial – and not merely temporary – conflict of interest. As at 31 December 2020, four of the twelve shareholder representatives on the Supervisory Board were classified as independent: Juan Rodríguez Inciarte, Klaus Heinemann, Chad Leat and Stephan Wilcke. The shareholder representatives on the Supervisory Board consider the number of independent shareholder representatives to be appropriate.

Procedure

The Supervisory Board has issued Rules of Procedure for itself and its committees. It has also set out Rules of Procedure for the Management Board. The Supervisory Board appoints, monitors and advises the Management Board and is involved in fundamental decisions made by the Bank. The Management Board informs the Supervisory Board regularly and in good time of the proposed business policy and other fundamental matters during the meetings and also orally, particularly in conversations between the Chairman of the Management Board and the Chairman of the Supervisory Board.

Section 25d (11) sentence 2 no. 3 of the German Banking Act (KWG) requires the Supervisory Board to evaluate the structure, size, composition and performance of the management and supervisory body on a regular basis, at least once a year. For this purpose, the Supervisory Board used questionnaires, as in the previous year, not only to evaluate various aspects of its own work, but also to evaluate the work of the Management Board. The efficiency review conducted at the end of 2020 revealed that the Supervisory Board is satisfied with the efficiency of its activities on the whole.

In order to ensure that the Supervisory Board always has up-to-date technical and specialist knowledge, further training courses are held for the Supervisory Board both when new Supervisory Board members are appointed and on special topics for the Supervisory Board as a whole. These dealt with current topics. Further information on the contents of the training can be found in the Report of the Supervisory Board.

Other mandates

In order to be able to perform their Supervisory Board duties properly, the Supervisory Board members have to devote sufficient time to these activities. This means that the individual Supervisory Board members can only have a limited number of other duties over and above their Supervisory Board activities. The Supervisory Board members of Hamburg Commercial Bank have the following number of other Supervisory Board mandates at other companies:

Supervisory Board member	**No. of other mandates** (as at: 16 March 2021)
Juan Rodríguez Inciarte	1
Manuel González Cid	3
Frederick Haddad	1
Chad Leat	4
Dr. Ilinca Rosetti	2
Stephan Wilcke	2
Peter Yordán	2

Further information on diversity can be found in the combined management report and the CSR Report. Detailed information on the Supervisory Board activities in 2020 can be found in the Report of the Supervisory Board.

Remuneration

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

Management Board

Composition

In March 2021, the Management Board of Hamburg Commercial Bank consists of five members and is divided into the following areas of Board responsibility: CEO (Chief Executive Officer), CRO (Chief Risk Officer), CFO (Chief Financial Officer), CIO (Chief Investment Officer) and CCO (Chief Clients and Products Officer). When selecting new Management Board members, the Supervisory Board must adhere to the relevant legal requirements. The German Corporate Governance Code expects the appropriate consideration of women in particular. The German Banking Act requires the consideration of balance and diversity regarding the knowledge, skills and experience of all Management Board members. The Rules of Procedure for the Supervisory Board also contain requirements that the Supervisory Board and/or the Nominating Committee has to take into account when identifying applicants to fill a Management Board position. This means that the Supervisory Board looks at the Management Board position to be filled on a case-by-case basis and selects Management Board members taking into account the requirements of the position in question and the competencies already represented on the Management Board based on an individual job profile.

Procedure

The Management Board is responsible for the management of the Bank and works with Hamburg Commercial Bank's other corporate bodies and with the employees' representatives on a basis of mutual trust in the Bank's best interests. It defines the Bank's strategic alignment in consultation with the Supervisory Board. The Chairman of the Management Board represents the Management Board as a collegial body, presides over its meetings and coordinates its work. The Management Board largely met once a week during the period under review. The members of the Management Board are jointly responsible for running the Bank's business. Their duties and responsibilities are laid down in the Rules of Procedure for the Management Board, as supplemented by the business allocation plan.

Other mandates

Three members of the Management Board hold one mandate on the supervisory board of a subsidiary of the Bank and one member of the Management Board holds two mandates on supervisory bodies of another company/institution. Other than this, the Management Board members do not perform any management or supervisory functions at other companies.

Remuneration

Details of the compensation system for, and the remuneration paid to, the Bank's Management Board members can be found in the notes to the annual financial statements and the notes to the Group financial statements.

Shareholders, annual general meeting

Hamburg Commercial Bank's shareholders exercise their rights at the annual general meeting. The Management Board convenes the annual general meeting once a year, stating the agenda and including the requisite reports and documents.

In addition to the agenda items that an ordinary annual general meeting has to cover by law, the ordinary annual general meeting held in June 2020 also addressed proposed resolutions on control and profit and loss transfer agreements. An extraordinary general meeting was held in April 2020. The agenda included proposed resolutions on a settlement and measures relating to silent participations, as well as the election of a Supervisory Board member.

According to Principle 23 GCGC, the annual general meeting should generally adopt advisory resolutions concerning the approval of the compensation system for Management Board members, prepared by the Supervisory Board, as well as proposing resolutions on the approval of the remuneration report for the preceding financial year. As an unlisted company and given that HCOB's institutional private investors are represented on the Supervisory Board, the Bank opts not to have the annual general meeting address the remuneration report and the compensation system for the members of the Management Board, prepared by the Supervisory Board, in greater detail.

Group management report

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.com. The following information in the combined management report relates to the Hamburg Commercial Bank Group as a general rule; in the event of material differences with regard to Hamburg Commercial Bank AG, separate explanations are provided. Due to rounding, numbers presented throughout this report may not add up precisely to the totals shown and percentages may not precisely reflect the absolute figures.

Basis of the Group

Business activities

Transformation programme

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

The Bank's realignment, 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 BINNENALSTER-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 Aktiengesellschaft	**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.

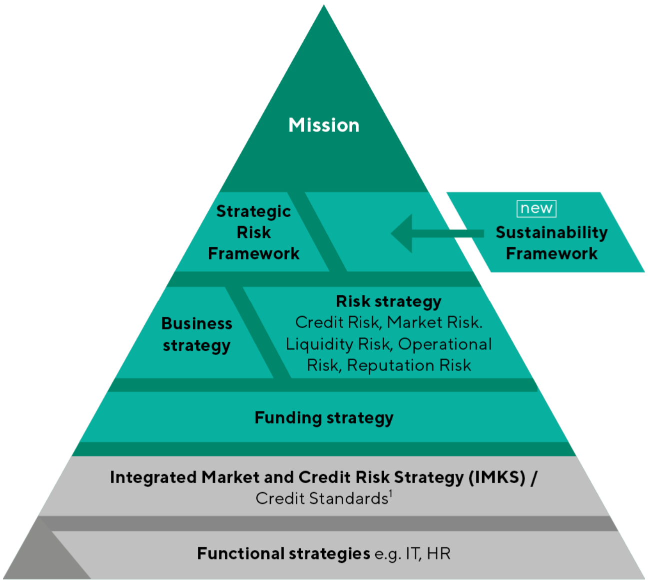
Objectives and strategy

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 Kreditrisikostrategie) 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).

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.

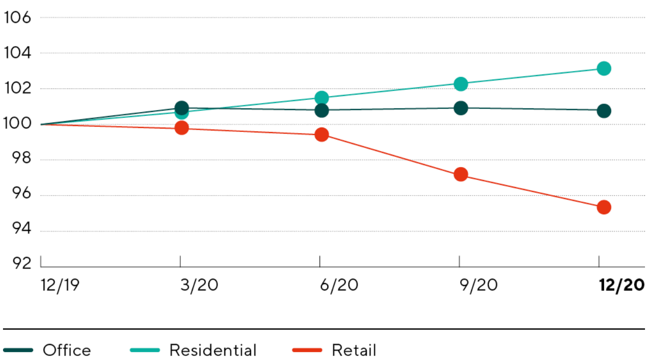
The euro/US dollar exchange rate was extremely volatile in the first half of the year. In March, the euro was trading at 1.07 US dollars at times, its lowest level for the year. In the second half of the year, the euro made ongoing gains against the US dollar. By the end of the year, the exchange rate 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.

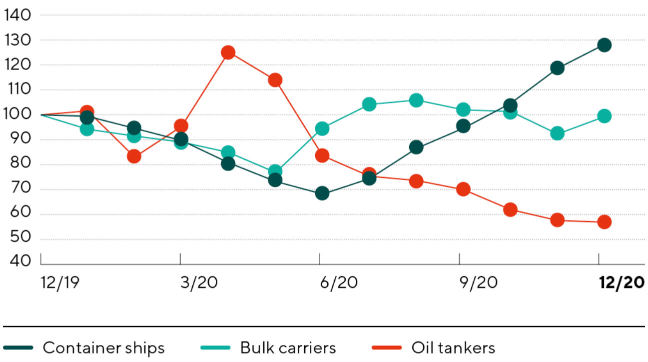
The expansion of **renewable energies** made further progress in the course of 2020, both in Europe and in Germany, although developments varied considerably. The switch to bidding procedures has led to a significant weakening of demand in Germany since 2018: After a very weak year of new installations 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.

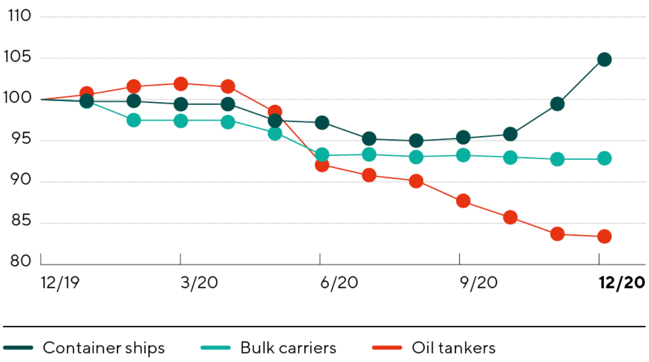
Time charter rates

(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, with 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 is 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 2019	2020 forecast	Actual figures 2020
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 ratios[1)]

	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 Recon-ciliation	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 Group[1]	**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 2020[1)]

	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 sustained 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 company"), 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 ratios[1)]

(%)	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 capital[1)]

(€ 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 Group[1)]

(€ 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 related 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 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 continent liabilities and commitments in case of possible default, so-called credit conversion factors (CCF) are calculated empirically and applied. The loan amount outstanding weighted by CCF is described as 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 category[1)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 sector[1)]

(€ 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 maturity[1)]

(€ 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 region[1)]

(€ 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				
	Stage 3 loan loss provisions	Stages 1 and 2 loan loss provisions	Loss provisions recognised for financial investments	Currency translation income on loan loss provisions	Total
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				
	Stage 3 loan loss provisions	Stages 1 and 2 loan loss provisions	Loss provisions recognised for financial investments	Currency translation income on loan loss provisions	Total
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.

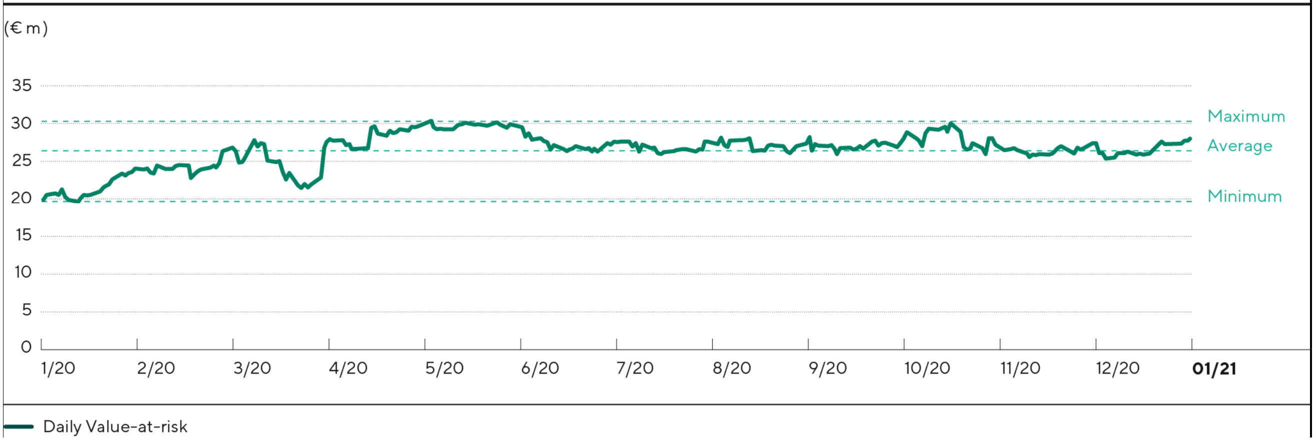
Where necessary, Hamburg Commercial Bank enters into hedging transactions to manage or reduce market risk in order to offset the impact of unfavourable market movements on its own positions. Derivative financial instruments in particular, such as interest rate and cross-currency interest rate swaps, 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 FVOCIR are hedged by derivatives, this gives rise to a distortion in the income statement that is not consistent with the economic facts. One way of avoiding these distortions is to use fair value hedge accounting. In fair value hedge accounting, the changes in value of hedged items which are attributable to the hedged risk are recognised through profit or loss. In so doing, the Bank only takes account of hedges of the fair value against interest rate risk. Fixed-interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only external interest rate and interest rate currency swaps are designated as hedging instruments. Hamburg Commercial Bank recognises appropriate hedges of underlying transactions by external derivatives under portfolio fair value hedge accounting as well as micro hedge accounting in individual cases, insofar as the requirements of IFRS 9 are met.

Liquidity risk

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

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

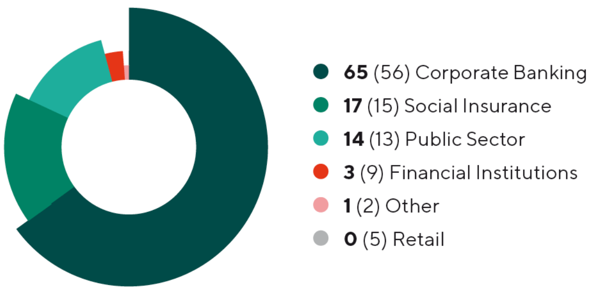
Hamburg Commercial Bank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors) and maturities (original and residual maturities).

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)

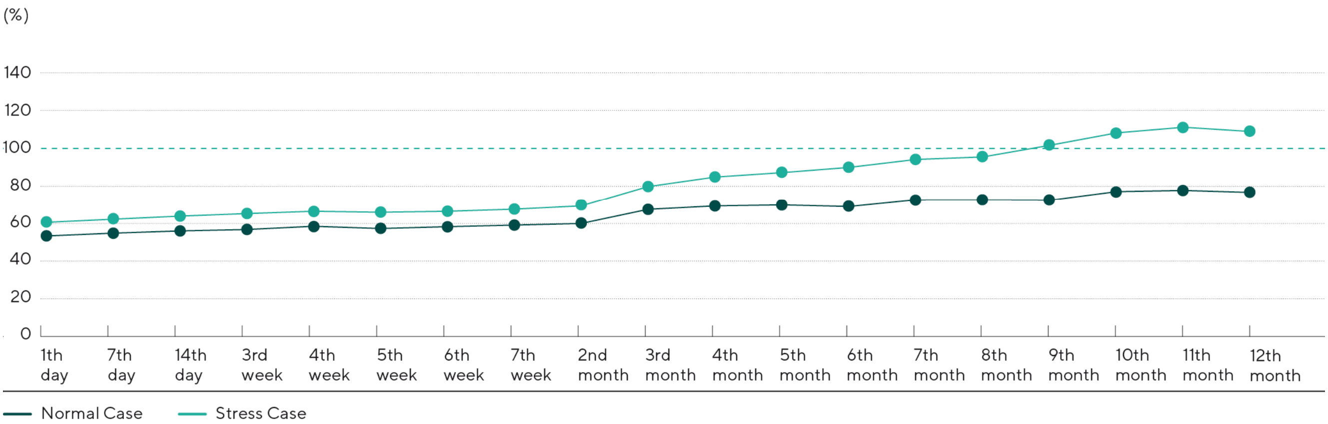


In addition to the analysis of the depositor structure with regard to existing depositor concentrations, risk concentrations are examined with regard to the US dollar asset/liability position. For the purposes of analysing the dependency on the US dollar, a US dollar liquidity maturity profile is additionally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

Group financial statements

Group statement of income

for the period from 1 January to 31 December 2020

(€ m)	Note	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	(7)	**629**	**321**	**96**
Net commission income	(8)	48	61	-21
Result from hedging	(9)	5	-2	> 100
Result from financial instruments categorised as FVPL	(10)	-93	-19	> -100
Net income from financial investments	(11)	7	20	-65
Result from the disposal of financial assets classified as AC	(12)	60	82	-27
Total income		**656**	**463**	**42**
Loan loss provisions	(13)	-188	11	>100
Total income after loan loss provisions		**468**	**474**	**-1**
Administrative expenses	(14)	-365	-413	-12
Other operating result	(15)	205	133	54
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(16)	-32	-51	-37
Net income before restructuring and transformation		**276**	**143**	**93**
Result from restructuring and transformation	(17)	-19	-66	71
Net income before taxes		**257**	**77**	**> 100**
Income tax expense	(18)	-155	-65	> 100
Group net result		**102**	**12**	**> 100**
Group net result attributable to Hamburg Commercial Bank shareholders		102	12	> 100

Earnings per share

(€)	Note	2020	2019
Undiluted	(20)	0.34	0.04
Diluted	(20)	0.34	0.04
Number of shares (millions)		**302**	**302**

Group statement of comprehensive income

for the period from 1 January to 31 December 2020

Reconciliation with total comprehensive income/loss

(€ m)	2020	2019
Group net result	**102**	**12**
Income and expenses that have been reclassified to the statement of income or may be reclassified at a later date		
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement (before taxes)		
Unrealised gains and losses (before taxes)	-59	-33
Gains and losses (before taxes) reclassified to the statement of income	-19	-24
Income taxes recognised	24	18
thereof from exchange rate effects	–	–
	-54	**-39**
Differences resulting from currency translation	-49	11
Subtotal	**-103**	**-28**
Income and expenses that will not be reclassified to the statement of income at a later date		
Credit risk-induced changes in the value of liabilities designated at fair value (before taxes)	8	-5
Income taxes recognised	-2	2
	6	**-3**
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	-28	-99
Income taxes recognised	9	32
	-19	**-67**
Subtotal	**-13**	**-70**
Other comprehensive income for the period	**-116**	**-98**
Total comprehensive income	**-14**	**-86**

Group statement of financial position

as at 31 December 2020

Assets

(€ m)	Note	**2020**	2019	Change in %
Cash reserve	(21)	1,741	4,850	-64
Loans and advances to banks	(22)	1,558	2,521	-38
Loans and advances to customers	(23)	22,478	30,708	-27
Loan loss provisions	(24)	-569	-708	-20
Positive fair values of hedging derivatives	(25)	2	134	-99
Positive adjustment item from portfolio fair value hedges		108	147	-27
Trading assets	(26)	1,544	2,663	-42
Financial investments	(27)	5,459	6,100	-11
Intangible assets	(28)	15	6	> 100
Property, plant and equipment	(29)	23	98	-77
Investment property	(29)	1	41	-98
Non-current assets held for sale and disposal groups	(30)	634	355	79
Current tax assets	(31)	25	82	-70
Deferred tax assets	(32)	532	658	-19
Other assets	(33)	264	57	> 100
Total assets		**33,815**	**47,712**	**-29**

Liabilities

(€ m)	Note	**2020**	2019	Change in %
Liabilities to banks	(34)	7,478	5,066	48
Liabilities to customers	(35)	13,104	23,966	-45
Securitised liabilities	(36)	5,670	7,845	-28
Negative fair value of hedging derivatives	(25)	371	609	-39
Negative adjustment item from portfolio fair value hedges		269	394	-32
Trading liabilities	(37)	686	1,946	-65
Provisions	(38)	634	1,699	-63
Current tax liabilities	(40)	7	11	-36
Other liabilities	(42)	312	477	-35
Subordinated capital	(43)	940	1,349	-30
Equity	(44)	4,344	4,350	-
Share capital		3,018	3,018	-
Capital reserve		82	75	9
Retained earnings		1,010	1,016	-1
Revaluation reserve		148	196	-24
Currency conversion reserve		-16	33	> -100
Group net result		102	12	> 100
Total before non-controlling interests		4,344	4,350	-
Total liabilities		**33,815**	**47,712**	**-29**

Group statement of changes in equity

(€ m)	Note	Share capital	Capital reserve
As at 1 January 2019		**3,018**	**75**
Group net result		–	–
Changes resulting from the revaluation of net defined benefit liabilities		–	–
Credit risk-induced changes in the value of liabilities designated at fair value[1]		–	–
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		–	–
Exchange rate changes		–	–
Other comprehensive income		–	–
Comprehensive income as at 31 December 2019		**–**	**–**
Compensation for the Group net loss for the previous year		–	–
Transactions with shareholders		–	–
As at 31 December 2019		**3,018**	**75**
As at 1 January 2020		**3,018**	**75**
Adjustments to the prior-year figures		–	–
Adjusted amount as at 1 January 2020		**3,018**	**75**
Group net result		–	–
Changes resulting from the revaluation of net defined benefit liabilities		–	–
Credit risk-induced changes in the value of liabilities designated at fair value[1]		–	–
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		–	–
Exchange rate changes		–	–
Other comprehensive income		–	–
Comprehensive income as at 31 December 2020		**–**	**–**
Compensation for the Group net loss for the previous year		–	–
Share-based remuneration		–	7
As at 31 December 2020	(47)	**3,018**	**82**

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

Retained earnings	Currency conversion reserve	Revaluation reserve	Group net result	Total before non-controlling interests	Non-controlling interests	Total
1,012	**22**	**238**	**70**	**4,435**	**2**	**4,437**
–	–	–	12	12	–	**12**
-67	–	–	–	-67	–	**-67**
–	–	-3	–	-3	–	**-3**
–	–	-39	–	-39	–	**-39**
–	11	–	–	11	–	**11**
-67	11	-42	–	-98	–	**-98**
-67	**11**	**-42**	**12**	**-86**	**–**	**-86**
70	–	–	-70	–	–	**–**
1	–	–	–	1	-2	**-1**
1,016	**33**	**196**	**12**	**4,350**	**–**	**4,350**
1,016	**33**	**196**	**12**	**4,350**	**–**	**4,350**
1	–	–	–	1	–	**1**
1,017	**33**	**196**	**12**	**4,351**	**–**	**4,351**
–	–	–	102	102	–	**102**
-19	–	–	–	-19	–	**-19**
–	–	6	–	6	–	**6**
–	–	-54	–	-54	–	**-54**
–	-49	–	–	-49	–	**-49**
-19	-49	-48	–	-116	–	**-116**
-19	**-49**	**-48**	**102**	**-14**	**–**	**-14**
12	–	–	-12	–	–	**–**
–	–	–	–	7	–	**7**
1,010	**-16**	**148**	**102**	**4,344**	**–**	**4,344**

Group cash flow statement

Cash flow statement

(€ m)		**2020**		2019
Net result for the period		102		12
Reconciliation with cash flow from operating activities				
Depreciation, impairments and write-ups on loans and advances, property, plant and equipment, financial investments, intangible assets and investment property		217		11
a) Loans and advances to customers and banks	212		10	
b) Financial investments	-1		-9	
c) Property, plant and equipment/intangible assets/investment property	6		10	
Changes in provisions		4		54
Other non-cash expenses/income		155		-74
Profit/loss from disposal of financial investments and property, plant and equipment/investment property		-183		-19
a) Financial investments	-7		-19	
b) Property, plant and equipment/investment property	-176		-	
Other adjustments		-631		-364
Subtotal		**-336**		**-380**
Changes in loans and advances		8,440		2,329
a) to banks	964		644	
b) to customers	7,476		1,685	
Changes in trading assets		1,131		440
Changes in other assets from continuing operations		11		-8
Changes in liabilities		-8,393		-4,486
a) to banks	2,422		-404	
b) to customers	-10,815		-4,082	
Changes in securitised liabilities		-2,112		-1,688
Changes in trading liabilities		-1,496		-715
Changes in other liabilities from continuing operations		-1,245		-162
Interest and dividends received		1,372		2,099
Interest paid		-878		-1,655
Income tax payments		56		12
Cash flow from operating activities		**-3,450**		**-4,214**
Receipts from disposals of		1,726		5,244
a) securities	1,557		5,243	
b) interests in affiliated companies and equity holdings	-11		1	
c) property, plant and equipment	180		-	
Purchases of		-1,022		-1,194
a) securities	-1,000		-1,188	
b) interests in affiliated companies and equity holdings	-		-	
c) property, plant and equipment	-22		-6	
Change from the sale/acquisition of consolidated subsidiaries		-		-
Cash flow from investing activities		**704**		**4,050**

Cash flow statement

(€ m)	2020	2019
Payments made (-) from subordinated capital	-113	-
Payments made (-) from silent participations	-250	-348
Payments made to owners and minority shareholders		
Cash flow from financing activities	**-363**	**-348**
Cash and cash equivalents at the beginning of the period	**4,850**	**5,362**
Cash flow from operating activities	-3,450	-4,214
Cash flow from investing activities	704	4,050
Cash flow from financing activities	-363	-348
Cash and cash equivalents at the end of the period	**1,741**	**4,850**

Cash and cash equivalents are equivalent to the Cash reserve item in the statement of financial position and comprise cash on hand, balances at central banks, treasury bills, discounted treasury notes and similar debt instruments issued by public-sector bodies and bills of exchange.

The cash flow from operating activities is calculated using the indirect method, whereby the Group net income/loss for the year is adjusted for non-cash expenses (increased) and non-cash income (reduced) and for cash changes in assets and liabilities used in operating activities.

Group explanatory notes

General information

1. Accounting principles

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

The Bank has the legal form of a German Aktiengesellschaft (AG). Its registered office is in Germany, Gerhart-Hauptmann-Platz 50, Hamburg.

Hamburg Commercial Bank is a private commercial bank that provides conventional credit finance and supplementary financial solutions to their customers as a specialist finance provider.

Hamburg Commercial Bank AG has issued debt instruments as defined in Section 2 (1) sentence 1 of the German Securities Trading Act (WpHG) on an organised market as defined in Section 2 (11) WpHG and is thus obliged, as a publicly traded company as defined in Regulation (EC) 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 in conjunction with Section 315e (1) of the German Commercial Code (HGB) to prepare its Group financial statements in accordance with the International Financial Reporting Standards. International accounting standards, hereinafter IFRS or standards, refer to the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and the associated interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), published by the International Accounting Standards Board (IASB) and adopted under the IAS Regulation as part of the EU endorsement.

The supplementary provisions of Section 315e German Commercial Code (HGB) are taken into account and are shown individually in Notes 58 and 61.

The Group financial statements are prepared in accordance with IFRS as published by the IASB and adopted as European law by the European Union (EU).

The Group financial statements of Hamburg Commercial Bank are prepared in line with IFRS 10 according to uniform Group-wide measurement and accounting policies. In accordance with IAS 1, the Group financial statements consist of the statement of income, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the explanatory notes, including segment reporting. In addition to the Group financial statements a Group management report in accordance with Section 315 HGB was prepared.

Group income and expenses are accrued on a pro rata temporis basis. They are recognised and disclosed in the period to which they must be assigned economically. Accounting for assets, liabilities, income and expenses takes place on a consistent basis. Deviations are only made in justified exceptional cases which are explained separately in the Notes on the relevant items in the Hamburg Commercial Bank Group financial statements.

Unless explicitly stated otherwise, all amounts are stated in millions of euros (€ m).

The reporting year corresponds to the 2020 calendar year.

IFRS 7.31 et seqq. contains rules on presenting risks arising from financial instruments. In this regard, IFRS 7.B6 allows for the possibility of disclosing risk in a suitable medium separate from the Group financial statements. Availing itself of this option, Hamburg Commercial Bank has published disclosures about financial instruments as permitted by IFRS 7.31 et seqq. predominantly in the Risk Report section of the Combined Management Report. Specifically, this relates to the overall qualitative and quantitative risk information disclosed under IFRS 7.33 et seqq. and the total market risk reporting under IFRS 7.40-42 as well as the description of how liquidity risk is managed as required by IFRS 7.39 (c).

In addition, as part of the supplementary German commercial regulations the Group observed the following German Accounting Standards (GAS) in preparing these Group financial statements and this Group management report:

- GAS 20 Group Management Report
- GAS 17 Reporting on the Remuneration of Members of Governing Bodies.

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

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

Amendments to IAS 1 and IAS 8 Definition of Material
With these amendments, the definition of materiality is aligned across the IFRS and certain aspects of the definition are clarified. This is accompanied by examples of relevant circumstances.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform
The first-phase amendments provide for a temporary exemption from the application of specific hedge accounting rules for hedging relationships directly affected by the IBOR reform. As a result of these reliefs, the IBOR reform should not generally lead to the termination of hedge accounting. However, any ineffectiveness must still be recognised in the income statement in accordance with both IAS 39 and IFRS 9. In addition, the amendments contain certain conditions for an end to the applicability of the reliefs, including in particular the end of the uncertainty resulting from the IBOR reform.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendment to IFRS 3 Business Combinations
The amendments to IFRS 3 relate to the definition of a business. Under IFRS 3, acquisitions are only classified as business combinations pursuant to IFRS 3 (Business Combinations) if the conditions for definition as a business are met. If there is no business involved, the transaction is treated as an asset purchase for accounting purposes. The accounting applied to the acquisition of businesses and that applied to asset purchases differs, among other things, in the recognition of goodwill, the recognition and measurement of contingent consideration, the recognition of transaction costs and deferred taxes.

In order to be considered a business, an acquisition must include inputs and substantive processes that, together, contribute significantly to the ability to produce outputs. Essentially, the changes to the definition of a business relate specifically to the creation of a framework for assessing when a substantive process exists, and to the narrower use of the term "outputs". In addition, companies can opt to perform what is known as a "concentration test". This involves examining whether the entire fair value of the acquired gross assets is largely concentrated in one asset or a group of similar assets. If such a concentration is identified, it is concluded, without any further assessment being performed, that the acquisition does not relate to a business.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendment to IFRS 16 Leases - COVID-19-Related Rent Concessions
The amendment to IFRS 16 grants an optional exemption from the existing provisions of the standard. Lessees are permitted to waive the assessment of whether a rental concession in connection with the COVID-19 pandemic is a lease modification with respect to lease payments that were originally due by 30 June 2021 and instead present the rental concession as if it were not a lease modification. One of the conditions is that no other substantial changes to the contract are agreed. The change must be applied retrospectively. No changes are planned for lessor accounting.

The amendment is effective for annual periods beginning on or after 1 June 2020. Early application is permitted.

The amendment does not have a material impact on the consolidated financial statements of Hamburg Commercial Bank.

Hamburg Commercial Bank is not planning the early application of the following new or amended Standards or Interpretations for which application is only mandatory in later financial years. To the extent not indicated otherwise, all effects on the financial statements of Hamburg Commercial Bank are currently under review.

Already endorsed by the EU:
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are related to the reform of reference interest rates (IBOR reform), in particular the presentation of changes in contractual cash flows and hedging relationships that are made in this context.

The amendments relate, among other things, to simplifications for the presentation of modifications to financial instruments made necessary by the IBOR reform, specific exceptions to the rules on the termination of hedging relationships and additional disclosure requirements.

The amendments need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2021. Early application is permitted.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

EU endorsement still pending:
Amendments to IAS 1 Classification of Liabilities as Current or Non-current and Amendments to IAS 1 Classification of Liabilities as Current or Non-current – Deferral of Effective Date
The amendments to IAS 1 concern the classification of liabilities as non-current or current. If an entity has a right at the balance sheet date to defer settlement of the liability for at least 12 months after the balance sheet date, the liability is classified as non-current. The mere existence of a right is considered sufficient. If the right is dependent on the existence of certain conditions, the decisive factor is whether these conditions have been met on the balance sheet date. If the liability can be settled by issuing equity instruments of the reporting entity because of an option of the counterparty, it is clarified that this

does not affect the classification of the liability as current or non-current, provided that the option is presented separately as an equity component of a compound financial instrument in accordance with IAS 32.

Subject to the still-pending adoption into EU law, the amendments need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2023. Early application is permitted.

Amendment to IFRS 3 Business Combinations
The amendments include an update of the reference in IFRS 3 to the Revised Framework for IFRS (2018) and an addition to IFRS 3 to specify that an acquirer shall apply the requirements of IAS 37 or IFRIC 21 instead of the Framework in identifying assumed obligations that fall within the scope of IAS 37 or IFRIC 21. An exception to this are contingent liabilities, for which the exception in IFRS 3.23 continues to apply.

Furthermore, the amendments relate to a supplement to IFRS 3 with an explicit prohibition on the recognition of acquired contingent assets.

The amendments to IFRS 3 are applicable – subject to adoption into EU law, which is still pending – for the first time to business combinations for which the acquisition date falls on or after 1 January 2022. Early application is permitted.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IAS 16 Property, Plant and Equipment
Among other things, the amendments clarify that in future no deduction from the cost of an item of property, plant and equipment of income earned during the period in which the item is brought to its location or into its working condition will be permitted. This includes, but is not limited to, income from the sale of products manufactured as part of test runs of the asset. In future, such income must be recognised directly in profit or loss.

In addition, the term "costs of tests to determine whether the asset is functioning properly" is clarified. Accordingly, these are costs incurred to determine whether the asset is technically and physically capable of performing its intended use. However, the achievement of a certain financial capacity is irrelevant.

Subject to the still-pending adoption into EU law, the amendments to IAS 16 need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2022. Early application is permitted.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
The amendment clarifies that in future, when determining whether a contract is an onerous contract, in addition to the incremental costs arising from the contract, other costs directly attributable to the performance of the contract (e.g. pro rata depreciation of an item of property, plant and equipment used to perform the contract) must also be included in the determination of the cost of fulfilling a contract.

Subject to the still-pending adoption into EU law, the amendments to IAS 37 need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2022. Early application is permitted.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Annual Improvements to IFRS 2018- 2020
The Annual Improvements to IFRS 2018-2020 amended four IFRSs.

In accordance with the exemption in IFRS 1.D16(a), a subsidiary (except investment companies) that prepares IFRS consolidated financial statements for the first time after its parent company may recognise its assets and liabilities at the values previously recognised for this purpose in the consolidated financial statements of the parent company. The amendment extends this rule to include the cumulative currency translation differences of the subsidiary, so that in future these can also be carried forward unchanged with the values previously carried in the consolidated financial statements of the parent company. However, other equity items remain excluded from the exemption.

The amendments to IFRS 9 relate to the so-called 10 % test to be performed as part of the disposal test for financial liabilities. In future, this may only include fees that have been incurred between the company and the creditor. If the derecognition test for modified or exchanged financial liabilities leads to repayment, any costs and fees must be recognised in profit or loss. If, however, the modification or exchange does not result in settlement, costs and fees should be amortised over the remaining life of the modified liability by adjusting the carrying amount and effective interest rate, unless they are compensation for modifying the cash flows of the liability (for example, a fee to offset a decrease in interest rates). The latter must be recognised in profit or loss as part of the modification posting.

In the illustrative example No. 13 of IFRS 16, the part on lease incentives was deleted in connection with reimbursements by the lessor for leasehold improvements made by the lessee.

Finally, IAS 41 is amended to remove the requirement not to recognise cash flows for taxes relating to the measurement of biological assets at fair value.

Subject to the still-pending adoption into EU law, the amendments need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2022.

For Hamburg Commercial Bank, the above-mentioned regulations do not have any significant impact on the consolidated financial statements.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address a known inconsistency between the provisions in IFRS 10 and those in IAS 28 (2011) in the event of the sale of assets to an associate or joint venture and/or the contribution of assets to an associate or joint venture.

Under IFRS 10, a parent must recognise total profit or loss from the sale of a subsidiary on the statement of income when control is lost. In contrast, the currently applicable IAS 28.28 requires that the sale proceeds in the case of sales transactions between an investor and an equity holding measured at equity – whether it is an associate or a joint venture – are only recognised in the amount of the share of the other shareholders in this entity.

In future, the entire profit or loss on a transaction is only to be recognised if the sold or received assets constitute a business operation as defined in IFRS 3. This applies regardless of whether the transaction is structured as a share or asset deal. Conversely, if the assets do not constitute a business operation, it is only permissible to recognise proportionate net income.

Initial application of the amendments has been postponed for an indefinite period of time by the IASB.

Going concern assumption

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

2. Impact of COVID-19 on the Group 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 (Accounting and measurement principles, section D).

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 € 608 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. Consolidation principles

The Group financial statements present the parent company Hamburg Commercial Bank AG together with the consolidated subsidiaries as an economic unit. Subsidiaries also include structured entities that are controlled by Hamburg Commercial Bank. Structured entities are entities in which voting rights and similar rights do not constitute the dominant factor in assessing control. These also include entities whose relevant activities are predetermined by a narrow objective defined in the articles of association/partnership agreement or in other contractual agreements or in which there is a lasting restriction of the decision-making powers of the management. Hamburg Commercial Bank mainly includes ABS conduits and other securitisation and refinancing vehicles as well as investment funds (including private equity funds) within structured entities. Structured entities are included in the scope of consolidation if they are subsidiaries and are material to the presentation of the net assets, financial condition and earnings or to the assessment of the risk situation of the Hamburg Commercial Bank Group. Disclosures of the nature of the risks in connection with shares in consolidated structured entities are included in Note 4 . Reference is made to Note 52 with regard to unconsolidated structured entities.

Control over a subsidiary prevails when Hamburg Commercial Bank is exposed to variable incoming cash flows from the exposure to this entity or has rights to such cash flows and is able to influence the cash flows through its decision-making power over the entity. Hamburg Commercial Bank possesses decision-making power over an entity if it has rights that confer on it, either directly or indirectly via third parties, the current possibility of controlling the entity's relevant activities. Relevant activities are deemed to be those which materially affect the entity's incoming cash flows depending on the nature and purpose of the entity. Variable incoming cash flows are all those which can vary depending on the entity's performance. Incoming cash flows from the exposure to another entity may accordingly be positive as well as negative. Variable incoming cash flows include dividends, fixed and variable interest, remuneration and fees, fluctuations in the value of investments and other financial advantages.

The assessment as to whether decision-making power exists is made on the basis of the relevant activities of the entity and the powers of Hamburg Commercial Bank to influence them. Voting rights as well as other contractual rights are considered in reviewing the control of relevant activities provided there are no economic or other obstacles to the exercise of the existing rights and Hamburg Commercial Bank would benefit from exercising those rights. The Bank has decision-making power based on voting rights if as a result of equity instruments or contractual agreements Hamburg Commercial Bank holds more than 50 % of the voting rights and this proportion of the voting rights is allied to a substantial decision-making right with regard to the relevant activities. Other contractual rights that may facilitate a controlling influence are primarily rights to appoint members of corporate bodies, recall them, to liquidate and to make other decisions. Hamburg Commercial Bank controls a subsidiary if based on the total contractual rights it has the possibility to control the relevant activities of the entity.

A subsidiary is also controlled by Hamburg Commercial Bank if the decision-making power is exercised by third parties in the interests of and for the benefit of Hamburg Commercial Bank. Whether such delegated decision-making power exists is judged by considering the existing powers to appoint members of corporate bodies, the legal and de facto scope for making decisions and the structure of the economic incentives. Hamburg Commercial Bank itself does not exercise any delegated powers to make decisions that would benefit third parties.

In individual cases, Hamburg Commercial Bank possesses a controlling influence based on contractual rights, although it holds less than 50 % of the voting rights.

Shares held by third parties in the equity of the subsidiary are shown as non-controlling interests in Group equity, provided these are not shares of external shareholders in consolidated commercial partnerships. Non-controlling interests are that part of the net results for the period and net assets of a subsidiary related to shares not directly held by the parent company or by a Group subsidiary. Non-controlling equity shares in subsidiaries and the resulting profit or loss as well as summarised financial information on subsidiaries with material non-controlling shares are presented in Note 4 Shares of external shareholders in consolidated commercial partnerships constitute puttable financial instruments, which are to be classified as debt in the Group financial statements under IAS 32 and disclosed under Other liabilities. Changes in value are recognised in Other operating income/expenses in the consolidated statement of income.

Subsidiaries are included by way of full consolidation in the Group financial statements of Hamburg Commercial Bank. In consolidating the capital, the carrying amount of the equity holding in each subsidiary is set off against the share of Hamburg Commercial Bank in the subsidiary's equity capital. Goodwill connected to this is accounted for using the acquisition method in accordance with IFRS 3. Intra-Group receivables, liabilities and income are eliminated within the framework of debt and/or expense and income consolidation for the purpose of the Group financial statements. Expenses and gains arising from the transfer of assets within the Group are eliminated as well.

Shares in subsidiaries which were not consolidated because of their subordinate importance for Hamburg Commercial Bank Group's earnings, net assets and financial position are accounted for as financial instruments at fair value through profit & loss (FVPL) based on the recognition and measurement guidelines of IFRS 9.

Structured entities within the meaning of IFRS 12 are entities designed so that voting rights or similar rights do not represent the dominant factor in terms of assessing whether control is being exercised. Voting rights in such entities only relate to contractually specified administrative functions. Similar rights would refer, for example, to potential voting rights such as options on voting rights. Structured entities like securitisation vehicles are controlled by Hamburg Commercial Bank and included as subsidiaries in the Group financial statements if Hamburg Commercial Bank has decision-making power over the relevant activities and is subject to variable return flows from these activities.

Hamburg Commercial Bank does not classify single asset companies and project companies as structured entities, because as a rule they are not designed to ensure that holding voting rights is only for the purpose of performing contractually governed administrative functions. Structured entities are also characterised by a narrowly defined business purpose, a limited field of activity and comparatively low equity capital. If a company is not controlled by voting rights but by means of contractual rights, it is classified as a structured entity.

Joint arrangements are based on contractual agreements under which two or more partners establish an economic activity under shared management. Joint management is present if the partners have to cooperate in order to steer the relevant activities of the joint arrangement and decisions require unanimous approval from the participating partners. Such a joint arrangement is a joint venture if the partners who exercise joint management hold rights and obligations to the net assets of the arrangement. If, conversely, the partners have direct rights to the assets or liabilities attributable to the joint arrangement for their debts, the arrangement is a joint operation. If a joint arrangement is embodied in a legally independent partnership or corporation with its own assets, so that Hamburg Commercial Bank only has a proportionate claim to the net assets of the company based on its shares in the company, this entity is normally a joint venture. In order to determine whether a joint venture or a joint operation is concerned in the case of joint arrangements, the contractual provisions and the purpose of the joint arrangement are used in addition. If neither the legal form nor the contractual provisions or other facts and circumstances provide an indication that Hamburg Commercial Bank has direct rights to the assets and/or obligations for the debts of the joint arrangement, it is a joint venture.

Associates are companies where Hamburg Commercial Bank AG can exercise a significant but not controlling influence directly or indirectly via subsidiaries. Significant influence refers to the possibility of influencing decisions affecting the financial and business policy of another entity but not controlling it. Significant influence is found in principle if Hamburg Commercial Bank as an investor directly or indirectly holds 20 % or more of the voting rights through subsidiaries. It may also be an associate if Hamburg Commercial Bank has less than 20 % of the voting rights but because of other factors has the possibility of influencing the company's decisions concerning financial and business policy. This in particular includes the representation of Hamburg Commercial Bank in the entity's decision-making body and contractual rights to manage or dispose of assets including investment decisions in the case of investment funds. If Hamburg Commercial Bank only holds rights to approve, agree or veto, significant influence is not presumed to exist.

Interests in joint ventures and associates that are material to the proper presentation of the Group's net assets, financial position and results of operations are consolidated under the equity method. In doing so, the Group's interest in a joint venture / share in an associate is initially measured at cost of acquisition and thereafter increased or decreased depending on the Group's share in the joint venture's/associate's profit or loss. The relevant shares are stated in the statement of financial position under a separate line item.

Interest in joint ventures and associates, respectively, which were not consolidated under the equity method because of their subordinate importance for Hamburg Commercial Bank Group's earnings, net assets and financial position have been accounted for as financial instruments at fair value through profit & loss (FVPL) based on the recognition and measurement guidelines of IFRS 9 and are disclosed under financial investments. Where Hamburg Commercial Bank has no information as of the reporting date which would allow for the fair value of these interests to be reliably determined, measurement is based on acquisition cost.

4. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg, the scope of consolidation includes twelve fully consolidated subsidiaries (31 December 2019: 26).

As at 31 December 2019, there are no associates or joint ventures accounted for using the equity method.

The subsidiaries included in the Group financial statements and those subsidiaries, joint ventures and associates that are not included due to their immateriality for the presentation of net assets, financial position and results of operations of the Hamburg Commercial Bank Group can be found in the list of shareholdings (Note 60). The list of shareholdings also includes explanatory information regarding classification as a subsidiary, joint venture or associate that differs from that indicated by voting rights.

The changes in the scope of consolidation during the financial year relate to the subsidiaries listed below.

I. Disclosures on subsidiaries – Changes in the scope of consolidation

A) ADDITIONS

There were no additions in the reporting period.

B) DISPOSALS

The significant reduction by 14 subsidiaries during the consolidation compared with 31 December 2019 is mainly due to the sale of the Capcellence Group (resulting in the deconsolidation of nine subsidiaries) and the intra-Group reintegration of HCOB Facility Management (two mergers and two deconsolidations due to immateriality). One additional subsidiary was also deconsolidated due to immateriality for the presentation of the net assets, financial position and results of operations of the Hamburg Commercial Bank Group.

Compared to 31 December 2019, the following companies are no longer included in the group of consolidated companies:

- CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg
- CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg
- CAPCELLENCE Holding GmbH & Co. KG, Hamburg
- Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg
- Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg
- CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg
- CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg
- CAPCELLENCE Vintage Year 16 Beteiligungen GmbH & Co. KG, Hamburg
- CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg
- HCOB Care+Clean GmbH, Hamburg
- HCOB Facility Management GmbH, Hamburg
- HCOB Gastro+Event GmbH, Hamburg
- HCOB Move+More GmbH, Kiel
- Senior Assured Investment S.A., Luxembourg

With the purchase and assignment agreement dated 16 December 2020, HCOB Private Equity GmbH, Hamburg, sold its limited partner's share in Capcellence Holding GmbH & Co. KG. The disposal was generally based on the value ratios as at 30 June 2020 and resulted in the loss of control of the Hamburg Commercial Bank Group over the above-mentioned nine companies of the Capcellence Group. The deconsolidation of the Capcellence Group resulted in a total loss of € 2 million, which is recognised under the Other operating income item.

With the entry in the commercial register on 1 December 2020, HCOB Facility Management GmbH was merged into Hamburg Commercial Bank AG. The merger became effective retroactively on 1 January 2020. Prior to this, HCOB Gastro+Event GmbH was merged into HCOB Facility Management GmbH (commercial register entry of 11 February 2020).

The two other companies of the HCOB Facility Group, HCOB Care+Clean GmbH and HCOB Move+More GmbH, were deconsolidated from 31 December 2020 due to their immateriality for the presentation of net assets, financial position and results of operations of the Hamburg Commercial Bank Group. Both companies were dissolved as per 31 December 2020 and are in liquidation. The entries of the liquidations in the commercial register were made on 7 and 11 January 2021. The aforementioned deconsolidations due to immateriality did not have a material effect on earnings.

Following the transfer of the main assets (certificates) of Senior Assured Investment S.A. to the Bank, the previously fully consolidated company no longer has any operating activities and was deconsolidated in the first quarter 2020 due to its immateriality. The deconsolidation did not have any material effect on income.

C) MODIFICATION OF HOLDINGS IN SUBSIDIARIES

There were no changes in the ownership interests held by Hamburg Commercial Bank in a subsidiary in the period under review that did not lead to a loss of control.

II. Information on shares held in associates and joint ventures accounted for under the equity method

A) GENERAL INFORMATION

At the reporting date, Hamburg Commercial Bank did not hold any shares in associates or joint ventures accounted for using the equity method that are material for the Group's earnings, net assets and financial position.

III. Information on consolidated structured entities

Hamburg Commercial Bank's scope of consolidation includes six fully-consolidated structured entities. Four of these companies are controlled on the basis of a majority of voting rights. For two of these companies, control is based solely on contractual rights.

The following disclosures represent the type of risks in connection with business relationships with consolidated structured entities:

Hamburg Commercial Bank AG sponsors securitisation vehicles whose business purpose is to issue securities on the capital market and to invest the funds received in connection with these issues in silent participations at Hamburg Commercial Bank AG. Hamburg Commercial Bank has provided these consolidated structured entities with a guarantee facility. This guarantee facility serves to hedge the payment obligations of the structured entities in respect of the holders of the securities. These payment obligations arise if payment claims result for the structured entities against Hamburg Commercial Bank AG from the silent participations held by them.

Hamburg Commercial Bank AG has granted liquidity and credit facilities to consolidated structured entities. In terms of the amounts, these are of minor significance for the Group's financial position.

Hamburg Commercial Bank AG has a contractual obligation to bear the operating expenses for three consolidated structured entities.

During the reporting year, Hamburg Commercial Bank did not provide consolidated or unconsolidated structured entities with any non-contractual support.

As of the balance sheet date there is no current intention to provide a consolidated structured entity with financial or other support within the definition of IFRS 12.17.

5. Management estimates and discretionary decisions

Estimates:
As permitted, estimates and assumptions for the measurement of assets and liabilities have been incorporated into the Group financial statements of Hamburg Commercial Bank. All estimates and judgements necessary for accounting and measurement according to IFRS were undertaken in accordance with the appropriate standard in each case, are continuously reassessed and are based on past experience and other factors including expectations of future events which appear reasonable under the circumstances. In particular, the following topics are affected by estimation uncertainties (see also the explanatory information under Note 6):

- the level allocation and the determination of the amount of loan loss provisions under the impairment provisions set out in IFRS 9 (see the following explanatory information and Note 6)
- allocations to provisions for litigation risks
- the recognition and measurement of deferred taxes
- the calculation of fair values
- allocations to provisions for pensions and similar obligations and other provisions (see Note 6)

Where there is greater uncertainty regarding estimates relating to other aspects, the underlying assumptions are presented in greater detail in the relevant note.

Discretionary decisions:
With the exception of estimates, major discretionary decisions by management in the application of accounting and measurement methods include:

- the level allocation and the determination of the amount of loan loss provisions under the impairment provisions set out in IFRS 9 (see the following explanatory information and Note 6)
- allocations to provisions for litigation risks
- the definition of business models and the classification of financial instruments in accordance with IFRS 9 (see the following explanatory information and Note 6)
- determining fair values for certain financial instruments, including a judgement regarding the existence of an active or inactive market;
- use of the fair value option for financial instruments (see the following explanatory information and Note 6);
- assessing whether Hamburg Commercial Bank controls another entity;

Within the context of the impairment provisions set out in IFRS 9, there are both significant estimates and significant discretionary decisions with regard to the level allocation and the calculation of the amount of the loan loss provisions.

The transfer of a financial instrument between levels 1 and 2 and the associated definition of the extent giving rise to a significant deterioration in credit quality (significance threshold) is a central discretionary decision within the context of the impairment provisions.

When calculating the loan loss provisions levels 1 and 2, Hamburg Commercial Bank estimates the associated credit risk parameters over a one-year period and extrapolates them on the basis of appropriate assumptions over a period of several years. Within this context, there are considerable uncertainties relating to estimates, particularly when including forward-looking macroeconomic scenarios.

The calculation of loan loss provision level 3 represents a further estimation process. In particular, the estimates for various scenarios, including associated probabilities of occurrence and the recoverable amount in the respective scenario, involve discretionary decisions in this respect.

For estimates and discretionary decisions made in connection with the COVID-19 pandemic, see the comments in Note 2 (“Impact of COVID-19 on the consolidated financial statements of Hamburg Commercial Bank”).

Major discretionary decisions in connection with the application of the classification and measurement provisions of IFRS 9 relate to the definition/classification of the Bank’s business models and the corresponding allocation of portfolios of financial assets based on the objectives and control activities within the context of the business activity.

In particular, the definition of what constitutes harmless sales and materiality thresholds for harmful sales within the “Hold to collect” business model are discretionary decisions. The business models defined at Hamburg Commercial Bank and the resulting impact on the classification and measurement of financial instruments are shown in brief in the section entitled “Accounting and measurement principles”.

The analysis of the contractual cash flows with regard to the contractual cash flow characteristics criterion, as well as the classification of modifications in terms of their materiality, constitute a further discretionary decision (see also the section entitled “Accounting and measurement principles”).

Hamburg Commercial Bank applies the fair-value-option through profit or loss for financial assets at its own discretion with regard to the avoidance of an accounting mismatch. The designation of financial liabilities using the fair value-option to avoid an accounting mismatch, or on the basis of management on a fair value basis, is also at the discretion of the Bank.

6. Accounting and measurement principles

I. Financial instruments

A) CATEGORISATION OF FINANCIAL ASSETS AND LIABILITIES

Recognition and initial measurement of financial assets and liabilities

A financial instrument is an agreement which simultaneously creates a financial asset for one company and a financial liability or equity instrument for the other company. Under IFRS 9, all financial assets and liabilities including financial derivatives must be stated in the statement of financial position and measured according to the category to which they are assigned.

Financial assets and liabilities are stated in the statement of financial position if Hamburg Commercial Bank is counterparty under the contract for the corresponding financial instrument. Expected future transactions or contracts are not recognised.

Provided that they fulfil the criteria of IFRS 9, pending transactions in the form of derivatives must always be stated in the statement of financial position as financial assets or liabilities and measured at fair value on the trading date. Spot transactions in non-derivative financial assets (so-called regular way contracts) are recognised as of the settlement date. The change in fair value between the trading date and settlement date is recognised according to the measurement rules for the category of asset. Other non-derivative financial assets which do not result from spot transactions, for example loans granted, are recognised as of the settlement date.

Non-derivative financial liabilities are recognised if one of the two parties to the contract has fulfilled the contract (settlement date).

Initial recognition is measured at fair value, which generally corresponds to the acquisition cost of the financial instrument.

Derecognition of a financial asset takes place on the settlement date. In the case of derivatives, derecognition takes place on the trading date.

Definition of business models

In order to arrive at the classification of financial instruments, financial assets are first of all allocated to business models in accordance with IFRS 9. The Management Board and the Supervisory Board of Hamburg Commercial Bank AG are responsible for defining these business models. Financial instruments are allocated to the business models based on groups of homogeneous portfolios.

The internal rules and objectives, which are applied in practice in the strategic management and administration of the portfolios, are decisive when it comes to identifying and allocating the holdings. In addition, the definition and differentiation of the business models take into account how the results of the portfolios are assessed, which risks influence these earnings contributions and how these risks are managed.

Another aspect that is important for the purposes of defining business models at Hamburg Commercial Bank in connection with the assessment of business activity and objectives for the management of the instruments is the analysis of transactions in past periods. This involves determining the frequency, volume and timing of disposals. The reason behind disposal transactions is also taken into account when assessing the disposal activity. If disposals are related, among other things, to the management of credit risk and are motivated by a significant increase in credit risk, they can still be consistent with a business model that serves to collect cash flows by holding the instruments to maturity.

The reclassification of financial assets is only possible in exceptional cases and subject to specific disclosure requirements. Financial liabilities cannot be reclassified.

Analysis of contractual cash flow characteristics

In addition to the appraisal of the business model, the categorisation of financial assets depends on the nature of the cash flows. Within this context, Hamburg Commercial Bank analyses the contractual cash flow characteristics criterion by assessing the contractual cash flows to determine whether they merely relate to payments of principal and interest on the principal amount. The analysis is carried out once at the time of initial recognition at the level of the individual transaction. When identifying and assessing the cash flows accordingly, all characteristics contained in the contractual components must be taken into account.

The contractual cash flow characteristics criterion defines interest as those payments that are consistent with a basic lending arrangement. This means that payments essentially serve as a form of compensation for the time value of money and the credit risk assumed by the counterparty. They can also include compensation for the assumption of liquidity risks and a profit margin. IFRS 9 uses the fair value at the time of initial recognition as a basis for determining the nature of principal repayments on the outstanding nominal amount.

Based on these requirements, all contractually agreed conditions are analysed to determine whether they give rise to opportunities for early termination or extension options, leverage effects or other effects on cash flows that depend on the occurrence of future circumstances. Within this context, Hamburg Commercial Bank examines the contractual structure of the instruments to determine whether they contain components that modify the fair value element of the money and contradict the interest rate characteristics defined under IFRS 9. It also examines whether there are "non-recourse" structures that impose restrictions on the Bank's ability to access the payments to which it is entitled.

The analysis of the contractual cash flow characteristics criterion for contractually linked instruments, which usually arise in securitisation transactions, is subject to special requirements. First, the cash flow characteristics are assessed by looking at the claims from the asset pools underlying the securitisation. In addition, the contractual structure of the securitisation tranche and the structuring of the claims to the cash flows from the underlying assets are examined with regard to the cash flow characteristics and credit risk distribution.

If Hamburg Commercial Bank's analysis of the contractual structure of the financial assets leads it to the conclusion that the payments are not just interest and principal payments, the cash flow criterion is deemed not to have been met.

Reclassification

Reclassifications are made in the event of actual changes in the business model used to manage the assets. Consequently, from the date of the change, all affected instruments are to be allocated to the newly defined business model and classified accordingly. No reclassifications have been made to date.

Classification and subsequent measurement of financial assets and liabilities

Financial assets are classified depending on the business model and the structure of the contractual cash flows under IFRS 9. In connection with the first-time application of IFRS 9, Hamburg Commercial Bank has defined the business models "Hold to collect", "Hold & sell" and "Other", which include the business model strategies "Held for trading" and "Other not hold to collect (remaining)" on the basis of its business activities.

Loans in the lending business and securities related to the lending business are assigned to the "Hold" business model. The "Hold & sell" business model mainly comprises the capital markets business. Instruments intended to generate a profit in the short term are managed under the "held for trading" business model. This mainly relates to interest-bearing treasury securities. In addition, syndication shares from underwriting activities subject to an obligatory syndication requirement in the lending business are allocated to this category. Derivatives are generally allocated to this business model. Financial assets in the "Other not hold to collect (remaining)" business model relate primarily to equity portfolios in the non-trading portfolio.

Provided that the cash flow criterion is fulfilled, subsequent measurement depends on the business model allocation and is derived from the measurement categories described below. Debt instruments assigned to the "Hold to collect" business model are recognised at amortised cost. "Hold & sell" assets are measured at fair value, with the result from fair value changes being recognised in Other comprehensive income (OCI) within equity. Upon the derecognition of the debt instruments, the cumulative valuation result is derecognised from Other comprehensive income via the statement of income (known as "recycling"). Debt instruments in the "Other not hold to collect (remaining)" business model are subject to measurement at fair value through profit or loss.

Financial assets that do not meet the cash flow criterion are measured at fair value in the statement of income, taking the valuation results into account, irrespective of the business model. These instruments include, first of all, debt instruments that do not pass the cash flow test in the analysis of the contractual structure and second, equity instruments that generally do not meet the criterion.

In the case of structured financial assets, there is no requirement to separate embedded derivatives under IFRS 9. The instruments are to be assessed, depending on the business model, in their entirety based on their contractual structure in the analysis of the contractual cash flow characteristics criterion.

Financial obligations are measured at amortised cost under IFRS 9 in the "Not held for trading" category. Derivatives and instruments that are held for trading are allocated to the "Held for trading" category and are measured at fair value through profit or loss. This measurement standard is also applied, in general, to financial liabilities irrevocably designated within the fair value option, although the amount of the fair value change resulting from the change in the Bank's own credit risk is recognised directly in OCI.

In cases involving structured financial liabilities that are not included in measurement at fair value through profit or loss due to categorisation or designation, derivatives requiring separation must be separated and also measured at fair value through profit or loss. The host contract is recognised at amortised cost.

The financial assets/liabilities of Hamburg Commercial Bank are allocated to the following holding categories in order to arrive at the measurement categories depending on the business model allocation and the results of the cash flow criterion analysis. For the purposes of presentation in the Group financial statements, they are also grouped into reporting categories.

Reporting category	Holding category	Measurement category
AC assets/AC liabilities	AC HTC/ AC LIA	AC
FVOCI Mandatory	FVOCIR HAS	FVOCIR
FVPL Held For Trading	FVPL HFT	FVPL
FVPL Other	FVPL HTC	FVPL
	FVPL HAS	
	FVPL RES	
FVPL Designated	FVPL DFV/ FVPL DFP	FVPL

"AC assets" and "AC liabilities" are subsequently measured at amortised cost. Interest payments are recognised in net interest income. Profits/losses from the disposal of financial assets that are not credit-impaired and prepayment penalties are reported under "Result from the disposal of financial assets classified as AC".

Instruments classified as FVOCI as a mandatory requirement in the "Hold & Sell" business model are stated at fair value and booked directly to equity. Impairments and currency translation results, however, are reported directly in the statement of income. When the instruments are derecognised, the cumulative valuation result recorded under "Other comprehensive income" is rebooked to the statement of income. Realised gains from the disposal of assets assigned to levels 1 and 2 are recorded, in cases involving fixed income securities under the "Financial investments" balance sheet line item, under "Net income from financial investments". Gains from the corresponding disposal of level 3 assets are recognised in the result from loan loss provisions. Interest and prepayment penalties, current results and realised gains on level 1 and level 2 loans are shown in Net interest income. Loan impairments are shown under loan loss provisions in the statement of income.

For those instruments stated at fair value through profit or loss in the FVPL Held for Trading, FVPL Designated and FVPL Other reporting categories, the fair valuation and the realised gains and losses are reflected via the result from financial instruments categorised as FVPL. Commission results in the FVPL Held for Trading category resulting from non-round tripping transactions in securities and promissory note loans are also shown under this item. Ongoing earnings contributions from instruments stated at fair value through profit or loss, such as dividends, interest results and prepayment penalties, as well as realised gains from the buy-back of own issues in the FVPL Held for Trading category form part of net interest income.

Net commission income contributions from derivatives and from loans in all categories are shown under Net commission income. This item also includes commission from securities and promissory note loans in the FVPL Held for Trading category resulting from round tripping transactions. Gains from currency translation is generally a component of the Result from financial instruments categorised as FVPL.

This results in the following distinctions, based on reporting category, for subsequent measurement at Hamburg Commercial Bank:

1. Financial assets valued at amortised cost (AC) are stated, at the time of initial recognition, at cost, equivalent to fair value at the time of initial recognition, and taking transaction costs into account. Financial liabilities are also recognised at fair value at the time of issue, taking transaction costs into account. Fair value at the time of acquisition generally corresponds to the transaction price. This valuation category includes all instruments in the following reporting categories:

a. Financial assets in the "AC assets" reporting category are allocated to the "Hold to collect" business model and meet the cash flow criterion.
b. Those liabilities that neither fall under the trading portfolios nor belong to the FVPL Designated reporting category, are allocated to the "AC liabilities".
c. For instruments on both the assets and the liabilities side, subsequent measurement is at amortised cost; premiums or discounts are amortised according to the effective interest method over the term and are recognised in net interest income.

2. Financial assets in the "FVOCI mandatory" reporting category include all assets in the "Hold & sell" business model for which the cash flow criterion is met. The holdings within Hamburg Commercial Bank relate mainly to marketable interest-bearing securities.

The initial measurement of financial assets in the "FVOCI mandatory" reporting category is at the fair value, which generally corresponds to the transaction price, plus transaction costs. The subsequent measurement of the financial instruments is at fair value.

Changes in the value of instruments stated at fair value, insofar as these are not attributable to an impairment or currency translation, are recorded under Other comprehensive income (OCI) in equity, after allowing for deferred taxes. By contrast, where hedged instruments are concerned, the fluctuation relating to the hedged risk is recognised in the statement of income under "result from hedging" and is separately disclosed as an adjustment item arising from the portfolio fair value hedge. When the instruments are derecognised, the cumulative valuation result recorded under "Other comprehensive income" is rebooked to the statement of income.

Amortisation of the difference between costs of acquisition and repayment amount for interest-bearing securities is stated under net interest income, using the effective interest method.

3. Financial assets and liabilities valued at fair value through profit or loss (FVPL), include instruments held for trading (FVPL Trading), financial assets that have to be measured at fair value because they do not meet the cash flow criterion (FVPL Other), and those instruments that are voluntarily designated at fair value in a manner that is irrevocable for the future (FVPL Designated).

a. At Hamburg Commercial Bank, the category FVPL Trading includes all financial instruments held for trading that are assigned to the "held for trading" business model accordingly, and all derivatives that are not part of a hedging relationship (hedge accounting).
   They are initially and subsequently measured at fair value. Transaction costs are recognised through profit or loss on acquisition date. In accordance with IFRS 9.5.1.1, transaction costs are only included in the initial recognition in the case of financial assets or liabilities not measured at fair value through profit or loss. Where a market price is available in the form of a stock exchange listing, this is used for the purposes of measurement. In other cases, the market price of comparable instruments or recognised measurement models, especially net present value methods and option pricing models, are used to determine fair value.
b. The financial assets in the FVPL Other category are assigned to the "Hold to collect", "Hold & sell" and "Other not hold to collect (remaining)" business models. The instruments in the "Hold to collect" and "Hold & sell" business models within this category do not meet the cash flow criterion.
c. The financial assets and liabilities in the FVPL Designated reporting category relate primarily to securities and loans that form part of an economic hedging relationship with interest rate derivatives and do not meet the requirements for hedge accounting, as well as complex structured registered and bearer securities with embedded interest, currency, equity and other risks. In such cases, the fair value option serves to prevent/reduce any accounting mismatch. In addition, designation within the fair value option can be applied, within Hamburg Commercial Bank, to portfolios of financial liabilities whose management and performance measurement is based on the fair value in line with the documented risk management strategy in order to allow the instruments to be accounted for in line with the internal control system.

Financial instruments in the fair value option are stated at fair value in the statement of financial position and are valued through profit or loss for the purposes of subsequent measurement accordingly.

B) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of financial instruments required for reporting by IFRS 7.6 is similar to the categorisation of financial instruments according to IFRS 9 for the items in the statement of financial position, in order to ensure a uniform and clear picture of the financial position and performance. The following table shows the categories of financial instruments at Hamburg Commercial Bank in accordance with IFRS 9.

Measurement method	Categories	
	IFRS 9 reporting category	Statement of financial position item/sub-item
Financial instruments measured at amortised cost	AC assets	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
	AC liabilities	Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
		Other liabilities
Financial instruments measured at Fair Value through Other Comprehensive Income (OCI)	FVOCI Mandatory	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
Financial instruments measured at fair value through profit or loss	FVPL Held For Trading	Trading assets
		Non-current assets held for sale and disposal groups
		Trading liabilities
		Liabilities relating to disposal groups
	FVPL Designated	Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
		Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
	FVPL Other	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
	n/a	Positive fair values of hedging derivatives
		Negative fair value of hedging derivatives
Off-balance-sheet transactions	n/a	Contingent liabilities
		Irrevocable loan commitments
		Other obligations

C) MODIFICATIONS

If a financial instrument, in particular a loan, is altered in its contractual components, then Hamburg Commercial Bank assesses whether this change results in the disposal of the financial instrument, leading to the derecognition of the previous, and the recognition of a new, financial instrument at fair value (substantial modification) or whether, based on the modified contractual cash flows, the gross carrying amount is to be recalculated and a modification result recognised (non-substantial modification).

The result of a non-substantial modification corresponds to the difference between the gross carrying amount immediately prior to the modification and the recalculated gross carrying amount. The modification gain or loss is recognised within loan loss provisions in the statement of income.

Hamburg Commercial Bank has included guidelines in its written regulations regarding how to distinguish between substantial and non-substantial modifications. These stipulate that both qualitative criteria, such as a change in currency or a significant change in Hamburg Commercial Bank's risk position, and the 10 % net present value test as a quantitative criterion are to be used. This test involves comparing the net present value of the contractual cash flows before and after every modification of contractual components. If they differ by 10 % or more, then this is deemed to constitute a substantial modification.

D) LOAN LOSS PROVISION AND IMPAIRMENT OF FINANCIAL INSTRUMENTS

The calculation of loan loss provisions and impairments in accordance with IFRS 9 uses a model that is based on the calculation of expected credit losses. The scope of the model includes financial instruments that are recognised at amortised cost or at fair value through other comprehensive income, irrevocable loan commitments and financial guarantees that are not recognised at fair value through profit or loss, leasing receivables and contract assets.

The basic principle of the model relates to the creation of loan loss provisions depending on changes in the credit quality of the financial instrument since initial recognition over the term. Depending on the extent of the change in credit quality, the financial instrument is assigned to one of the following three levels:

a. Level 1: No significant increase in the loan default risk, 12-month expected loss

For financial instruments whose loan default risk is not significantly increased, the portion of expected credit losses that is attributable to defaults within the next twelve months is recognised under loan loss provisions.

b. Level 2: Significant increase in the loan default risk, lifetime expected loss

For financial instruments whose loan default risk has increased significantly since the time of initial recognition, expected credit losses are recognised over the entire remaining term of the financial instrument.

c. Level 3: Financial assets that are credit-impaired, lifetime expected loss

Financial instruments for which one or more events have occurred that have an adverse impact on the expected future cash flows are assigned to level 3.

Input parameters, assumptions and methods for calculating expected credit losses at levels 1 and 2

Expected credit losses at levels 1 and 2 are calculated based on the following credit risk parameters:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The internal credit risk models which – where necessary – are expanded to include forward-looking information are taken as a basis in this regard.

In the context of credit risk modelling, the default risk over a certain period is described by the PD. In order to assess the loan default risk associated with financial instruments or debtors, specific rating procedures are used that allow statements to be made on the probability of default within one year. As part of the development and validation of these procedures, a check is performed, on the basis of historical observations for different pieces of qualitative and quantitative information, to determine whether these explain the default risk as risk drivers. Using the rating procedures modelled on the basis of historical information, current and forward-looking information on the risk drivers can be condensed to arrive at a preliminary rating as part of the rating process. This information is then adjusted to include assessments of the debtor's creditworthiness to arrive at a final rating.

The rating classifications resulting from rating procedures each correspond to a specific 12-month PD which is used to calculate the loan loss provisions at level 1. At level 2, the 12-month PD is adjusted over a multi-year horizon to arrive at lifetime PDs on the basis of migration matrices. The migration matrices used reflect the observed rating migrations of debtors within a year and are calculated based on an extensive cross-economic historical observation period. The 12-month and lifetime PDs calculated in this manner are enhanced to reflect macroeconomic information where necessary.

This involves aggregating internal and external macroeconomic forecasts to arrive at economic scenarios that are used as standard for various bank functions. The impact of the scenarios on the PDs is determined using statistical methods.

The LGD describes the amount of the loss expected in the event of default. Statistical procedures are used, on the basis of historically measured losses, to estimate expected recovery ratios from the realisation of collateral and collection ratios for unsecured loan portions. Together with the market value of the collateral and the amount of the claim, this produces the LGD for the financial instrument in question that is used to calculate the loan loss provisions for level 1. The LGD includes not only the collateral relevant to the financial instrument in question, but also transaction-specific and debtor-specific information such as the seniority of the financial instrument or the debtor's sector. By way of derogation from this type of LGD modelling, procedures based on the simulation of cash flows from the financed object are used for project and ship financing. The forward projection of the LGD over the multiannual period is based primarily on the expected collateralisation ratio of the financial instrument, which comprises the expected collateral value and the expected amount of the receivable. The estimate of the collateral value takes into account both expected ageing effects associated with the collateral and forecast macroeconomic developments, such as property prices, which influence the collateral value. The receivable amount is influenced by repayment and amortisation effects.

The EAD represents the outstanding receivables volume of the financial instrument at the time of default. For the balance sheet business, the outstanding receivables volume corresponds to the gross carrying amount calculated using the effective interest method. As part of EAD modelling, the balance sheet gross carrying amount is adjusted over a 12-month period (level 1) or over a lifetime horizon (level 2) to reflect amortisation and repayment effects. Within this context, fixed cash flows that have been contractually agreed and expectations regarding the exercise of options and their impact on the cash flows are taken into account. The impact of optionalities is determined both on the basis of historical information and on the basis of financial mathematical methods. The gross carrying amounts adjusted in this way over the term are grouped to form an average EAD for each year.

For the off-balance-sheet business in the form of irrevocable loan commitments and financial guarantee contracts, the EAD constitutes the expected future utilisation of the financial instrument up until the time of default. The borrower's expected drawdown behaviour within a year prior to the default event is reproduced via the credit conversion factor (CCF). The EAD for level 1 is calculated by multiplying the CCF by the line that is open on the reporting date. In order to calculate the EAD at level 2, the drawdown behaviour several years prior to the default is also calculated based on drawdown rates. The drawdown rates are modelled subject to the proviso that no default occurs within a year. The multi-year EAD for the year in question for level 2 is calculated by combining the expected drawdown one year before the assumed default event based on the CCF by the expected drawdown behaviour based on the drawdown rates for the prior years.

When calculating expected credit losses, Hamburg Commercial Bank takes into account the maximum contractually agreed term during which the Bank is exposed to a credit risk. Debtor extension options are also taken into account. Longer terms are not taken into account even if this is in line with standard business practice.

One exception relates to current accounts and framework facilities for which there is no set term or repayment structure and in respect of which the Bank does not enforce its option of forcing immediate repayment in daily management. The calculation of the expected losses for these financial instruments is based on the behavioural term. The behavioural term is derived from the existing Credit Risk Management processes that serve to minimise the credit risk. At Hamburg Commercial Bank, a debtor's credit quality is monitored on a regular and ad hoc basis and, if necessary, corresponding credit risk-mitigating measures are taken. As a result, the average monitoring interval is used as the estimate for the behavioural term.

Expected credit losses are calculated at the level of the individual financial instrument. Groups of financial instruments with risk features in common are not grouped for the purposes of calculating the loan loss provisions. The 12-month expected loss is calculated by multiplying the (one-year) credit risk parameters. The lifetime expected loss is calculated by multiplying the period-specific credit risk parameters determined during the term. Discounting to the balance sheet date is based on the effective interest rate in each case.

Incorporation of forward-looking information

Hamburg Commercial Bank uses the same economic forecasts for planning, internal control and loan loss provisions. As at each quarter end date, forecasts for selected parameters are prepared in three scenarios: base, stress and upside. Forecasts are made for the next five financial years (end of year). The base scenario reflects the development that is deemed most likely to occur. This can be both an economic upswing and an economic downturn. The other two scenarios reflect more optimistic (upside) or more pessimistic (stress) developments in relation to the base scenario.

The scenario estimates are based on internal Bank economic forecasts, which are discussed within the affected areas, taking into account the forecasts of the Bundesbank and the ECB, Bloomberg consensus estimates as well as actual forward rates for the relevant areas. Segment-specific parameters are added to these market forecasts.

The estimated parameters cover forward-looking information in the following areas:

- Economy (gross domestic product and inflation rate for various regions)
- Direction of interest rates
- Movement in exchange rates
- Bond market (credit spreads)
- Oil prices
- Share prices
- Shipping (in particular charter rates and second-hand prices)
- Real estate prices (broken down by location and type of property)

The impact of this forward-looking information on the credit risk parameters PD and LGD is determined using statistical procedures and is taken into account when calculating the expected credit losses. Within this context, PD and LGD are adjusted to reflect base scenario forecasts. Regular checks are also performed to see whether other scenarios have a material non-linear impact on the amount of loan loss provisions. 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. In this case, the loan loss provisions are adjusted either directly or indirectly by altering the credit risk parameters to reflect these effects.

Significant increase in the loan default risk

In order to assess a significant increase in the loan default risk associated with a financial instrument, Hamburg Commercial Bank uses internal ratings. Within this context, Hamburg Commercial Bank constantly furnishes proof that the change in rating and corresponding change in the 12-month PD takes the main risk drivers into account that lead to the change in the lifetime PD, meaning that changes in rating constitute a suitable assessment criterion for the level allocation. In the case of non-substantial modifications, it must be reassessed at the time of modification whether there has been a significant increase in credit risk since the time of initial recognition. The rating of substantially modified financial instruments is determined based on the adjusted conditions.

At Hamburg Commercial Bank, the assessment object that is relevant for the purposes of allocating financial instruments to specific levels is the individual financial instrument as a general rule. The rating of the corresponding debtor that applies at the time of addition is allocated to each financial instrument. One exception relates to securities for which different purchases of the same security are assessed jointly. This involves dividing the purchases in terms of similar credit quality at the time of initial recognition. The securities are then categorised at the level of the ISIN based on the best initial securities rating.

The extent giving rise to a significant deterioration in credit quality (significance threshold) is determined for each portfolio or rating category segment in a manner that is specific to the initial rating and on the basis of a quantile assessment. The outcome shows rating changes as of which the credit quality is deemed to have deteriorated significantly.

The rating expected, based on the time at which a financial instrument was recognised for the first time, for the balance sheet date in question serves as a benchmark for assessing a significant deterioration in credit quality. The expected rating is compared with the current rating to determine whether the change in rating that is defined as significant is exceeded. If this is the case then the financial instrument in question as allocated to level 2. Otherwise, it remains in level 1.

In addition, financial instruments are allocated to level 2 at the latest if forbearance measures have been applied to the financial instrument, the default has lasted more than 30 days or the PD has increased by more than 3 % in absolute terms since the transaction was entered into.

The Bank does not make use of the option set out in IFRS 9.5.5.10, which allows financial instruments with a loss risk of loan default to be assigned to level 1. Nor does it make use of the option provided for in IFRS 9.5.5.15 on the constant recognition of loan loss provisions in the amount of the lifetime expected loss for trade receivables, leasing receivables and contract assets.

A financial instrument is transferred from level 2 to level 1 if the loan default risk is no longer significantly increased based on the rating.

Definition of default

On the basis of the permission of the Governing Council of the ECB (banking supervision) of 13 March 2020, the default guideline of the Hamburg Commercial Bank was adjusted effective from 21 March 2020.

This implemented requirements of the ECB and the EBA respectively, which clarified the application of the default definition under Article 178 of EU Regulation No. 575/2013 with the detailed guidance EBA/GL/2016/07.

Financial assets that are credit-impaired within level 3
Defining level 3 of the impairment model involves assessing, on each balance sheet date, whether there are objective indications of an impairment that could have a detrimental impact on the expected future cash flows from the financial instrument.

The criteria for the impairment of loans essentially comprise considerable financial difficulties of the debtor as well as indications that the debt service cannot be paid on the basis of current information and that an improvement of the business performance cannot be demonstrated. In the case of securities, Hamburg Commercial Bank's holdings are first filtered using a trigger test, and the triggered securities are then approved.

Triggered are those securities to which at least one of the following trigger events applies.

Price-based trigger events

- Credit spread induced loss compared to the acquisition value at the end of each month of the last 12 months of at least 10 % in the respective nominal currency.

or

- Credit spread induced loss against the acquisition value at the end of a month of the last 6 months of at least 20 % in the respective nominal currency.

or

- Credit spread induced loss of at least 10 percentage points between the last assessment date and the current reference date (3 months).

Rating-oriented trigger events

The following trigger events, driven by rating changes by the rating agencies Moody's, S&P or Fitch certified in accordance with the EU Rating Regulation, are defined for the period between the last assessment point and the current reporting date:

- Rating downgrade of at least 3 notches within the investment grade range

or

- Rating downgrades to the sub-investment grade range

or

- any rating downgrade within the sub-investment grade range

Loans and securities with objective evidence of impairment are accounted for by setting up specific loan loss provisions for the receivable in question. To calculate the amount of the individual valuation allowance, the net present value of the anticipated cash flows arising from the loan or advance – that is achievable amount – is compared to its carrying amount. The anticipated cash flows may comprise capital repayments, interest payments or the proceeds from disposal of collateral less liquidation costs. The realisable amount is calculated using various scenarios and compared against the carrying amount. If the carrying amount is higher than the realisable amount for the scenario in question, then this scenario results in a loss in the amount of the difference. The specific loan loss provision is set up in the amount of the average losses from among the various scenarios, weighted to reflect the probability of occurrence.

Assessments as to the need for loan loss provisions are frequently made on the basis of information which is partly provisional in nature (e.g. planned restructuring of borrowers, draft reorganisation reports) or are subject to increased volatility (e.g. collateral value of real estate and ships). This results in increased uncertainty regarding estimates of key parameters of loan loss provisions. In such cases the large degree of uncertainty is mainly due to the assessment of expected cash flows which are dependent on borrowers, industries, the assessment of the overall economy among other factors. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary

If the estimate of the expected cash flows leads to the complete reversal of a debtor's specific loan loss provisions, the sustainability of the debtor's recovery must be determined: a recovery is only deemed to have occurred after various conditions have been fulfilled. These include the condition that the "90 days in arrears" or "unlikeliness to pay" criteria no longer apply, the reversal of the setting of transactions to a non-accrual basis and measures to make up for the debt servicing that was not provided during the default period. In addition, a good conduct period must be observed.

Recognition of impairment losses in the balance sheet
As the recognition of the impairment depends on the category of financial assets, the following distinctions must be made with regard to measurement:

a. Financial instruments which are measured at amortised cost

Impairments to loans and advances to banks and customers are recorded in separate valuation allowance accounts under the item Loan loss provisions. Loan loss provisions thus created are written off at the time when the amount of the actual default of the receivable is determined or the receivable defaults. Irrecoverable receivables for which no specific loan loss provisions existed are written off directly as is the case for losses in the case of impaired receivables which exceed the recorded loan loss provisions.

b. Financial instruments which are measured at fair value in OCI and are not recognised in the statement of income

In cases involving these financial instruments, the cumulative income previously recognised in equity is reclassified to profit or loss. If the reasons for impairment no longer apply, a reversal of the write-down up to the amount of amortised cost is made in profit or loss. The effect of the change in fair value is recognised directly in equity in the revaluation reserve in other comprehensive income (OCI).

c. Purchased or originated credit-impaired financial assets (POCI)

Financial instruments that are purchased or originated credit-impaired are assigned to a separate level. The criteria for classification as purchased or originated credit-impaired are the same as for general classification. The general approach pursuant to IFRS 9.5.5.1 does not apply to these financial instruments. No loan loss provisions are set up through profit or loss at the time of initial recognition. The subsequent measurement reflects changes in the cash flows expected by the lender, taking into account the expected loan losses in subsequent periods through profit or loss as loan loss provisions. Reversals of impairment losses are also to be reflected in loan loss provisions. The loan losses expected at the time of initial recognition are distributed over the term of the loan using the credit-adjusted effective interest rate. If the debtor recovers, the debtor is still to be allocated to the level in question. In such cases, however, the calculation method is based on the standard credit risk parameters in the same way as for level 2 cases.

For the off-balance-sheet business, expected losses are also calculated on the basis of the three-stage model and recognised as provisions in the lending business.

E) DETERMINING FAIR VALUE

Under IFRS 13 the fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments is determined on the basis of the listed price on an active market (mark-to-market), or if this is not possible on the basis of recognised valuation techniques and models (mark-to-matrix or mark-to-model). Irrespective of whether and to what extent the inputs applied in determining the fair value are observable in the market, financial instruments are assigned to one of the three fair value hierarchy levels as defined in IFRS 13.

Fair value can be determined using the mark-to-market method if a market price is available at which a transaction could be entered into or has been entered into for a similar financial instrument as at the measurement date. This is generally the case for shares traded on liquid markets. Such an unadjusted market price at the measurement date for the identical instrument is classified as level 1 of the valuation hierarchy under IFRS 13.

If such a market price is not available for the identical instrument, the measurement is carried out using valuation techniques or models.

VALUATION TECHNIQUES AND MODELS

When using valuation techniques, the market approach is the preferable method for determining the fair value. The fair value is determined to the extent possible on the basis of prices that come from transactions executed on the measurement date. If the fair value cannot be determined from market or transaction prices for the identical financial instrument, prices of comparable financial instruments or indices, which are representative for the financial instrument, are used as an alternative and adjusted where necessary (mark-to-matrix method). The fair value is assigned to level 2 of the fair value hierarchy if the adjustment to the prices or parameters observable in the market is not material. However, if the adjustment is material and affects unobservable inputs, the fair value is assigned to level 3.

The fair value is determined based on the income approach using a valuation model if the market approach using the mark-to-market or mark-to-matrix method is not possible or is not of sufficient quality. Where available, inputs observable in the market as well as quality assured market data from appropriate pricing agencies or also validated prices from market partners (arrangers) are also used as a primary source for model valuations. Fair values determined by means of model valuations, for which only observable inputs are used or which are only based to an insignificant extent on unobservable inputs, are assigned to level 2 of the fair value hierarchy. If the fair values determined using valuation models are based to a significant extent on unobservable inputs, they are assigned to level 3 of the fair value hierarchy.

The fair value of receivables and liabilities measured at amortised cost is mainly determined by discounting the contractual future cash flows of the financial instruments. In the case of receivables with a default rating, the fair values are determined based on the still to be expected future cash flows.

VALUE ADJUSTMENTS
If the value of a financial instrument measured at fair value as determined by a valuation technique or model does not take adequate account of factors such as bid-offer spreads or closing costs, liquidity, model risks, parameter uncertainties and credit and/or counterparty default risks, the Bank makes corresponding valuation adjustments, which a purchaser of similar positions would also take into account. The methods applied for this draw to some extent on unobservable market parameters in the form of estimates.

Funding costs and benefits arise on the hedging of the risks relating to an uncollateralised OTC derivative with a collateralised OTC derivative. A funding valuation adjustment is determined as part of the method used to determine fair values for derivatives and is included in the fair value of the uncollateralised OTC derivative for funding costs/benefits arising on the provision or receipt of collateral due to the hedging asymmetry of the derivatives.

The value adjustment for the credit risk is determined for OTC derivatives at the level of a group of financial instruments of a business partner (so-called portfolio-based valuation adjustment). This is permitted if the conditions stipulated in IFRS 13.49 for a portfolio-based measurement are met.

The portfolio-based valuation adjustment for the credit risk is allocated to assets or liabilities in proportion to the fair value of the asset or liability respectively before the valuation adjustment is taken into account. Allocation only takes place to the assets or liabilities depending on whether there is an excess of assets or liabilities (so-called "relative fair value approach" – net approach).

Day One Profit and Loss
The use of a valuation model may give rise to differences between the transaction price and the fair value determined using such a valuation model on the initial recognition date. If the applicable market on which the determination of the fair value is to be based differs from the market, in which the transaction was concluded and the valuation model is not based to any great extent on observable parameters, such differences (so-called day one profits and losses) are accrued to day one profit and loss reserve. This reserve is reversed over the term. Implicitly, the time factor is thereby considered significant to the difference accrued and is taken into account accordingly, and it is assumed that this is also the procedure that would be followed by a third-party market participant in its pricing.

MEASUREMENT PROCESSES
The Bank has implemented various processes and controls for the purpose of determining the fair values of financial instruments and has embedded principles regarding the use of measurement methods in a guideline in the written rules of procedure. These measures also ensure that financial instruments to be assigned to level 3 of the fair value hierarchy are measured in accordance with IFRS 13. The Risk Control division, which is independent from the Bank's market departments, is responsible for ensuring that the measurement methods applied are in accordance with external accounting requirements. Information available on the methods applied by other market participants is also taken into account in this regard.

Fair values of financial instruments assigned to level 3 are determined again on a periodic basis – but at least on a monthly basis. Any changes in value that have occurred since the previous period are reviewed for plausibility. Where available, observable market information such as transaction prices or attributes of valuation parameters are also used in the internal price validation. If there are material differences between the fair values determined by the Bank and prices offered by counterparties, the valuation model used is subjected to an ad hoc validation process.

F) HYBRID FINANCIAL INSTRUMENTS
The term "hybrid financial instruments" covers silent participations and bonds issued by consolidated subsidiaries measured at amortised acquisition cost. A key common feature of these instruments is that their interest depends on profit and they participate in an annual net loss of the Bank.

IFRS 9.B5.4.6 states that for financial instruments not to be measured at fair value, the carrying amount of financial assets and liabilities must be adjusted and recognised in profit or loss if the future cash flows change. The new gross carrying amount is given by the present value of the new future cash flows using the financial instrument's original effective interest rate for discounting.

Application of IFRS 9.B5.4.6 had an effect in the year under review on the valuation of the hybrid financial instruments issued by Hamburg Commercial Bank, as the cash flows differ from the contractual cash flows that were originally intended.

The future cash flows are payments of principal which take into account loss participations by investors, where these will not be made up for by the expected redemption date of an instrument.

Net income from hybrid financial instruments is shown as a separate item under Net interest income, and in addition to current interest expenses it includes the effects of applying IFRS 9.B5.4.6 (see Note 7). Deferred taxes arise because of the difference between valuation for tax purposes and measurement in the Group financial statements. The associated effects on net income are recognised under income taxes. Hybrid financial instruments are shown either as securitised liabilities or as subordinated capital (see Notes 36 and 43).

G) HEDGE ACCOUNTING

Hamburg Commercial Bank makes use of the option provided for in IFRS 9 of continuing with portfolio fair value hedge accounting subject to the provisions set out in IAS 39. Changes in the value of items in the IFRS 9 measurement categories AC and FVOCI are not recognised through profit or loss. Changes in the value of derivatives are always recognised in profit or loss. If underlying transactions that are not recognised at fair value through profit or loss are hedged by derivatives, this creates a mismatch relating to the measurement/presentation of the results in the statement of income, which does not reflect the economic facts. One way of avoiding these distortions is to use fair value hedge accounting. In fair value hedge accounting, the changes in value of hedged items which are attributable to the hedged risk are recognised through profit or loss.

Hamburg Commercial Bank uses derivatives to hedge market risks resulting from loans, issues and securities portfolios. Individual loans, issues and securities items as well as entire portfolios of such financial instruments are hedged in this way.

The Bank uses portfolio fair value hedge accounting to account for portfolio-based hedging relationships in order to avoid distortions in the statement of income. Currently only hedges of fair value against interest rate risk are taken into account. Fixed interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only third-party interest rate swaps are designated as hedging instruments.

Where portfolios comprising lending, issuing or securities transactions are hedged by derivatives with non-Group counterparties and this hedging arrangement satisfies the requirements of IAS 39, portfolio fair value hedge accounting is applied. The portfolio fair value hedge on interest rate risks takes into account portfolios of assets and liabilities that are hedged against interest rate risks. This involves an iterative procedure. At the start of a hedging period, the financial instruments in the portfolios are allocated to maturity ranges on the basis of their anticipated maturity or interest adjustment dates, and the hedged amount is then determined for each maturity range. The hedging transactions are also allocated at the start of the hedging period. At the end of the hedging period, the hedge is recognised and measured and a new hedge is designated. The changes in the fair values of the hedged amounts of the underlying transactions due to the hedged risk are recognised in a separate item in the statement of financial position (asset or liability reconciling items from the portfolio fair value hedge). The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IFRS 9 category.

Using fair value hedge accounting requires a series of conditions to be met. These principally relate to the documentation of the hedge and its effectiveness. Hamburg Commercial Bank documents all hedging relationships in accordance with the requirements of IAS 39, including the hedging instrument, the hedged item (underlying transaction), the hedged risk and the result and method of measuring effectiveness.

Future changes in value of underlying and hedging transactions are simulated using a regression model within the framework of the prospective effectiveness test. Any actual changes in value are used in retrospective effectiveness testing. Hamburg Commercial Bank uses the dollar offset method for the retrospective effectiveness measurement. This tests whether the relationship between the changes in value of underlying and hedging transactions lies within an interval of 80 % to 125 %.

Changes in value of underlyings and hedging transactions in effective hedges which are attributable to the hedged risk are recognised in the Result from hedging.

Income and expenses from the amortisation of reconciling items for the fair value hedge portfolio are reported as part of the Net interest income. Amounts reversed on the disposal of hedged items that contributed to the reconciliation item are recognised in Net interest income or Net income from financial investments in the amount they were realised.

H) DERECOGNITION

A financial asset is derecognised when all material risks and opportunities associated with ownership of the asset have been transferred, i.e. when contractual claims on cash flows from the asset have been extinguished. Where not all risks and opportunities are transferred, Hamburg Commercial Bank carries out a control test to ensure that no continuing involvement due to opportunities and risks retained prevents it from being derecognised. Financial assets are also derecognised if the contractual rights to cash flows have expired. Financial liabilities are derecognised when they are repaid, i.e. when the associated liabilities are settled or lifted or when due respectively. If the material contractual elements of an asset or liability are altered, this also results in a derecognition.

I) REPURCHASE AGREEMENTS AND SECURITIES LENDING TRANSACTIONS

Hamburg Commercial Bank only enters into genuine repo transactions. Genuine repo transactions, repo agreements or sell-and-buy-back transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being the same in both cases.

For genuine repo transactions with assets sold under repurchase agreements, the securities continue to be recognised by Hamburg Commercial Bank, as the interest, credit rating and other material risks associated with the securities continue to be borne by Hamburg Commercial Bank. According to counterparty, the inflow of liquidity from the repo transaction is shown in the statement of financial position as a liability either to banks or customers. Interest payments are recognised under interest expense over the term of the transaction. Outflows of liquidity caused by reverse repos are reported as loans and advances to banks or customers. Correspondingly, the securities bought under repurchase agreements are not carried or measured in the statement of financial position. Agreed interest payments are booked as interest income over the term of the transaction. Receivables arising from repos are not netted against liabilities from repos involving the same counterparty, since the criteria for netting are not met.

The emphasis in repo transactions is on bonds from German public sector issuers and from bank issuers and the Bank's own bonds. Securities lending transactions are carried on the statement of financial position in a similar way to genuine repurchase agreements. Lent securities remain in the securities portfolio, while borrowed securities are not capitalized on the statement of financial position. Cash collateral furnished for securities lending transactions is shown as a receivable, while collateral received is shown as a liability. Repo and securities lending transactions are carried out primarily in bonds.

J) FINANCIAL GUARANTEE CONTRACTS

Pursuant to the definitions set out in IFRS 9, a financial guarantee is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for the loss that the holder incurs because a specified debtor fails to make payment when due under the original or amended terms of a debt instrument. A credit derivative is treated as a financial guarantee if the requirements set out in IFRS 9 are met. Credit derivatives that do not meet the definition of a financial guarantee are allocated, in accordance with the general valuation rules, to the FVPL Trading category and are measured at fair value.

Financial guarantees at Hamburg Commercial Bank are provided in the form of warranties, bank guarantees and letters of credit. Corresponding contingent liabilities are based on past events that may result in possible liabilities in the future. These liabilities arise as a result of the occurrence of unspecified future events where the amount required to meet them cannot be estimated with sufficient reliability. Financial guarantees are recognised at the higher amount resulting from the calculation of the expected losses in accordance with the impairment provisions set out in IFRS 9 and the premium capitalised at the time of initial recognition, which corresponds to the fair value, less the cumulative earnings contributions recognised in accordance with IFRS 15, with provisions having to be set up if necessary. If the premium payment to Hamburg Commercial Bank is distributed over the term of the financial guarantee, the guarantee will be stated as zero and the premium payment recognised on an accrual basis. If Hamburg Commercial Bank is the holder of a contract, the financial guarantee will be presented as collateral for the Group.

II. Notes on selected items relating to financial instruments in the statement of financial position

CASH RESERVE

Cash on hand, balances with central banks, treasury bills and discounted treasury notes are stated under cash reserve.

The instruments reported under this item are allocated to the holding categories AC HTC, FVOCIR HAS and FVPL RES within Hamburg Commercial Bank under IFRS 9 and are measured accordingly.

RECEIVABLES

Loans and advances to banks and customers mainly comprise money market transactions, loans and promissory note loans, but also securities which are registered securities and non-negotiable bearer debentures. Financial assets are allocated to the AC HTC, FVOCIR HAS and FVPL RES, FVPL DFV, FVPL HAS and FVPL HTC holding categories, resulting in the corresponding subsequent measurement.

Loans and receivables in the "AC assets" reporting category are reported in gross terms, i.e. before the deduction of impairments. Impairments are shown in the separate item Loan loss provisions, which is shown under Loans and advances as a deduction. Financial instruments in the FVPL Other, FVPL Designated and FVOCI Mandatory reporting category are reported in net terms. Accrued interest is also allocated to this item in the statement of financial position. Where loans and receivables have been acquired or incurred with the intention of trading, they are stated under trading assets.

Depending on their classification, interest income from loans and advances to banks and customers is recognised under interest income from AC and FVOCI financial assets or interest income from other financial instruments, lending and money market transactions. Premiums and discounts are accrued using the effective interest rate method.

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

POSITIVE AND NEGATIVE MARKET VALUE OF HEDGING DERIVATIVES

This item shows the market value of derivatives which have a positive or negative fair value and which are used in hedge accounting. Only interest rate and cross currency interest rate swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading assets or Trading liabilities.

RECONCILING ASSET AND LIABILITY ITEMS FROM THE FAIR VALUE HEDGE PORTFOLIO

The asset-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for assets. Similarly, the liability-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for liabilities.

TRADING ASSETS AND TRADING LIABILITIES

Only financial assets in the FVPL HFT holding category are reported under Trading assets. These include primary financial instruments held for trading purposes, particularly fixed income securities and pro rata interest, and also equities and other trading portfolios such as precious metals. Loans and loan commitments with hard syndication conditions are also reported here. A significant component continues to be derivatives with a positive market value which are either trading derivatives or not designated as a hedging derivative because they do not meet the requirements of hedge accounting.

The valuation results from changes in fair value are recognised in the Result from financial instruments categorised as FVPL. Interest income and expenses, as well as dividend income, is recognised as net interest income and commission income and expenses are recognised in net commission income.

In a similar way to trading assets, trading liabilities only include financial obligations belonging to the FVPL HFT holding category, which includes derivatives with a negative market value which are either trading derivatives or which have not been designated as hedging derivatives because they do not meet the requirements of hedge accounting. Delivery commitments from short sales of securities and pro rata interest from these are also stated in this category.

FINANCIAL INVESTMENTS

Financial investments include all securities not acquired for trading purposes (mainly debentures and equities) and equity holdings in non-affiliated companies under commercial law. The equities and equity holdings in non-affiliated companies are mainly categorised as FVPL RES. The dominant business model for debentures is Hold & Sell, meaning that most of them are categorised as FVOCIR HAS.

The products included in this item include fixed-interest securities including accrued interest, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, and holdings in joint ventures and associates not carried at equity.

All realisation effects from FVOCIR HAS securities are reported in Net income from financial investments, while realisations of AC HTC securities are reported in the Result from the disposal of financial instruments classified as AC. All valuation results associated with impairments in these two holding categories are shown under loan loss provisions. The effects on earnings resulting from the measurement and disposal of FVPL items within financial investments are shown in the Result from financial instruments categorised as FVPL.

If a decision had been made on the disposal of financial investments and this disposal had been initiated as at the balance sheet date, and it is highly probable that it can be completed within the following 12 months, these financial investments are reclassified as "Non-current assets held for sale and disposal groups".

FINANCIAL INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

In this item, HCOB reports shares in associates and joint ventures that are accounted for in the Group financial statements using the equity method. Such ownership interests are measured in accordance with the guidelines of IAS 28 in conjunction with IFRS 11.

For the impairment testing of financial investments accounted for under the equity method the total carrying amount of the investment measured under the equity method is assessed for impairment as a single asset in accordance with IAS 36. Its realisable amount is always compared with the carrying amount for this purpose, if there are indications on applying IAS 28 that the investment could be impaired.

The realisable amount is defined as the greater of fair value less costs to sell and value in use (for information on the calculation of the value in use, please refer to Note 6. III.).

LIABILITIES

Liabilities that are not instruments defined as trading liabilities include financial obligations in the "AC liabilities" and "FVPL Designated" reporting categories. As a result, the relevant holding categories are AC LIA and FVPL DFP. The relevant instruments are recognised as Liabilities to banks, Liabilities to customers, Subordinated liabilities and Securitised liabilities.

Financial liabilities are recognised at fair value at the time of issue plus transaction costs, which generally corresponds to the transaction price. In subsequent periods, debt classed as AC liabilities are measured at amortised cost applying the effective interest method. Changes in the value of these financial instruments are only recognised when the relevant instrument is sold.

Differences between acquisition costs and the repayment amount (e.g. premiums and discounts) are allocated within Net interest income through profit or loss in line with the effective interest rate method. Valuation results resulting from financial instruments in the "FVPL Designated" reporting category are recognised in the Result from financial instruments categorised as FVPL.

Repurchased own debentures are set off against securitised liabilities. For repurchased debentures categorised as FVPL DVP, the non-recyclable pro-rata credit rating-driven effects from own issues measured at fair value through profit or loss, which were initially recognised in the revaluation reserve, are transferred to retained earnings.

SUBORDINATED CAPITAL

Subordinated liabilities, silent participations and profit-sharing certificates are shown under Subordinated capital, due to their different nature compared with other liabilities. Silent participations are structured as so-called hybrid financial instruments without exception and so are some profit-sharing certificates (cf. Note 6.I.F). No obligation to other creditors for premature redemption of subordinated liabilities is possible. In the case of liquidation or insolvency, subordinated liabilities may only be repaid after the claims of all senior creditors have been met.

Based on their contractual structure and financial character, the participations of the typical silent partner represent debt, which is why they are stated under subordinated capital.

Subordinated capital categorised as AC liabilities is recognised and measured initially at fair value (taking the transaction costs into account) and at amortised acquisition cost subsequently. Premiums and discounts are allocated on a constant effective interest rate basis via Net interest income.

See Note 6.I.F with regard to the treatment of hybrid financial instruments in the year under review.

III. Notes on other items in the statement of financial position

INTANGIBLE ASSETS

Software acquired or developed in-house and acquired goodwill are accounted for under Intangible assets. In accordance with IAS 38.21, Hamburg Commercial Bank capitalises software development costs if the production of the in-house software is likely to generate an economic benefit and the costs can be reliably determined. If the criteria for capitalisation are not met, expenses are recognised in profit or loss in the year they are incurred. Subsequent costs are only to be capitalised if they lead to a significant improvement of the software in the form of an expansion of the software's functionality.

Since Hamburg Commercial Bank does not apply the full goodwill approach, goodwill arises on acquisition of subsidiaries, when the cost of acquisition exceeds the Group's share in the remeasured net assets (shareholders' equity) of the company acquired.

The initial measurement of intangible assets is made at acquisition or production costs in accordance with IAS 38.24. They are subsequently measured at amortised acquisition or production cost.

Software developed in-house is subject to linear depreciation over two to ten years.

If there are indications of impairment, intangible assets are subject to an impairment test. For this test the carrying amount of the intangible assets is compared with the realisable amount. The realisable amount is defined as the greater of fair value less costs to sell and value in use. An asset is impaired if its carrying amount exceeds its realisable amount. Intangible assets with an indefinite useful life, intangible assets not ready for use as well as goodwill are subject to an annual impairment test even if there are no signs which suggest impairment.

Examination of the value of goodwill is carried out on the basis of cash-generating units. Cash-generating units of Hamburg Commercial Bank for non-strategic investments are defined based on the internal management level (global head structure). Each global head unit forms an own cash-generating unit. A company is regarded as a non-strategic investment if underlying subsidiaries are integrally involved in the business activities of the respective global heads. However, if the value in use is expected to be realised by cash inflows or an increase in value of a subsidiary alone, then the subsidiary itself continues to be a cash-generating unit (so-called strategic investment). Where the anticipated benefit can no longer be determined, a write-down is made.

The value in use of a cash generating unit is determined on the basis of forecast and discounted net cash flows. Net cash flows are usually determined on the basis of Group planning for a detailed planning period of five years. For subsequent periods the planned cash flows of the last year of the plan are taken into account allowing for a growth trend. The planned cash flows are based on a risk-adequate discount rate.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises land and buildings, including rights of use related to property rented under a lease agreement that conforms to the definition of investment property, plant and equipment and leasing assets under operating leases where Hamburg Commercial Bank acts as lessor. With the exception of rights of use in accordance with IFRS 16, property, plant and equipment is carried at cost less scheduled straight-line depreciation in accordance with their expected useful lives. The treatment of rights of use in accordance with IFRS 16 is explained in the following section IV- Leasing transactions. Subsequent costs of acquisition or production are capitalised provided they increase the economic utility of the asset concerned. Interest paid to finance acquisition costs of property, plant and equipment is recorded as an expense in the period concerned.

Physical wear and tear, technical obsolescence and legal and contractual restrictions are taken into consideration when determining useful life. For property, plant and equipment, linear depreciation is calculated over the following periods:

Classes of property, plant and equipment

	Useful life in years
Buildings	50
Leasehold improvements	Calculation of residual life is based on the remaining term of the rental agreement.
Other operating equipment	3–15
Lease assets from operating leases in which Hamburg Commercial Bank acts as a lessor	Customary useful life
Rights of use from leasing (property, plant and equipment Lessee)	Contractual, non-terminable basic leasing period, taking into account highly probable renewal or termination options

Property, plant and equipment is reviewed at each reporting date for signs which suggest impairment. If this is the case, the recoverable amount is compared with the carrying amount. If the carrying amount exceeds the recoverable amount, a write-down is recognised in profit or loss under administrative expenses.

Gains and losses from the disposal of property, plant and equipment are shown under Other operating income in the statement of income. Repairs, servicing and other maintenance costs are recorded as an expense in the period concerned.

INVESTMENT PROPERTY

Under the Investment property item, all property (land or buildings including the right-of-use assets resulting from properties rented as part of a lease that meet the requirements for definition as investment property) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of the Bank. For mixed use properties a percentage allocation of the carrying amount is made. Owner-occupied properties are reported under Property, plant and equipment; rented-out or empty parts are reported as Investment property. The properties are recognised at acquisition cost and depreciated on a straight-line basis. A useful life of 50 years is used for depreciation purposes. At the balance sheet date, checks are performed to determine whether there are any indications of impairment. If this is the case, the recoverable amount is compared with the carrying amount. If the carrying amount exceeds the recoverable amount, a write-down is recognised in profit or loss under administrative expenses.

The capitalised income method is used in determining the fair value of investment properties, using market data from internal certified appraisers. The fair value is disclosed in Note 29.

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS AND LIABILITIES RELATING TO DISPOSAL GROUPS

Non-current assets whose carrying amounts will be predominantly or primarily realised through a sale and not through continuing use must be classified as held for sale in accordance with IFRS 5 on the condition that a sale has already been decided on and initiated as of the reporting date, and is extremely likely to be completed within the following twelve months.

A disposal group is a group of assets which are sold to the same purchaser in a single transaction and at a single price. A disposal group can also include liabilities, if these are taken over by the purchaser together with the assets. Hamburg Commercial Bank recognises as disposal groups and liabilities relating to disposal groups specifically the assets and liabilities of consolidated subsidiaries which meet the requirements of IFRS 5 for classification as held for sale.

Non-current assets and disposal groups held for sale are to be measured at the lower of carrying amount or fair value less sale costs. Financial instruments continue to be measured according to the requirements of IFRS 9.

PROVISIONS

Provisions are created where the Group has existing legal and actual obligations resulting from previous events and it is likely that meeting the obligation will require an outflow of resources and a reliable assessment of the amount of the obligation can be made. Provisions are examined and redetermined at least quarterly.

Pension provisions

The majority of employees of Hamburg Commercial Bank AG as well as employees of several domestic subsidiaries are entitled to benefits from different staff pension plans, which include both defined contribution and defined benefit plans.

In the case of defined contribution plans, contractual relationships with Provinzial NordWest Lebensversicherung AG for direct insurance policies partly financed by employees exist. As the insurance company is required to be a member of Protektor Lebensversicherungs-AG, the insured employees are protected against its insolvency, meaning that Hamburg Commercial Bank AG is not burdened even in the event of Provinzial NordWest Lebensversicherung AG's insolvency. These direct insurance policies represent insured benefits and are treated as defined contribution plans.

In the case of the defined benefit plans, the amount of benefit depends on various factors, such as age, salary and length of service. Pension plans include specifically retirement and disability pensions and survivor benefits. They are based primarily on employment contracts of Landesbank Schleswig-Holstein Girozentrale, the retirement plan of Hamburgische Landesbank Girozentrale, retirement pension guidelines of the Hamburgische Landesbank Girozentrale relief fund, the pension plan of Hamburgische Landesbank Girozentrale and Section 2 (4) of the Investment Bank Act in the version of 23 January 1998. The pension payment amount depends on the final salary paid immediately prior to retirement, the salary trend up to retirement is irrelevant (no performance components). The pension plans provide for on-going pension payments and no capital payments. Minimum guarantees are not provided for. Pension provisions for defined benefit plans are equivalent to the net present value of the pension entitlements earned as of the reporting date, factoring in anticipated wage and salary increases and the trend in annuities.

Calculations are based solely on actuarial reports based on IAS 19, which are prepared by independent actuaries using the projected unit credit method.

These defined benefit plans were closed in 2002.

Hamburg Commercial Bank AG also participates in a multi-employer plan which is run by BVV Versorgungskasse des Bankgewerbes e.V. Contributions are regularly paid with participation from the employees. The BVV tariffs provide for fixed pension payments with profit participation. For BVV, employers have a subsidiary liability for the liabilities of their employees. Hamburg Commercial Bank AG classifies the BVV plan as a defined-benefit joint pension scheme provided by a number of employers. As the BVV relief fund does not fully allocate its assets neither to the beneficiaries nor the member companies and as the information available for its accounting treatment as a defined benefit plan is insufficient to be able to allocate the assets and pension commitments to the current and former employees of the individual member companies, the plan is treated as a defined contribution plan for accounting purposes. It appears unlikely that there will be any call based on the statutory subsidiary liability.

The remeasurement of net defined benefit liabilities is disclosed under Other net income and under Equity in Retained earnings in the year in which they arise. Pension provisions are discounted as long-term liabilities. The interest expense included in expense for retirement pensions is recognised as part of Net interest income.

The following assumptions are made in calculating direct benefit pension liabilities:

Actuarial assumptions

	2020	2019
Discount rate		
Domestic	1.10%	1.43%
Foreign (weighted)	1.10%	2.13%
Salary growth (weighted)	2.0%	2.0%
Adjustment rate for pensions		
Germany		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules (weighted)	2.0%	2.0%
Employment contract 4 (weighted)	2.0%	2.0%
Mortality, disability, etc.	Based on the 2018 G tables of K. Heubeck	Based on the 2018 G tables of K. Heubeck

Actuarial assumptions are subject to a sensitivity analysis as described in Note 39.

Defined benefit pension plans are partly financed from assets and qualified insurance policies used exclusively for pensions (plan assets). Most of the plan assets result 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 plan assets under IAS 19.8. Plan assets are measured at fair value and recognised in the statement of financial position as reducing provisions. Where the fair value of the plan assets exceeds the amount of the obligations, the excess amount is disclosed under Other assets as capitalised plan assets.

Other provisions

Other provisions include provisions in the lending business, for restructuring, litigation risks and costs, for personnel expenses (without pensions) and other provisions.

Provisions in the lending business are created, among other reasons, for any sudden calls to pay under warranty bonds, guarantees and letters of credit. The parameters used for the calculation are presented in the section Loan loss provisions and impairment of financial instruments (Note 6.I.D).

Provisions for restructuring are created to the extent Hamburg Commercial Bank has developed and communicated a sufficiently detailed plan for such measures and had started to implement such plan. As soon as the obligation is sufficiently certain or can be quantified – e.g. through the signing of agreements – it is transferred to Other liabilities or Provisions for pensions and similar obligations as a matter of principle.

Provisions for litigation costs comprise expected payments for court costs as well as for non-court costs in connection with litigation such as, e.g. attorneys' fees and other costs. For litigation in progress, only costs for the current jurisdictional level may be included within the provision.

Provisions for litigation risks are to be created when Hamburg Commercial Bank AG or any of its consolidated subsidiaries is the defendant in an action and the probability that the Bank will lose the action is presumed to be greater than 50 %. Provisions include only payments for probable liability for damages and fines as well as costs of litigation at the current level of appeal. The general measurement rules on provisions apply. The mandatory disclosures defined in IAS 37.86 are made for litigation risks that are not considered likely to arise, but which cannot be entirely excluded, unless in individual cases prerequisites according to IAS 37.92 occur and the disclosure can be omitted.

Under Provisions for personnel expenses, in general all outstanding benefits within the personnel expenses are presented with the exception of pension obligations. At Hamburg Commercial Bank, these include, in particular, provisions for variable performance-related pay, partial retirement and long-term credits for hours. Provisions for anniversary payments and partial retirement are accounted for based on actuarial expert reports.

In accordance with IAS 37, provisions are mainly determined based on the best estimate of management. The most likely amount necessary to meet the obligations identifiable on the reporting date is recognised. Long-term provisions are reported at present value to the extent discounting effects are significant. For discounting purposes, interest rates that are valid on the reporting date and are term-appropriate are used based on risk-free interest curves. Addition of accrued interest to be performed during the reporting year is reported under Net interest income.

INCOME TAX EXPENSE

Current tax assets and liabilities are stated at the amount of the anticipated refund from, or payment to, the tax authorities, applying the tax provisions of the countries in question. If there is any uncertainty with regard to the tax treatment of individual items, the most probable value will generally be recognised.

Deferred tax assets are recognised for all deductible timing differences between the value of an asset and liability as measured by IFRS standards and its assigned value in tax terms and for tax loss carryforwards, to the extent that it is probable that future taxable profit will be available against which these deductible timing differences and tax loss carryforwards can be utilised Deferred tax liabilities are created for all taxable temporary differences. Deferred taxes are calculated using the tax rates and rules anticipated to be valid at the time when the deferred tax assets are to be realised. The effects of tax rate changes on deferred taxes are taken into account on adoption of the legislative amendment. Deferred tax assets are recognised and measured as deferred income tax claims and deferred tax liabilities as Deferred income tax liabilities.

Expenses and income from deferred taxes are in principle recognised on an accrual basis in the statement of income under Income taxes, separate from actual tax expenses and income. In doing so, the accounting treatment of the underlying situation is taken into account. Deferred taxes are recognised in the statement of income if the item in the statement of financial position itself is recognised in profit or loss. Deferred taxes are charged or credited directly to equity in OCI, if the underlying item itself is charged or credited directly to equity (IAS 12.61A).

Hamburg Commercial Bank prepares tax results planning for the purpose of assessing the recoverability of deferred tax assets. This tax results planning is derived from the corporate planning relevant at the time.

At each reporting date Hamburg Commercial Bank makes an assessment as to whether the realisation of future tax benefits is sufficiently probable to recognise deferred tax assets. Amongst other things, this requires a management assessment of the tax benefits that arise from the existing tax strategies and future taxable income as well as the consideration of other positive and negative factors. The deferred tax assets disclosed could decrease, if the estimates of the planned taxable income and the tax benefits achievable under the existing tax strategies are revised downwards or if changes to current tax legislation restrict the timing and extent of the realisability of future tax benefits.

OTHER ASSETS AND OTHER LIABILITIES
All remaining assets and liabilities not allocable to any other item are stated under Other assets or Other liabilities. These include accrued expenses and income amongst other things.

The general recognition and measurement criteria for assets are observed. Initial recognition is at cost. For financial instruments included in this item, the provisions of IFRS 9 apply.

IV. Leasing transactions

According to IFRS 16, an agreement contains a lease if it entitles the lessor to control the use of an identified asset for a specified period of time against payment. Hamburg Commercial Bank assesses whether a lease exists at the beginning of a contract.

The business volume of Hamburg Commercial Bank in the form of leases – those in which Hamburg Commercial Bank acts as both the lessee and the lessor – is of very minor importance overall.

LESSEE
Leasing transactions in which Hamburg Commercial Bank acts as the lessee serve to lease real estate (primarily Group business premises), technical equipment and fixtures, office furniture and equipment, and motor vehicles.

Taking into account materiality aspects and making use of the relief provisions for low-value and short-term leases (IFRS 16.5) and the option for leases of intangible assets (IFRS 16.4), the scope of application of IFRS 16 at Hamburg Commercial Bank as a lessee is limited to property held under operating leases. In order to confirm the immateriality of the remaining leases, Hamburg Commercial Bank regularly carries out a materiality test, in which the effects of applying the standard to these leases are simulated and the effect on the financial position and financial performance as well as qualitative aspects are analysed. Payments for leases that Hamburg Commercial Bank exempts from the scope of IFRS 16 are recognised in the income statement under Other operating result in the reporting period in which they are incurred.

In accordance with IFRS 16, leases are capitalised as rights of use in property, plant and equipment or investment property at the time when the leased asset is available for use by the Group, and a corresponding liability from the lease payments is recognised under other liabilities. Each lease payment is divided into repayment and financing expenses. The latter are recognised as an interest expense for other liabilities over the term of the lease.

For reasons of materiality, the cash outflows relating to the redemption portion are shown in the cash flow statement under Cash flow from investing activities for property, plant and equipment (without separate disclosure of the lease portion), in contrast to the standard specification, while the interest portion is shown under cash flow from operating activities (without separate disclosure).

Calculating the amount of a lease liability and the right of use associated with a lease implies estimates regarding the lease term, particularly against the backdrop of possible termination or renewal options. With regard to the real estate leases relevant for IFRS 16 at Hamburg Commercial Bank, an extension of the term by exercising a contractual extension option (or a shortening of the term by exercising a termination option) without a specific resolution of the Management Board cannot be regarded as sufficiently certain, which is why (until a specific resolution is available) only the contractually agreed term is used for calculation.

Hamburg Commercial Bank also applies the provisions on sale and leaseback transactions within the meaning of IFRS 16.98 et seqq. In this context, HCOB leases back an asset of the lessor after having previously sold the asset to this entity.

If the transfer of this asset by the lessee meets the requirements for a sale set out in IFRS 15, HCOB, as seller and lessee, recognises a right-of-use asset measured at the pro rata residual carrying amount of the asset at the date of the transfer in proportion to the use granted by the lessor. In accordance with IFRS 16.100 (a), the lessee recognises the difference between the value of the right of use and the residual carrying amount in profit or loss in the period in which the right of use is recognised. For a transitional period, the main building of Hamburg Commercial Bank was recognised under property, plant and equipment in financial year 2020, before it was sold in a sale and leaseback transaction.

Rights of use and lease liabilities are recognised at their present value on addition. In the absence of sufficient information on the interest rate inherent in each lease, Hamburg Commercial Bank uses a uniform marginal borrowing rate appropriate to the term of the lease to determine the present value of the lease liability, based on the Bank's liquidity costs.

LESSOR
A distinction is made between finance and operating leases. The allocation depends on whether substantially all risks and rewards are transferred to the lessee or not.

A finance lease is considered to be present where the economic risks and rewards as defined by IAS 17 lie with the lessee; consequently, the leased asset is reported in the latter's statement of financial position. All other leasing arrangements are classified as operating leases. The classification is made at the beginning of each lease.

Finance lease

In finance lease transactions in which Hamburg Commercial Bank acts as lessor, a receivable corresponding to the net investment value is recognised. Depending on the lessee, they are reported either under Loans and advances to banks or under Loans and advances to customers

Leasing rates due are divided into a repayment part which is not recognised in profit or loss and an interest part which is. The part taken to profit or loss is recognised in Net interest income.

Impairments of finance lease receivables attributable to changes in credit risk are recognised in Loan loss provisions. Impairments not attributable to changes in credit risk, such as the impairment of the non-guaranteed residual value of a leasing receivable, are recognised in other operating expense.

Operating lease

As lessor, Hamburg Commercial Bank states leasing objects as assets measured at amortised cost under Property, plant and equipment or as Investment property. Leasing instalments received are stated under Other operating income, and the corresponding depreciation stated in Administration expenses.

V. Currency translation

The consolidated financial statements of Hamburg Commercial Bank are drawn up in euros. The euro is the functional currency of the overwhelming majority of the individual financial statements included in the Group financial statements. However, some Group companies have another functional currency.

The following principles are applied when translating foreign currency items within single entity financial statements and for translating the financial statements of Group companies which do not draw up their accounts in euro.

PRESENTATION OF FOREIGN CURRENCY TRANSACTIONS IN THE GROUP FINANCIAL STATEMENTS

Initial measurement of assets and liabilities from all foreign currency transactions takes place at the spot rate for the transaction.

In subsequent measurement, monetary items are translated based on the spot mid-rate as of the reporting date. Non-monetary items that are stated in the statement of financial position at fair value are translated using the spot mid-rate applicable at the time of measurement and any other non-monetary items at the historical rate.

Expenses and income in foreign currency arising from the measurement of items in the statement of financial position are translated using the rates applied for translating the items in question. The transaction rates are used for all other expenses and income.

For monetary and non-monetary items measured at fair value, currency translation differences are always recognised in the statement of income of the period when the result arose.

TRANSLATION OF FINANCIAL STATEMENTS PREPARED IN FOREIGN CURRENCY FOR INCLUSION IN THE CONSOLIDATED FINANCIAL STATEMENTS

Assets and liabilities from financial statements denominated in foreign currencies are translated at the period-end rate. Average rates for the reporting period are used to translate expenses and income. With the exception of the revaluation reserve reported to be included in the financial statements, which is translated at the closing rate, equity is translated at historic rates (date of the transaction).

Any differences arising from this method of translation are reported under OCI and under Equity in the Currency reserve.

Notes on the Group statement of income

7. Net interest income

Net interest income

(€ m)	2020	2019
Interest income from		
Lending and money market transactions categorised as AC and FVOCI	650	747
Fixed-interest securities categorised as AC and FVOCI	58	88
Impaired financial assets	17	26
Interest income from financial assets categorised as AC and FVOCI	**725**	**861**
thereof attributable to financial assets measured at AC	645	821
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	80	40
Interest income from		
Other lending and money market transactions	28	49
Other fixed-interest securities	14	17
Trading transactions	5	7
Derivative financial instruments	578	1,258
Current income from		
Equities and other non-fixed-interest securities	1	–
Long-term equity investments	–	7
Interest income from other financial instruments	**626**	**1,338**
Negative interest on investments categorised as AC and FVOCI	**-19**	**-25**
thereof attributable to financial assets measured at AC	-19	-25
Negative interest on other cash investments and derivatives	**-79**	**-181**
Interest expenses for		
Liabilities to banks	56	70
Liabilities to customers	291	345
Securitised liabilities	60	93
Subordinated capital	12	16
Other liabilities	7	20
Derivative financial instruments	365	1,127
Interest expenses	**791**	**1,671**
thereof attributable to financial liabilities not measured at fair value through profit or loss	**198**	283
Positive interest on borrowings and derivatives	**-95**	**-180**
thereof attributable to financial liabilities not measured at fair value through profit or loss	**-20**	-12
Net income from re-estimating interest and repayment cash flows	82	-146
Net income from discounting and compounding	-10	-35
Net income/loss from hybrid financial instruments	**72**	**-181**
thereof attributable to financial liabilities not measured at fair value through profit or loss	72	-181
Total	**629**	**321**

Interest income and expenses relating to trading and hedging derivatives are disclosed under interest income and expense from/for trading and hedging derivatives.

Net interest income includes income and expenses arising from the amortisation of the adjustment items for portfolio fair value hedge relationships and corresponding proceeds from the closing of the underlying transactions which contributed to the adjustment item.

For receivables subject to specific loan loss provisions, both the interest income and the loan loss provisions have to be adjusted by multiplying them by the original effective interest rate in Net interest income.

The negative interest from investments categorised as AC and FVOCI results from lending and money market transactions. The negative interest on cash investments and derivatives results in full from derivative financial instruments.

The positive interest results primarily from derivative financial instruments.

The term hybrid financial instruments covers silent participations, profit participation capital and bonds measured at amortised cost, the return on which is profit-related and which participate in the net loss for the year of the Bank.

The total of current participation in losses (not allowing for reversals of impairment losses) relating to the 2020 financial year was € 77 million (previous year: € 236 million).

The net income from hybrid financial instruments includes the effects on earnings resulting from the application of IFRS 9 B5.4.6.

The difference between the valuation for tax purposes and measurement under IFRS 9 B5.4.6 results in deferred tax expense of € 18 million (previous year: € 27 million deferred tax income).

8. Net commission income

Net commission income

(€ m)	2020	2019
Commission income from		
Lending business	25	36
Securities business	2	4
Guarantee business	8	10
Payments and account transactions as well as documentary business	18	21
Other commission income	4	6
Commission income	**57**	**77**
Commission expense from		
Lending business	3	4
Securities business	1	2
Payments and account transactions as well as documentary business	3	4
Other commission expenses	2	6
Commission expenses	**9**	**16**
Total	**48**	**61**

Financial instruments that are not measured at fair value through profit or loss account for € 48 million of Net commission income. In the previous year, € 65 million of Net commission income was attributable to these financial instruments.

9. Result from hedging

The change in value attributable to the hedged risk for designated underlying and hedging transactions in effective hedging relation-ships is reported under the item Result from hedging. The item contains the profit contributions from micro and portfolio fair value hedges. Hedge accounting is used solely for interest rate risks.

Result from hedging

(€ m)	2020	2019
Fair value changes from hedging transactions	-74	-146
Micro fair value hedge	-83	-100
Portfolio fair value hedge	9	-46
Fair value changes from underlyings	79	144
Micro fair value hedge	88	97
Portfolio fair value hedge	-9	47
Total	**5**	**-2**

10. Result from financial instruments categorised as FVPL

The result from financial instruments categorised as FVPL includes the realised result and the valuation result of financial instruments in the FVPL Trading, FVPL Designated and FVPL Other categories. The interest income and expense and results from current dividends in these holding categories are reported under the Net interest income item.

Gains and losses arising on currency translation are generally disclosed under this line item of the income statement. In derogation of the above, the results from the translation of loan loss provisions denominated in foreign currency are disclosed under the Loan loss provisions item.

Other products comprises income from foreign exchange transactions, credit derivatives and commodities.

Result from financial instruments categorised as FVPL

(€ m)	2020	2019
Loans, bonds and interest rate derivatives		
FVPL Held For Trading	-200	-108
FVPL Designated	30	63
FVPL Other	8	16
Total	**-162**	**-29**
Equities and equity derivatives		
FVPL Held For Trading	-1	3
FVPL Designated	1	-3
FVPL Other	1	7
Total	**1**	**7**
Other products		
FVPL Held For Trading	5	-2
FVPL Other	63	5
Total	**68**	**3**
Total	**-93**	**-19**

The Result from financial instruments categorised as FVPL includes net income from foreign currency of € 59 million (previous year:
€ -2 million).

During the reporting period, € -4 million (previous year: € 7 million) of the changes in fair value of the financial assets categorised as FVPL Designated related to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € -8 million (previous year: € -2 million) is attributable to changes in the credit spread.

11. Net income from financial investments

This item shows the realised results of the FVOCI-categorised financial investments including the reversal amounts from portfolio fair value hedges.

Net income from financial investments

(€ m)	2020	2019
Realised results from financial assets categorised as FVOCI	7	20
Total	**7**	**20**

12. Result from the disposal of financial assets classified as AC

This item includes realised results from the sale and premature repayment of, as well as substantial modifications to, financial assets categorised at amortised cost.

In the reporting period, € 20 million of the result from the disposal of financial assets categorised at AC results from the disposal of receivables in connection with early repayments/redemptions.

€ 40 million of the result is attributable to disposals of receivables through sale.

In accordance with FRS 9.B4.1.3 A and B, the disposals were carried out in line with the exceptions applicable to the "Hold" business model.

The transformation process of Hamburg Commercial Bank (with the aim of transitioning to the deposit protection fund of the BdB) led to an increase in disposals in accordance with IFRS 9.B4.1.3B. The definition of what constitutes harmless sales and materiality thresholds for sales of receivables within the "Hold" business model are discretionary decisions.

Result from the disposal of financial assets classified as AC

(€ m)	2020	2019
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	68	82
Total gains	**68**	**82**
Losses from the disposal of financial assets classified as AC		
Loans and advances to customers	8	-
Total losses	**8**	**-**
Total	**60**	**82**

13. Loan loss provisions

This item shows the change in loan loss provisions for all loans and advances to banks, loans and advances to customers and financial investments, as well as leasing receivables, categorised as AC or FVOCI.

Loan loss provisions

(€ m)	2020	2019
Loans and advances to customers		
Insignificant increase in the loan default risk (level 1/12-month ECL)	-18	44
thereof AC	-18	41
thereof FVOCI	–	3
Significant increase in the loan default risk (level 2/lifetime ECL)	-89	-87
thereof AC	-89	-85
Impaired credit rating (level 3/lifetime ECL)	-95	51
thereof AC	-95	51
loans that are purchased or originated credit-impaired (POCI)	-1	–
thereof AC	-1	–
Result from the change in loan loss provisions on loans and advances to customers	**-203**	**8**
Financial investments		
Significant increase in the loan default risk (level 2/lifetime ECL)	1	4
thereof FVOCI	1	4
Result from the change in loan loss provisions for financial investments	**1**	**4**
Off-balance-sheet business		
Insignificant increase in the loan default risk (level 1/12-month ECL)	1	6
Significant increase in the loan default risk (level 2/lifetime ECL)	-3	-1
Impaired credit rating (level 3/lifetime ECL)	14	2
Provisions in lending business in accordance with IAS 37	-7	1
Result from changes in provisions in the lending business	**5**	**8**
– Direct write-downs	10	18
+ Payments received on loans and advances previously written down	7	10
+ Result of non-substantial modifications	4	1
Result from other changes to loan loss provisions	**1**	**-7**
Result from changes in loan loss provisions before currency translation gains or losses and compensation	**-196**	**13**
Currency translation gains or losses on loan loss provisions denominated in foreign currency	**8**	**-2**
Total loan loss provisions	**-188**	**11**

When allocating the loan loss provisions for loans and advances to customers in accordance with the expected credit loss model, adjustments to the model overlays (for an explanation of this term, see Note 6) were also taken into account as at 31 December 2020. These refer to risk factors that are relevant for measurement but are not yet included in the credit risk-based calculation parameters of the models for determining expected credit losses, or in the expert estimates.

14. Administrative expenses

Administrative expenses

(€ m)	2020	2019
Personnel expenses	178	218
Operating expenses	180	185
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	7	10
Total	**365**	**413**

Personnel expenses

(€ m)	2020	2019
Wages and salaries	148	179
Social security contributions	20	24
thereof employer contributions to government-sponsored pension plans	9	11
Expenses for pensions and support	10	15
Total	**178**	**218**

Operating expenses

(€ m)	2020	2019
IT costs	94	86
Costs for information services	8	9
Costs for external services and project work	27	27
Legal service costs	15	23
Expenses for land and buildings	8	10
Costs of advertising, PR and promotional work	2	2
Other expenses	26	28
Total	**180**	**185**

Depreciation on property, plant and equipment and amortisation on intangible assets are broken down as follows:

Depreciation

(€ m)	2020	2019
Scheduled depreciation on		
Plant and equipment	3	2
Property	–	1
Acquired software	2	3
Software developed in-house	–	1
Right-of-use-assets from leasing	2	2
Unscheduled depreciation on		
Property	–	1
Total	**7**	**10**

15. Other operating result

Other operating result

(€ m)	2020	2019
Income		
from reversal of other provisions and release of liabilities	27	131
from legal disputes	9	30
from cost allocations and reimbursement of expenses	25	24
from interest on receivables from the tax office	2	4
from investment property (rental income)	3	4
from the disposal of property, plant and equipment	160	–
from write-ups on property, plant and equipment	2	–
Other income	29	35
Total income	**257**	**228**
Expenses		
from additions to other provisions	20	56
from expenses paid in advance for transaction fees, legal fees, servicing	18	18
for interest expenses pursuant to Section 233 AO	2	–
for investment property	–	1
Other expenses	11	20
Total expenses	**51**	**95**
Income/loss arising on the deconsolidation of companies	-1	–
Total	**205**	**133**

The income from the reversal of other provisions and liabilities mainly relates to income from the reversal of provisions for litigation risks and the reversal of another provision because of the termination of an agency agreement from a subsidiary.

Income from the disposal of property, plant and equipment includes two extensive building transactions that were carried out by Hamburg Commercial Bank. This was adjusted for the revision of income due to the capitalisation of the right of use for the Bank's main building in accordance with the accounting rules on the sale and leaseback procedure. The income adjustment is derived from the difference between the residual carrying amount of the property and the retained right of use, while the continued staff reduction due to the ongoing transformation process in relation to the office space leased back for a transitional period was taken into account when rights of use were determined.

16. Expenses for regulatory affairs, deposit guarantee fund and banking associations

Expenses for regulatory affairs, deposit guarantee fund and banking associations

(€ m)	2020	2019
Expenses for European bank levy	23	29
Expenses for deposit guarantee fund	4	16
Expenses for banking supervisory authority	5	5
Expenses for banking associations	-	1
Total	**32**	**51**

Since 31 December 2018, the Bank has reported regulatory expenses (European bank levy and contributions paid to the supervisory authorities), the deposit guarantee fund and membership fees paid to banking associations under this item.

Due to the reduction in total assets, lower contributions for bank levies were incurred in the financial year. In the previous year, provisions for expected one-time payments to the association of German banks (BDB) in connection with the planned transition of the deposit guarantee scheme were recognised in the Expenses for deposit guarantee fund item, which resulted in a temporary increase.

17. Result from restructuring and transformation

Result from restructuring and transformation

(€ m)	2020	2019
Personnel expenses due to restructuring	1	18
Operating expenses due to restructuring	14	28
Income from restructuring	15	22
Result from restructuring	**-**	**-24**
Expenses from privatisation	1	14
Expenses from transformation	18	28
Result from restructuring and transformation	**-19**	**-66**

In connection with the successful privatisation on 28 November 2018, Hamburg Commercial Bank initiated a comprehensive restructuring programme, which includes the planned reduction in the number of employees and major projects to support the transformation of the Bank. In December 2019, an additional programme designed to further reduce costs was decided upon, which will also involve a further reduction in the number of employees.

In the 2019 financial statements, the item had already been renamed to Result from restructuring and transformation. This takes account of the fact that the expenses from privatisation have become less significant since 2019, while the expenses from transformation have become more significant. These expenses result in particular from measures introduced to achieve the Bank's strategic goals that will enable a seamless transition to the deposit guarantee system of private banks by 2022.

Income from restructuring results mainly from the reversal of provisions.

18. Income tax expense

Income tax expense

(€ m)	2020	2019
Corporate tax and solidarity surcharge		
Germany	-2	2
Trade income tax		
Germany	-	-
Current income taxes	**-2**	**2**
Income tax from previous years	-	-45
Subtotal current income tax	**-2**	**-43**
Income from deferred tax		
from temporary differences	223	35
from losses carried forward	-66	72
from consolidation	-	1
Subtotal deferred income tax	**157**	**108**
Income tax expense (+)/income (–)	**155**	**65**

Deferred taxes on tax loss carryforwards are measured on the basis of a recoverability analysis, which is based on the corporate planning. As a result of this corporate planning, income from the recognition of deferred taxes from losses carried forward in the amount of € 35 million at the Head Office and € 31 million at the Luxembourg branch is recognised in the year under review. The Singapore branch was closed in the year under review.

Expenses relating to deferred taxes from temporary differences in the year under review are mainly attributable to the decrease in temporary differences at the Head Office.

Reconciliation of income taxes

(€ m)	2020	2019
Group net result	102	12
Income tax expense	155	64
Income before taxes incl. income from transfer of losses	257	76
Domestic income tax rate to be applied in %	32.05	31.98
Imputed income tax expenses in the financial year	**82**	**25**
Tax effects due to		
appreciation/depreciation of deferred taxes on losses carried forward	24	110
Differing effective tax rates in Germany and abroad	-12	-5
Non-deductible expenses	32	7
Corrections to trade taxes	-3	-9
Changes in tax rate	-1	-
Taxes for previous years	-6	-54
Tax-free income	-1	-10
Appreciation/depreciation of deferred taxes on temporary differences and miscellaneous	40	1
Total tax expense (+)/income (–)	**155**	**65**

In calculating taxes for 2020, a rate of 32.05 % (previous year: 31.98 %) was used for domestic taxes. For the Group entities in Luxembourg, the tax rate applied was 24.94 % (previous year: 24.94%). Variations between the locally applied tax rates and the Group tax rate result in a theoretical reduction of tax expense of € 12 million.

The main effects in the reconciliation of the theoretical to the actual tax expense are the lack of recoverability of newly generated losses carried forward and the change in valuation allowances on existing losses carried forward as well as non-tax-deductible expenses. The reconciliation item "Depreciation of deferred taxes on temporary differences and miscellaneous" includes in particular the effect from the non-recognition of a deferred tax asset on consolidation entries.

In addition, significant reconciliation effects resulted from tax-exempt income and trade tax adjustments at various domestic and foreign Group companies, as well as from taxes for prior years; this item also includes adjustments to deferred taxes on temporary differences based on more recent findings relating to prior-year items.

19. Net gains and losses from financial instruments

Net gains and losses from financial instruments include both realised gains and measurement gains within the Result from financial instruments categorised as FVPL and Net income from financial investments, Net income from the disposal of financial assets categorised at AC as well as loan loss provisions in the lending business shown on the statement of financial position. Neither Net interest nor Net commission income is included in this item.

Net gains and losses from financial instruments

(€ m)	2020	2019
FVPL Held For Trading, Other, Designated	-93	-19
AC assets and liabilities	-128	93
FVOCI Mandatory	7	19
Total	**-214**	**93**

20. Earnings per share

To calculate earnings per share, the Group net result attributable to Hamburg Commercial Bank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review. As in the previous year, Hamburg Commercial Bank AG has not issued any issued any diluted forms of capital as at 31 December 2020, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

Earnings per share

	2020	2019
Attributable Group net result (€ m) – undiluted/diluted	102	12
Number of shares (millions)		
Average number of ordinary shares outstanding undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.34	0.04
Diluted	0.34	0.04

Notes on the Group statement of financial position

21. Cash reserve

Cash reserve

(€ m)	2020	2019
Cash on hand	-	-
Balances at central banks	1,741	4,780
thereof at the Deutsche Bundesbank	1,718	4,769
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	-	70
Total	**1,741**	**4,850**

22. Loans and advances to banks

Loans and advances to banks

(€ m)	2020			2019		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	558	395	953	740	979	1,719
Other loans and advances	555	50	605	752	50	802
Total before loan loss provisions	**1,113**	**445**	**1,558**	**1,492**	**1,029**	**2,521**
Loan loss provisions	-	-	-	-	-	-
Total after loan loss provisions	**1,113**	**445**	**1,558**	**1,492**	**1,029**	**2,521**

Of loans and advances to banks, holdings in the amount of € 19 million (previous year: € 44 million) has a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 1,329 million (previous year: € 2,078 million).

The development of the carrying amounts of loans and advances to banks is shown in Note 47.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 57.

23. Loans and advances to customers

Loans and advances to customers

(€ m)	2020			2019		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Retail customers	239	8	247	388	6	394
Corporate clients	10,498	10,182	20,680	14,709	12,769	27,478
Public authorities	1,374	177	1,551	2,654	182	2,836
Total before loan loss provisions	**12,111**	**10,367**	**22,478**	**17,751**	**12,957**	**30,708**
Loan loss provisions	309	260	569	382	326	708
Total after loan loss provisions	**11,802**	**10,107**	**21,909**	**17,369**	**12,631**	**30,000**

Of loans and advances to customers, holdings in the amount of € 17,893 million (previous year: € 21,883 million) has a residual maturity of more than one year.

Loans and advances to customers include money market transactions in the amount of € 295 million (previous year: € 772 million).

Loans and advances to customers include receivables under finance lease transactions in the amount of € 50 million (previous year: € 57 million).

The development of the carrying amounts of loans and advances to customers is shown in Note 47.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 57.

24. Loan loss provisions

Loan loss provisions

(€ m)	2020	2019
Loan loss provisions for loans and advances to customers categorised as AC, incl. Leasing	569	708
Loan loss provisions in the lending business	**569**	**708**
Loan loss provisions for items in the statement of financial position	**569**	**708**
Provisions in the lending business	39	53
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	**608**	**761**

In accordance with IFRS 9, the loan loss provisions item is only set up for loans and advances to banks and loans and advances to customers categorised as AC.

For information on the development of the IFRS 9 portfolio of loans and advances to customers9 portfolio of loans and advances to customers, please refer to Note 47.

25. Hedge accounting

Hamburg Commercial Bank continues to apply the portfolio fair value hedge approach in accordance with IAS 39, making use of the option under IFRS 9.6.1.3. Furthermore, Hamburg Commercial Bank now uses the micro fair value hedge approach in accordance with IFRS 9 for financial instruments measured at fair value directly in equity under IFRS 9. The following section provides a description of the hedging and underlying transactions used for hedging purposes, including the risk management strategy, the impact on cash flows and the effects on the net assets, statement of comprehensive income and statement of changes in equity.

I. Risk management strategy

In order to avoid distortions in the statement of income resulting from interest-bearing financial instruments, micro and portfolio fair value hedge accounting is used to hedge the market price risk interest.

For micro fair value hedges, structured euro swaps are designated as hedging instruments for structured euro underlying transactions. These designated hedges correspond to economic back-to-back hedges which neutralise the market price risks associated with the underlying transactions. The effectiveness of these hedges is ensured by a critical term match and ineffectiveness is expected from model adjustments, measurement mismatches and the inclusion of tenor basis spreads. In portfolio fair value hedges on interest rate risks, the underlying transactions as a whole are hedged by means of interest rate swaps. Effectiveness is measured in accordance with the rules set out in IAS 39 and the hedge ratio is calculated using the dollar offset method. Ineffectiveness can result from maturities of assets and liabilities that do not match, and from the reference interest rate of the hedging transactions.

Hedge accounting is used solely for interest rate risks.

II. Effects on cash flows

In order to assess the cash flows to be expected, the nominal and average prices of the hedging instruments in micro fair value hedges are presented below.

Micro fair value hedges

(€ m)	Maturity date		
	2027	2037	2038
Nominal value of hedging instruments	0	350	200
Average swap rate	0	3.738	3.633

III. Effects on net assets and statement of comprehensive income

The effects on the net assets and statement of comprehensive income are presented separately for hedging transactions and underlying transactions.

HEDGING INSTRUMENTS
This section presents the nominal, hedge adjustment and the positive and negative fair values of derivatives used in hedge accounting. Only interest rate swaps are currently taken into account as hedging instruments. If a derivative is only designated pro rata in hedge accounting, the Positive/negative fair value of hedging derivatives item contains the corresponding share of the derivative's fair value, nominal value and hedge adjustment. The residual amount is reported under Trading assets/Net trading income.

Hedging instruments[1]

(€ m)		2020			2019		
Hedge type/type of risk	Balance sheet item	Nominal value	Carrying amount	Hedge adjustment (ytd)	Nominal value	Carrying amount	Hedge adjustment (ytd)
Fair value hedge/ interest rate risk							
Interest rate derivatives (assets side)	Positive fair values of hedging derivatives	2,126	2	-9	4,556	134	46
Interest rate derivatives (liabilities side)	Negative fair value of hedging derivatives	4,520	371	39	4,858	609	174

[1] The portfolios are newly designated/redesignated on a monthly basis at the time of the integration of the new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

Asset-side transactions are reported in the balance sheet item Positive fair values of hedging derivatives and derivatives on the liabilities side are shown in the balance sheet item Negative fair values of hedging derivatives. The overall changes in these items are mainly due to changes in the portfolio compositions and movements in interest rates in the euro and US dollar capital markets.

UNDERLYING TRANSACTIONS
This section presents financial instruments on the assets and liabilities side used in hedge accounting. The following table shows the carrying amounts, accumulated changes in value (ltd) and since the beginning of the financial year (ytd) for these financial instruments. The underlying transactions currently include assets (receivables and securities) and liabilities. Hedge accounting is used solely for interest rate risks.

Underlying transactions[1)]

(€ m)		2020			2019		
Hedge type/type of risk	Balance sheet item	Carrying amount	Cum. hedge adjustment (ltd)	Hedge adjustment (ytd)	Carrying amount	Cum. hedge adjustment (ltd)	Hedge adjustment (ytd)
Fair value hedge/ interest rate risk							
Portfolio fair value hedge: Fixed-interest rate loans, debentures, securities	Positive adjustment item from portfolio fair value hedges	4,863	104	-38	5,464	142	-53
Micro fair value hedge	Loans and advances to customers	875	149	43	1,099	106	93
Portfolio fair value hedge: Fixed-interest issues	Negative adjustment item from portfolio fair value hedges	7,357	265	-105	10,146	370	-29
Portfolio fair value hedge (inactive)	Positive adjustment item from portfolio fair value hedges	77	4	-1	675	5	-
Portfolio fair value hedge (inactive)	Negative adjustment item from portfolio fair value hedges	61	4	-20	176	24	-37
Micro fair value hedge (inactive)	Loans and advances to customers	73	6	-49	226	55	-19
Micro fair value hedge (inactive)	Liabilities due to customers, securitised liabilities, subordinated capital	29	7	-1	56	8	-8

1) The portfolios are newly designated/redesignated on a monthly basis at the time of the integration of the new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

26. Trading assets

Only financial assets in the FVPL Trading category are reported under the Trading assets item. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value which are either not designated as a hedge derivative or are used as hedging instruments but do not meet the requirements of IFRS 9 for hedge accounting.

Of the trading assets, holdings of € 1,422 million (previous year: € 2,430 million) have a residual maturity of more than one year.

Information on collateral transferred, which also contains information regarding securities lending and repurchase agreements, can be found in Note 57 .

Trading assets

(€ m)	2020	2019
Bonds and debentures		
from public-sector issuers	-	58
negotiable and listed	-	58
Bonds and debentures	-	58
Debentures and other fixed-interest securities	**-**	**58**
Interest rate-related transactions	1,222	2,160
currency-related transactions	55	41
other transactions	100	267
Positive fair value of financial derivatives	**1,377**	**2,468**
Other, including promissory notes held for trading	118	42
Receivables from syndication transactions	49	95
Total	**1,544**	**2,663**

27. Financial investments

In particular, financial instruments not held for trading purposes are reported as financial investments. This item includes bonds and other fixed-interest securities, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, holdings in joint ventures and associates not carried at equity in the Group financial statements.

Financial investments

(€ m)	2020	2019
Debentures and other fixed-interest securities	5,438	6,052
negotiable and listed	4,561	5,369
negotiable and not listed	877	683
Shares and other non-fixed-interest securities	12	12
negotiable and listed	5	7
negotiable and not listed	7	5
Long-term equity investments	8	36
negotiable and not listed	1	2
Interests in affiliated companies	1	-
Total	**5,459**	**6,100**

Of the financial investments, holdings of € 3,927 million (previous year: € 4,723 million) have a residual maturity of more than one year.

The development in the carrying amounts of financial investments for the current year is shown in Note 47.

28. Intangible assets

Intangible assets

(€ m)	2020	2019
Software	3	5
developed in-house	-	-
acquired	3	5
Software in development	12	1
acquired	12	1
Total	**15**	**6**

The addition in the Software in development item resulted mainly from the development of the target IT platform.

Changes in the carrying amounts of intangible assets are shown below:

Development in intangible assets

(€ m)		Software		Software in development		
2020	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	Total
Acquisition costs as at 1 January 2020	**171**	**81**	**161**	**-**	**1**	**414**
Additions	-	-	1	-	11	12
Disposals	-	-	3	-	-	3
Reclassifications	-	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-	-
As at 31 December 2020	**171**	**81**	**159**	**-**	**12**	**423**
Amortisation as at 1 January 2020	**171**	**81**	**156**	**-**	**-**	**408**
Additions	-	-	2	-	-	2
Disposals	-	-	2	-	-	2
Changes in the scope of consolidation	-	-	-	-	-	-
As at 31 December 2020	**171**	**81**	**156**	**-**	**-**	**408**
Carrying amount as at 31 December 2020	**-**	**-**	**3**	**-**	**12**	**15**
Carrying amount as at 1 January 2020	**-**	**-**	**5**	**-**	**1**	**6**

Development in intangible assets

(€ m)		Software		Software in development		
2019	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	Total
Acquisition costs as at 1 January 2019	**171**	**82**	**161**	**-**	**-**	**414**
Additions	-	-	1	-	1	2
Disposals	-	1	1	-	-	2
Reclassifications	-	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-	-
As at 31 December 2019	**171**	**81**	**161**	**-**	**1**	**414**
Amortisation as at 1 January 2019	**171**	**81**	**154**	**-**	**-**	**406**
Additions	-	1	3	-	-	4
Disposals	-	1	1	-	-	2
Changes in the scope of consolidation	-	-	-	-	-	-
As at 31 December 2019	**171**	**81**	**156**	**-**	**-**	**408**
Carrying amount as at 31 December 2019	**-**	**-**	**5**	**-**	**1**	**6**
Carrying amount as at 1 January 2019	**-**	**1**	**7**	**-**	**-**	**8**

As in the previous year, no research costs were incurred in the year under review in connection with the implementation of software developed in-house.

29. Property, plant and equipment and investment property

Property, plant and equipment

(€ m)	2020	2019
Land and buildings	8	88
Plant and equipment	6	7
Right-of-use assets from leasing	9	3
Assets under construction	-	-
Total	**23**	**98**

Under the item Investment property, all property (land or buildings) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of the Bank. Properties leased, in the capacity of lessor, under operating leases are also included in this item.

Investment property

(€ m)	2020	2019
Investment property	1	39
Rights-of-use from leasing for investment property.	-	2
Total	**1**	**41**

The fair value of investment property amounts to € 1 million (previous year: € 41 million). The fair values of investment property are allocated without exception to level 3 of the fair value hierarchy. Market-based and income-based valuation techniques are used to determine fair value. Market-based and income-based valuation techniques are used to determine fair value.

The development in Property, plant and equipment and Investment property in the financial year was as follows:

Development in property, plant and equipment and investment property

(€ m)	Property, plant and equipment				Investment Property	
2020	Land and buildings	Plant and equipment	Assets under construction	Rights-of-use from leasing	Investment property	Rights-of-use from leasing
Acquisition costs as at 1 January 2020	**98**	**62**	**–**	**5**	**45**	**6**
Additions	–	2	–	8	–	–
Disposals	–	5	–	–	–	6
Reclassifications	-75	–	–	–	-44	–
As at 31 December 2020	**23**	**59**	**–**	**13**	**1**	**–**
Amortisation as at 1 January 2020	**10**	**55**	**–**	**2**	**6**	**4**
Additions	–	3	–	2	–	2
Disposals	–	5	–	–	–	6
Reclassifications	6	–	–	–	-6	–
Write-ups	-1	–	–	–	–	–
As at 31 December 2020	**15**	**53**	**–**	**4**	**–**	**–**
Carrying amount as at 31 December 2020	**8**	**6**	**–**	**9**	**1**	**–**
Carrying amount as at 1 January 2020	**88**	**7**	**–**	**3**	**39**	**2**

Reclassifications were made in the reporting year from Land and buildings and Investment properties to Assets held for sale.

These refer to the disposal of buildings previously held by Hamburg Commercial Bank. In this context, the Bank leases back business premises for its head office and accounts for the right of use in accordance with the sale and leaseback regulations for the multi-year transition period until the move to its new head office building. Here, the right of use is recognised at the proportional residual carrying amount of the property in relation to its use. The valuation also takes into account the ongoing staff reduction in relation to the office space leased back for a transitional period. The capitalised right of use from the sale and leaseback transaction of HCOB's main building led to an increase of € 6 million in the Rights of use from leasing. The right of use is depreciated on a straight-line basis over the agreed rental period of four years. In addition, reclassifications were made from Investment properties to Land and buildings due to a change in the type of use to own use.

Further details on depreciation are presented in Note 14.

Development in property, plant and equipment and investment property

(€ m)	Property, plant and equipment				Investment Property	
2019	Land and buildings	Plant and equipment	Assets under construction	Rights-of-use from leasing	Investment property	Rights-of-use from leasing
Acquisition costs as at 1 January 2019	**142**	**60**	**2**	**5**	**45**	**6**
Additions	–	3	–	–	–	–
Disposals	–	1	–	–	–	–
Reclassifications	-44	–	-2	–	–	–
As at 31 December 2019	**98**	**62**	**–**	**5**	**45**	**6**
Amortisation as at 1 January 2019	**12**	**53**	**–**	**–**	**5**	**–**
Additions	1	2	–	2	1	4
Reclassifications	-3	–	–	–	–	–
As at 31 December 2019	**10**	**55**	**–**	**2**	**6**	**4**
Carrying amount as at 31 December 2019	**88**	**7**	**–**	**3**	**39**	**2**
Carrying amount as at 1 January 2019	**130**	**7**	**2**	**5**	**40**	**6**

In the previous year, land and buildings in the amount of € 41 million after depreciation were reclassified, while € 2 million were reclassified from assets under construction to assets held for sale.

30. Non-current assets held for sale and disposal groups

Non-current assets held for sale and disposal groups

(€ m)	2020	2019
Loans and advances to customers	626	246
Financial investments	8	8
Property, plant and equipment	-	97
Investment property	-	4
Total	**634**	**355**

The loans and advances to public-sector debtors of € 246 million reported under Loans and advances to customers as at 31 December 2019 were sold in two tranches in the first quarter of 2020. The two transactions generated proceeds of € 37 million, which are recognised in the Result from the disposal of financial assets classified as AC item. In June 2020, Hamburg Commercial Bank AG decided to sell further loans and advances to public-sector debtors with a carrying amount of € 339 million. This sale was carried out in the third quarter of 2020. It generated total proceeds of € 17 million, which are recognised in the Result from the disposal of financial assets classified as AC item. Loans and advances of € 106 million from this portfolio were not sold as planned. A sale of this residual portfolio is not considered highly probable by the Bank as at 31 December 2020. Therefore, these loans and advances are not classified as Non-current assets held for sale and disposal groups as at 31 December 2020. These loans and advances have been allocated to the Corporates & Structured Finance segment, are measured at amortised cost and do not include any loan loss provisions.

As part of the ongoing transformation process, Hamburg Commercial Bank AG has decided to sell further loans and advances to customers in the amount of € 626 million in a disposal group. A signing took place in December 2020, and the closing will most likely follow in the first half of 2021. These loans and advances to customers are allocated to the Corporates & Structured Finance segment, and no loan loss provisions have been recognised for them.

The Bank still plans to sell an equity holding measured at fair value, which is recognised under the Financial investments item. The disposal of the equity holding will most likely take place in H1 2021. The equity holding to be sold is allocated to the Other and Reconciliation column in the segment report.

The disposal of property, plant and equipment and investment property totalling € 101 million is related to finalising the concentration process for the locations in Hamburg and Kiel, which are now in one building each. Based on the signing of the sale contracts for eleven Group-owned properties in December 2019, the corresponding closing took place in February 2020. In addition, the bank sold further property, plant and equipment (€ 88 million) and investment property (€ 31 million) in December 2020. In total, these disposals resulted in a total gain of around € 150 million in 2020, which is recognised under Other operating income. Disposal costs incurred in connection with the sales amount to € 4 million, of which € 2 million had already been recognised under expenses in the 2019 reporting year.

31. Current tax assets

Current tax assets

(€ m)	2020	2019
Domestic	22	78
Foreign	3	4
Total	**25**	**82**

The reduction in current tax assets in the reporting period is attributable in particular to the tax assessment for HCOB in Germany for previous years.

32. Deferred tax assets

Deferred tax assets arose due to temporary differences in the tax base of the following items in the statement of financial position and tax losses carried forward:

Deferred tax assets

(€ m)	2020	2019
Assets		
Loan loss provisions	89	149
Financial investments	7	6
Other assets	137	83
Liabilities		
Liabilities to banks	44	96
Liabilities to customers	9	23
Securitised liabilities	–	1
Negative fair value of hedging derivatives	119	195
Negative adjustment item from portfolio fair value hedges	86	126
Trading liabilities	154	218
Subordinated capital	113	154
Provisions	228	244
Other liabilities	11	81
Tax losses carried forward	179	113
Subtotal for deferred tax assets	**1,176**	**1,489**
Netting of deferred tax liabilities	-644	-831
Total	**532**	**658**

Out of the deferred tax assets after offsetting, € 500 million is attributable to Germany and € 32 million to abroad.

Deferred taxes on loss carryforwards were recognised in the amount of € 179 million (previous year: € 113 million). As at 31 December 2020, € 142 million of this amount is attributable to the Head Office (previous: € 107 million) and € 37 million to the Luxembourg branch (previous year: € 6 million). For the Head Office and the Luxembourg branch, the recoverability of the deferred taxes on loss carryforwards results from planned future taxable income.

Unused tax loss carryforwards amounted to € 4,953 million as at the reporting date (previous year: € 5,104 million), for which no deferred tax assets were recognised. In the reporting year, tax loss carryforwards for which no deferred tax had been recognised as of 31 December 2019 in the amount of € 248 million were used by the Luxembourg branch.

The reduction in deferred tax assets before offsetting in the amount of € 313 million result mainly from the changes in measurement differences for several balance sheet items. In particular, the development of deferred tax assets in the reporting year was influenced by the measurement of subordinated capital, trading liabilities, negative fair values of hedging derivatives, provisions and other assets.

The value of deferred tax assets results from the positive future tax results expected in the tax planning as derived from corporate planning. As in the previous year, the impairment test did not result in any valuation allowances on deferred tax assets for temporary valuation differences at the end of the financial year.

€ 9 million of the increase to deferred tax assets relates to deferred taxes for pension obligations recognised directly in equity.

The difference between the valuation for tax purposes and measurement under IFRS 9 B5.4.6 results in deferred tax expense of € 18 million (previous year: € 27 million deferred tax income).

33. Other assets

Other assets

(€ m)	2020	2019
Receivables from fund transactions	-	11
Other prepaid expenses	10	10
Receivables from other taxes	7	5
Other assets	247	31
Total	**264**	**57**

Other assets of € 2 million (previous € 0 million) have a residual maturity of more than one year.

€ 245 million of the assets reported here (previous year: € 31 million) relate to financial instruments and receivables that have only been settled in February 2021.

34. Liabilities to banks

Liabilities to banks

(€ m)	2020			2019		
	Domestic	Foreign	**Total**	Domestic	Foreign	Total
Payable on demand	221	167	388	226	195	421
Other term liabilities	7,088	2	7,090	4,371	274	4,645
Total	**7,309**	**169**	**7,478**	**4,597**	**469**	**5,066**

Of liabilities to banks, holdings in the amount of € 6,933 million (previous year: € 3,832 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated FVPL and their nominal value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € -3 million as at 31 December 2020 (previous year: € -6 million). Changes in value caused by credit risk account for € 1 million of this amount (previous year: € 1 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 57.

Liabilities to banks include liabilities from TLTRO III transactions ("Targeted Longer-Term Refinancing Operations") with the ECB in the amount of € 2,992 million. Two transactions were concluded (in March 2020 and June 2020) with a maturity of three years; the interest rate is generally based on the average MRO rate of the ECB. For the current interest rate period from June 2020 to June 2021, the maximum interest rate for TLTRO operations was reduced to 50 basis points below the average rate applied in main refinancing operations (MRO). As at 31 December 2020, the TLTRO III liabilities therefore accounted for € 8 million of pro rata interest, which is recognised in the net interest result (as positive interest under interest expense) and led to a corresponding reduction in the carrying amount of the TLTRO III liabilities.

In its books, Hamburg Commercial Bank has recognised the financing liability as a financial instrument within the meaning of IFRS 9. Hamburg Commercial Bank uses the "discrete approach" to determine the effective interest rate. Banks that meet certain lending performance criteria in their lending business are furthermore granted a premium in the form of an additional interest rate reduction. Hamburg Commercial Bank does not currently expect to meet these criteria.

35. Liabilities to customers

Liabilities to customers by customer group

(€ m)	2020	2019
Corporate clients	8,604	13,667
Public authorities	4,193	9,045
Retail customers	307	1,254
Total	**13,104**	**23,966**

Liabilities to customers

(€ m)	2020			2019		
	Domestic	Foreign	**Total**	Domestic	Foreign	Total
Savings deposits with agreed notice periods of						
3 months	7	-	7	9	-	9
Other liabilities						
Payable on demand	3,800	1,103	4,903	5,661	1,365	7,026
Term liabilities	7,629	565	8,194	15,324	1,607	16,931
Total	**11,436**	**1,668**	**13,104**	**20,994**	**2,972**	**23,966**

Of liabilities to customers, holdings in the amount of € 3,446 million (previous year: € 8,427 million) has a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated FVPL and their nominal value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € -12 million as at 31 December 2020 (previous year: € -20 million). Changes in value caused by credit risk account for € 0 million of this amount (previous year: € 0 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 57.

36. Securitised liabilities

Securitised liabilities

(€ m)	2020	2019
Debentures issued	5,670	7,845
Total	**5,670**	**7,845**

Of the decrease in this item, approx. € 244 million originate from the Bank's restructuring and optimisation of capital structure (Liability Management Exercise, cf. Note 8). Of securitised liabilities, € 4,365 million (previous year: € 6,151 million) has a residual maturity of more than one year.

Debentures issued include € 2 million of hybrid financial instruments (previous year: € 88 million).

In the Securitised liabilities item, repurchased own debentures in the amount of € 3,275 million (previous: € 2,487 million) were deducted.

The difference between the carrying amount of securitised liabilities designated FVPL and their nominal value, which corresponds to the contractually agreed repayment amount at the due date, amounts to € -42 million as at 31 December 2020 (previous year: € -110 million). Changes in value caused by credit risk account for € -3 million of this amount (previous year: € 4 million).

37. Trading liabilities

The Trading liabilities item comprises exclusively financial obligations of the FVPL Trading category. Mainly included in this category are derivatives with a negative fair value which are either not designated as a hedging derivative or are used as hedging instruments but do not meet the requirements of IFRS 9 for hedge accounting.

Trading liabilities

(€ m)	2020	2019
Negative fair value from derivative financial instruments		
Interest rate-related business	509	1,602
Currency-related business	13	30
Other business	114	314
Other	50	–
Total	**686**	**1,946**

Of the trading liabilities, holdings of € 628 million (previous year: € 1,829 million) have a residual maturity of more than one year.

Information on collateral transferred is presented in Note 57.

38. Provisions

Provisions

(€ m)	2020	2019
Provisions for pension obligations and similar obligations	198	1,095
Other provisions		
Provisions for personnel expenses	41	40
Provisions in the lending business	49	55
Provisions for restructuring	131	245
Provisions for litigation risks and costs	122	144
Other provisions	93	120
Total	**634**	**1,699**

The provisions in the lending business shown in the table above include € 10 million (previous year: € 2 million) in provisions attributable to guarantees and credits by way of bank guarantees. These are measured in accordance with IAS 37, meaning that they are not treated as financial instruments in accordance with IFRS 9.

Of the provisions, holdings of € 401 million (previous year: € 1,320 million) have a residual maturity of more than one year.

Further information regarding Provisions in the lending business can be found in Note 24.

€ 95 million of the provisions for restructuring (previous year: € 182 million) relate to personnel expenses and € 36 million (previous year: € 62 million) to operating expenses. The provisions were mainly set up in connection with the current restructuring programme resulting from the privatisation of Hamburg Commercial Bank. The amount of the provisions was estimated based on the expected utilisation of the restructuring programmes. Depending on the actual utilisation of the restructuring programmes, the amount set up as provisions may differ from the amount utilised.

Other provisions mainly comprise provisions for regulatory expenses, provisions for transformation expenses, provisions for onerous contracts and provisions for archiving costs.

Changes in pension provisions are presented in Note 39.

Hamburg Commercial Bank had set up provisions for litigation risks and costs as at the balance sheet date. To determine for which claim the possibility of a loss is likely, and in order to estimate the amount of the potential payment obligations, Hamburg Commercial Bank takes a variety of factors into account. These include, among other things, the type of claim and the underlying facts of the case, the status of the individual proceedings, (provisional) decisions made by courts and arbitration bodies, the experience of the Hamburg Commercial Bank and third parties in comparable cases (insofar as they are known to the Bank), prior settlement negotiations, as well as the expert opinions and assessments of the Bank's internal and external legal advisors and other professionals.

A major portion of the provisions for litigation risks relates to the legal proceedings mentioned below. The current status of the proceedings and expected outcome of the proceedings are taken into in recognising these amounts. It is not currently possible to predict how long the individual legal disputes will last or, as a result, the time at which the provisions will be used. Depending on the actual outcome of the proceedings, the actual amounts used may vary from the amounts set up as a provision.

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

Furthermore, Hamburg Commercial Bank AG is being sued for payment by a former borrower. The claims were increased and filed by the plaintiff in the fourth quarter of 2018. The plaintiff asserts various claims, particularly claims for payment of compensation and for unjustified enrichment in connection with measures taken by the Bank in relation to 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 HCOB. Leave to appeal was not granted. The plaintiff has lodged an appeal against refusal of leave to appeal.

In addition, provisions have been formed in relation to hybrid financial instruments of the Bank. Positive settlements (from the Bank's point of view) were reached with the vast majority of investors in hybrid financial instruments in the reporting period through buybacks and out-of-court settlements. Therefore, the related lawsuits filed by investors in hybrid financial instruments against the Bank were withdrawn.

The decrease in provisions for litigation risks and costs results from the reversal of a provision due to a court ruling. Further information on the Bank's legal risks is provided in the "Operational risk" section of the Risk Report.

Other provisions changed as follows:

Changes in other provisions

(€ m) 2020	For personnel expenses	In the lending business (nonfinancial instruments)	For restructur-ing	For litigation risks and costs	Other	Total
As at 1 January 2020	**40**	**2**	**245**	**144**	**120**	**551**
Additions	42	10	1	9	17	79
Reversals	-	3	14	9	21	47
Reclassifications	-	1	-76	-	-1	-76
Utilisation in the financial year	41	-	25	22	22	110
As at 31 December 2020	**41**	**10**	**131**	**122**	**93**	**397**

For information on the development of loan loss provisions for financial instruments reported under contingent liabilities in the current year, please refer to Note 47 (Schedule of loan loss provisions).

Changes in other provisions

(€ m) 2019	For personnel expenses	In the lending business (nonfinancial instruments)	For restructuring	For litigation risks and costs	Other	Total
As at 1 January 2019	**28**	**3**	**308**	**250**	**102**	**691**
Additions	37	13	53	50	55	208
Reversals	1	14	11	128	14	168
Reclassifications	-18	-	-94	-	-	-112
Utilisation in the financial year	6	-	11	28	23	68
As at 31 December 2019	**40**	**2**	**245**	**144**	**120**	**551**

39. Pension obligations and similar obligations

In recognising and measuring direct benefit pension plans, the net present value of the obligations is reduced by the fair value of the plan assets.

Provisions for pension obligations and similar obligations

(€ m)	2020	2019
Net present value of obligations, wholly or partly financed through funds	1,067	45
Net present value of obligations not financed through funds	122	1,090
Net present value of pension obligations and similar obligations	**1,189**	**1,135**
Fair value of plan assets	991	40
Pension plan net liability (provisions for pension obligations and similar obligations)	**198**	**1,095**

The net present value of defined benefit pension obligations has changed as follows:

Changes in net present value

(€ m)	2020	2019
Net present value as at 1 January	**1,135**	**1,003**
Adjustment to carry forward	**-**	**27**
1 January after adjustment	**1,135**	**1,030**
Actuarial losses/gains (-)		
due to changed financial assumptions	60	118
due to experience-based adjustments	-11	-15
Interest expenses	12	20
One-off expense/gain	-5	5
Plan curtailment	-6	-
Current service cost	6	8
Benefits paid	-44	-51
Reclassifications	42	20
Net present value as at 31 December	**1,189**	**1,135**

The change in actuarial gains and losses is mainly attributable to a drop in the discount rate. The plan curtailment of € 6 million results from the restructuring programme and the associated reduction in the number of employees who are beneficiaries of the plan. The income from the curtailment is recognised in the Other operating result.

Early retirement arrangements were negotiated as part of the restructuring and associated reduction in staff, and the corresponding provisions were transferred from restructuring provisions to pension provisions.

The fair value of plan assets has changed as follows:

Changes in fair value of plan assets

(€ m)	2020	2019
Fair value of plan assets as at 1 January	**40**	**8**
1 January after adjustment	**40**	**36**
Deposits	**925**	**-**
Employer contributions	**-**	**1**
Expected return on plan assets	**5**	**1**
Actuarial gains	**21**	2
Fair value of plan assets as at 31 December	**991**	**40**

The increase in plan assets is due in particular to the closure of the contractual arrangement with HCOB Trust e.V. In the 2020 financial year, Hamburg Commercial Bank AG paid € 925 million into the plan assets. The net interest of € 7 million is composed of the interest expense of the pension and similar liabilities of € 12 million and the interest income of the plan assets of € 5 million. The changes in the measurement of pension and similar liabilities amounting to € 49 million are netted in OCI with the changes in the measurement of plan assets amounting to € 21 million.

The total actuarial gains for the financial year before deferred taxes amounts to € -28 million (previous year: € -99 million). Allowing for deferred taxes, this results in a loss of € 19 million (previous year: € 67 million), which is recognised in Other comprehensive income and disclosed in retained earnings on an accumulated basis. As at 31 December 2020, the balance of actuarial gains/losses in retained earnings before tax amounted to € -261 million (previous year: € -232 million) and to € -177 million after tax (previous year: € -158 million).

Breakdown of plan assets

(€ m)	2020	2019
Cash and cash equivalents	633	-
Investment funds	308	-
thereof exchanged trade funds equity	99	-
thereof exchanged trade funds bonds	152	-
thereof hedge funds	57	-
Debentures and other fixed-interest securities	24	1
Derivatives	15	-
Qualified insurance policies	7	8
Other assets	4	31
Total	**991**	**40**

The debentures and other fixed-interest securities included in the plan assets as well as the plan assets invested in exchange traded funds are traded on an active market.

Expenses of € 7 million were incurred for defined benefit pension plans in the 2020 reporting year (previous year: € 33 million).

Pension obligations represent future amounts to be paid and are uncertain both as to the amount and the date they fall due. Future fluctuations in the present value of the pension obligations can result particularly from a change in the actuarial assumptions such as the discount rate and life expectancy.

An increase or decrease in the actuarial assumptions (cf. Note 5) would have had the following impact on the present value of pension obligations as at 31 December 2020:

Sensitivity of pension obligations

(€ m)	Increase	Decrease
2020		
Discount rate (+/–0.25%)	-46	49
Inflation trend[1] (+/–0.25%)	-42	40
Life expectancy (+1 year)	54	

Sensitivity of pension obligations

(€ m)	Increase	Decrease
2019		
Discount rate (+/–0.25%)	-45	47
Inflation trend[1] (+/–0.25%)	41	-39
Life expectancy (+1 year)	51	

[1] A variation in the inflation trend affects the salary trend. An assumption regarding future salary levels has a direct influence on future pension levels because of the fully dynamic pension commitments. The salary and pension trends were therefore not separately varied.

The average duration of the pension obligations determined as at 31 December 2020 was used as the basis for the sensitivity calculations. The impact of the major assumptions on the present value of the pension obligations is presented. As the sensitivity analyses are based on the average duration of the expected pension obligations and expected payment dates are therefore not taken into account, the figures represent only approximate values. Furthermore, where a change in an actuarial assumption is analysed, the other assumptions are kept constant.

Hamburg Commercial Bank expects to make payments of € 56 million to beneficiaries under defined benefit pension plan commitments for the 2021 financial year (previous year: € 53 million).

The weighted average duration of the defined benefit obligation is 17.8 years as at 31 December 2020 (previous year: 18.2 years).

Expenses for defined contribution plans were € 11 million in the reporting period 2020 (previous year: € 13 million). Payments to statutory pension schemes in the amount of € 9 million (previous year: € 11 million) are included in this figure.

40. Current tax liabilities

Current tax liabilities

(€ m)	**2020**	2019
Provisions for income taxes	7	11
Total	**7**	**11**

Provisions for income taxes include tax liabilities for which no legally binding tax assessment notice has been received as at the balance sheet date.

41. Deferred tax liabilities

For temporary differences in the tax bases of the following items in the statement of financial position deferred tax liabilities were created.

Deferred tax liabilities

(€ m)	**2020**	2019
Assets		
Loans and advances to banks	11	148
Loans and advances to customers	29	12
Financial investments	43	64
Trading assets	341	292
Positive fair values of hedging derivatives	1	43
Positive adjustment item from portfolio fair value hedges	35	47
Property, plant and equipment	3	2
Liabilities		
Liabilities to banks	-	80
Liabilities to customers	-	1
Securitised liabilities	114	63
Provisions	1	5
Other liabilities	66	74
Total	**644**	**831**
Netting off deferred tax assets	-644	-831
Total	**-**	**-**

The increase in deferred tax liabilities before netting mainly results from the change in existing temporary differences on trading assets, financial investments, securitised liabilities and other liabilities.

€ 23 million of the total change is attributable to reductions recognised directly in equity relating to the measurement of receivables, liabilities and financial investments.

Deferred tax liabilities of € 1 million (previous year: € 2 million) associated with investments in subsidiaries (so-called outside basis differences) were not recognised in accordance with IAS 12.39, as realisation is not probable.

42. Other liabilities

Other liabilities

(€ m)	**2020**	2019
Collateral provided for liabilities assumed	159	331
Liabilities for outstanding invoices	53	52
Liabilities for restructuring	32	44
Personnel liabilities	12	11
Deferred income	3	9
Other tax liabilities	6	7
Liabilities for leases	25	6
Other	22	17
Total	**312**	**477**

Other liabilities in the amount of € 178 million (previous year: € 338 million) have a residual maturity of more than one year.

The collateral provided for liabilities assumed serves to hedge leasing transactions of our customers with third parties.

€ 245 million of the liabilities reported here relate to financial instruments (previous year: € 407 million).

43. Subordinated capital

Subordinated capital

(€ m)	2020	2019
Subordinated debt	938	1,069
Maturing in less than two years	31	132
Silent participations	2	280
Total	**940**	**1,349**

The decrease in silent participations in this item is related to the further repurchase of bilaterally contracted hybrid capital instruments (Liability Management Exercise) in the reporting year. Hamburg Commercial Bank reports subordinated liabilities and silent participations under subordinated capital.

Subordinated capital of € 908 million (previous year: € 1,345 million) have a residual maturity of more than one year. Additional hybrid instruments are also disclosed in the Securitised liabilities line item (cf. Note 36).

44. Equity

Equity

(€ m)	2020	2019
Share capital	3,018	3,018
Capital reserve	82	75
Retained earnings	1,010	1,016
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-261	-232
thereof: deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	83	74
Revaluation reserve	148	196
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	3	-2
thereof: Valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	145	198
Currency conversion reserve	-16	33
Group net result	102	12
Total before non-controlling interests	**4,344**	**4,350**
Non-controlling interests	-	-
Total	**4,344**	**4,350**

Equity
As a result of the negative other comprehensive income for the period, reported equity decreased slightly by € 6 million in the reporting year compared with the previous year.

Share capital
The share capital of Hamburg Commercial Bank is divided into 301,822,453 registered shares each representing a notional of € 10.00 of share capital. All the issued shares have been fully paid up.

As at 31 December 2020, several funds launched by Cerberus Capital Management L.P., New York, indirectly held a total of 42.48 % of the voting rights 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 2.5 % 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 or a former member of the Managing Board of HCOB 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 nor any company dependent on it or majority-owned companies hold treasury stock. There are no cross-shareholdings as defined by Section 19 AktG.

Changes in ordinary shares

(Number of shares)	**2020**	2019
Number at the beginning of the year	301,822,453	301,822,453
Number at the end of the year	**301,822,453**	**301,822,453**

Retained earnings and dividends
The item Retained earnings mainly shows amounts allocated from previous year profits and the profits of the current year. There are no statutory reserves or legal reserves within the meaning of Section 150 (2) of the German Stock Corporation Act (AktG).

As was the case for the previous financial year, no dividend payments were made for previous years during the current financial year.

Capital reserve
There were no withdrawals from the capital reserve either in the year under review or in the previous year. The capital reserves contain share-based compensation in accordance with IFRS 2 of € 7 million in the year under review.

Revaluation reserve
The revaluation reserve includes the effects of credit risk-induced changes in the value of liabilities designated at fair value and the effects of the measurement of assets classified at fair value through other comprehensive income as a mandatory requirement.

The changes in value associated with deferred taxes shown in the revaluation reserve are also presented in the revaluation reserve pursuant to IAS 12.61A.

Currency conversion reserve
Assets and liabilities in financial statements of subsidiaries in foreign currencies are translated at the reporting date exchange rate in preparing the Group financial statements, while average rates for the reporting period are used to translate expenses and income. Equity is translated at historical rates, with the exception of revaluation reserves in Group financial statements reported in foreign currencies, which are translated at the reporting date exchange rate.

Any differences arising from this method of translation compared to complete translation at the reporting date exchange rate are reported in this Equity item.

Capital management
The capital management of Hamburg Commercial Bank aims to comply with regulatory capital ratios. In addition to these requirements, capital management is used as the basis for complying with the planned capital ratios planned and is designed to ensure that the Bank's capital base also meets the requirements imposed by the Bank's stakeholders. The common equity Tier 1 capital ratio is the main parameter for capital management.

The regulatory capitalisation is in accordance with the provisions of the European Capital Requirements Regulation (CRR) in conjunction with the Supervisory Review and Evaluation Process (SREP). Hamburg Commercial Bank determines the capital requirements for counterparty risk in accordance with the approach permitted by the Federal Financial Supervisory Authority based on internal ratings (Advanced IRBA) and based on the CSA (standard approach). The capital base is reported to the regulatory authorities quarterly. The capital ratios required under supervisory law were complied with on each reporting date in the course of the year under review.

Regulatory figures

(%)	**2020**	2019
Overall capital ratio	33.3	23.5
Tier 1 capital ratio	27.0	18.5
CET1 capital ratio	27.0	18.5

The regulatory capital commitment was monitored closely both at Bank and division level in the course of the financial year.

Notes on the Group cash flow statement

45. Additional disclosures of the Group cash flow statement

The acquisition or loss of control over subsidiaries in the financial year resulted in the following cash flows and effects on assets and liabilities.

Cash flow

	2020		2019	
(€ m)	Obtaining control	Loss of control	Obtaining control	Loss of control
Amounts paid/received	–	31	-1	–
thereof cash and cash equivalents	–	–	–	–
Amount of cash and cash equivalents	–	–	–	–

Assets

	2020		2019	
(€ m)	Obtaining control	Loss of control	Obtaining control	Loss of control
Loans and advances to banks	–	5	–	1
Loans and advances to customers	–	1	–	–
Financial investments	–	31	–	–
Other assets	–	2	–	–

Liabilities

	2020		2019	
(€ m)	Obtaining control	Loss of control	Obtaining control	Loss of control
Liabilities to customers	–	–	–	22
Liabilities relating to disposal groups	–	–	–	1
Current tax liabilities	–	1	–	–
Other liabilities	–	3	–	–
Equity	–	35	–	–

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

Reconcilition Cashflow from financing acitivities

(€ m)	Other subordi-nated capital	Silent participations	Profit partici-pation capital
Balance sheet value as at 1 January 2020	**1,069**	**280**	**-**
Cash changes			
Payments	-113	-250	-
Non-cash changes			
Changes due to exchange rate fluctuations	-	-14	-
Change in fair value	-17	-14	-
Balance sheet value as at 31 December 2020	**939**	**2**	**-**

Reconcilition Cashflow from financing acitivities

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

Segment reporting

46. Segment report

(€ m/%)	Corporates & Structured Finance		Real Estate		Shipping		Diversified Lending & Markets	
	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	160	172	205	181	115	101	11	-3
Net commission income	27	36	11	12	12	16	2	–
Result from hedging	–	–	–	–	–	–	–	–
Result from financial instruments categorised as FVPL	-15	4	-15	30	-44	16	20	3
Net income from financial investments including other income [1]	56	8	3	77	1	2	5	12
Total income	**228**	**220**	**204**	**300**	**84**	**135**	**38**	**12**
Loan loss provisions	-165	-64	-150	-25	124	84	–	10
Administrative expenses	-137	-166	-132	-150	-70	-90	-25	-7
Other operating result	10	-1	2	73	2	11	1	3
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-11	-20	-13	-22	-6	-9	-1	-1
Net income before restructuring and transformation	**-75**	**-31**	**-89**	**176**	**134**	**131**	**13**	**17**
Result from restructuring and transformation	–	–	–	–	–	–	–	–
Net income before taxes	**-75**	**-31**	**-89**	**176**	**134**	**131**	**13**	**17**
Cost/income ratio (CIR)	58%	76%	64%	40%	81%	62%	64%	47%
Return on equity before taxes	-5%	-2%	-8%	17%	19%	19%	3%	2%
Average equity	1,505	1,459	1,085	1,024	722	700	383	910

(€ bn)	31.12. 2020	31.12. 2019	31.12. 2020	31.12. 2019	31.12. 2020	31.12. 2019	31.12. 2020	31.12. 2019
Segment assets	**9.4**	**12.3**	**9.5**	**12.5**	**3.3**	**4.6**	**10.7**	**17.1**

[1] Including the result from the disposal of financial assets classified as AC.

(€ m/%)	Other		Reconciliation		Total Other and Consolidation		Group	
	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	72	-178	66	48	138	-130	629	321
Net commission income	–	–	-4	-3	-4	-3	48	61
Result from hedging	–	–	5	-2	5	-2	5	-2
Result from financial instruments categorised as FVPL	6	3	-45	-75	-39	-72	-93	-19
Net income from financial investments including other income items[1]	–	–	2	3	2	3	67	102
Total income	**78**	**-175**	**24**	**-29**	**102**	**-204**	**656**	**463**
Loan loss provisions	3	1	–	5	3	6	-188	11
Administrative expenses	–	–	-1	–	-1	–	-365	-413
Other operating result	191	44	-1	3	190	47	205	133
Expenses for regulatory affairs, deposit guarantee fund and banking associations	–	–	-1	1	-1	1	-32	-51
Net income before restructuring and transformation	**272**	**-130**	**21**	**-20**	**293**	**-150**	**276**	**143**
Result from restructuring and transformation	–	–	-19	-66	-19	-66	-19	-66
Net income before taxes	**272**	**-130**	**2**	**-86**	**274**	**-216**	**257**	**77**
Cost/income ratio (CIR)							42.4%	69.3%
Return on equity before tax							5.9%	1.8%
Average equity	30	46	622	204	652	250	4,347	4,343

(€ bn)	31.12. 2020	31.12. 2019	31.12. 2020	31.12. 2019	31.12. 2020	31.12. 2019	31.12. 2020	31.12. 2019
Segment assets	**0.9**	**0.9**	**0.0**	**0.3**	**0.9**	**1.2**	**33.8**	**47.7**

[1] Including the result from the disposal of financial assets classified as AC.

Segment reporting is in accordance with the provisions of IFRS 8. The segments reflect the Bank's internal organisational structure, which is based on product and customer groups and which corresponds to the delimitation for internal Group management purposes. The formation of the segments is intended to achieve the greatest possible homogeneity of customer groups with regard to a focused loan financing product range as well as other products and services.

Compared with the segment reporting as at 31 December 2019, the asset and liability management (ALM) items including the liquidity reserve are now reported in the Diversified Lending & Markets segment and not under Other. The earnings effects of the ALM positions are allocated to the segments. Earnings effects of hybrid financial instruments continue to be reported in the Other item. The prior-year figures have been adjusted for purposes of comparability.

Hamburg Commercial Bank comprises the segments Corporates & Structured Finance, Shipping, Real Estate and Diversified Lending & Markets as well as Total Other and Reconciliation.

The business activities of the Corporates & Structured Finance, Shipping and Real Estate segments focus on offering financing solutions in the lending business.

In the Corporates & Structured Finance segment, the strategic focus is mainly on the Energy & Infrastructure, Trade & Food, Healthcare and Industry & Services business areas. Moreover, this segment includes the advisory areas and products of Structured Finance, Leveraged Buy-out, Syndication, Factoring, Leasing and Transaction Banking for all customers of the Bank as well as specific services for institutional clients. The Real Estate segment comprises national and international transactions with real estate clients, while the Shipping segment focuses on shipping clients.

The Diversified Lending & Markets segment comprises the capital market activities newly established within the scope of the transformation, which focus on the management of strategic investments and on the treasury function. The Bank's liquidity and market price risks are managed centrally as part of asset and liability management (ALM). The liquidity buffer required in accordance with MaRisk is also included here. The segment also includes business with international corporate clients, which adds to the diversification of the Bank's portfolio.

The administrative expenses incurred by the segments comprise the direct personnel and operating costs attributable to the segments, as well as the allocation of the Bank's overhead costs. The Bank's overhead costs are allocated in full to the individual segments on the basis of internal standard processing costs.

Loan loss provisions are shown in the segments in which they originated. The expenses for regulatory affairs, the deposit guarantee fund and banking associations are allocated to the segments.

The Total Other and Reconciliation column corresponds to the sum of the "Other" and "Reconciliation" columns. In the "Other" column, the non-reportable corporate and service functions are disclosed.

The "Reconciliation" column contains effects from different accounting methods between the parameters reported internally and the presentation in the Group financial statements. In accordance with IFRS 8.28, the reconciliation effects included in the individual income items are presented separately and explained in greater detail below.

Net interest income for the purpose of internal reporting to management is calculated in accordance with Fund Transfer Pricing (FTP). The investment and financing income, the other effects from equity and the transformation contribution are allocated to the segments according to the liquidity costs that have been offset. The transformation contribution mainly includes the results from the liquidity management of the banking book and, as a result, temporary effects resulting from the increase in liquidity during the privatisation phase.

Reconciliation effects relating to Net interest income in the amount of € 66 million are due largely to valuation differences. These are largely the result of the use of internal transactions as part of internal interest rate and liquidity management/the consideration of imputed interest rate margins (fund transfer pricing, FTP) instead of gross interest in the lending business. Further reconciliation effects result, in particular, from the use of what are, in some cases, different calculation and amortisation methods within the context of internal reporting. In addition, in the internal management system, the measurement results of the hedging derivatives in hedge accounting are only recognised upon the disposal of AC or FVOCI positions, whereas under the IFRS hedge accounting regulations, the hedge adjustments are continuously amortised within the Net interest income item.

The reconciliation effects of the Result from financial instruments categorised as FVPL (€ -45 million) include differences resulting from the presentation of capital market transactions between the internal management system and IFRS accounting, as well as from the hedging of certain financial instruments that can be included in the portfolio fair value hedge in full in the internal recognition of the interest rate hedge transaction, whereas under the IFRS, they cannot, or can only partly, be included in the portfolio fair value hedge.

In addition, the result from restructuring and privatisation is also shown in full under reconciliation as an item for reconciliation with the internally managed values.

Total income recognised in the segments is exclusively generated from business conducted with external customers.

Geographical information and information on income from external clients for each product and service is not collected for management reporting purposes due to a lack of management relevance and disproportionately high costs, which means that a disclosure in accordance with IFRS 8.32 and 8.33 is not required.

The cost/income ratio (CIR) and return on equity (RoE) are shown in the segment report for the four operating segments and the Group.

Because of its direct relevance to management, the allocation key for the allocation of the average reported equity capital to the segments is the regulatory capital commitment.

The CIR is calculated as the ratio of Administrative expenses to Total income plus Other operating income. Return on equity is the ratio of net income before taxes to average equity capital.

Disclosures on financial instruments

47. Information on the development of loan loss provisions and the carrying amounts of financial instruments not measured at fair value through profit or loss

The following table shows the development of the gross carrying amounts of financial instruments not measured at fair value through profit or loss in the balance sheet items Loans and advances to banks, Loans and advances to customers, Financial investments, Assets held for sale and for the off-balance sheet business.

The development in loan loss provisions for financial instruments not measured at fair value through profit or loss is also shown separately by balance sheet item.

Development in gross carrying amounts for loans and advances to banks

(€ m)	2020				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2020	**2,520**	**1**	**–**	**–**	**2,521**
thereof AC	2,465	1	–	–	2,466
thereof FVOCI	55	–	–	–	55
Other changes	-960	-3	–	–	-963
thereof AC	-926	-3	–	–	-929
thereof FVOCI	-34	–	–	–	-34
Carrying amounts as at 31 December 2020	**1,558**	**–**	**–**	**–**	**1,558**
thereof AC	1,537	–	–	–	1,537
thereof FVOCI	21	–	–	–	21

Development in gross carrying amounts for loans and advances to banks

(€ m)	2019				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2019	**3,166**	**-**	**-**	**-**	**3,166**
thereof AC	3,000	-	-	-	3,000
thereof FVOCI	166	-	-	-	166
Other changes	-646	1	-	-	-645
thereof AC	-535	1	-	-	-534
thereof FVOCI	-111	-	-	-	-111
Carrying amounts as at 31 December 2019	**2,520**	**1**	**-**	**-**	**2,521**
thereof AC	2,465	1	-	-	2,466
thereof FVOCI	55	-	-	-	55

Development in loan loss provisions for loans and advances to banks

Like in the previous year, there were no significant loan loss provisions for loans and advances to banks in the year under review.

Development in gross carrying amounts for loans and advances to customers

(€ m)	2020				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2020	**26,672**	**2,750**	**649**	**-**	**30,071**
thereof AC	25,011	2,750	649	–	28,410
thereof FVOCI	1,604	–	–	–	1,604
thereof receivables under finance leases	57	–	–	–	57
Transfer to LECL level 2	-1,811	1,811	–		–
thereof AC	-1,804	1,804	–		–
Transfer to LECL level 3	-75	-577	652		–
thereof AC	-75	-577	652		–
Transfer to 12M ECL	310	-310	–		–
thereof AC	310	-310	–		–
thereof FVOCI	–	–	–		–
Other changes	-6,277	-951	-757	16	-7,969
thereof AC	-5,721	-950	-757	16	-7,412
thereof FVOCI	49	–	–	–	49
thereof receivables under finance leases	-8	–	–	–	-8
Carrying amounts as at 31 December 2020	**18,819**	**2,723**	**544**	**16**	**22,102**
thereof AC	17,721	2,717	544	16	20,998
thereof FVOCI	1,049	6	–	–	1,055
thereof receivables under finance leases	49	–	–	–	49

Development in gross carrying amounts for loans and advances to customers

(€ m)	2019				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2019	**28,152**	**3,017**	**955**	**–**	**32,124**
thereof AC	26,094	3,008	955	–	30,057
thereof FVOCI	1,985	9	–	–	1,994
thereof receivables under finance leases	73	–	–	–	73
Transfer to LECL level 2	-1,085	1,238	-153		–
thereof AC	-1,085	1,238	-153		–
Transfer to LECL level 3	-75	-194	269		–
thereof AC	-75	-194	269		–
Transfer to 12M ECL	547	-547	–		–
thereof AC	536	-536	–		–
thereof FVOCI	11	-11	–		–
Other changes	-867	-764	-422	–	-2,053
thereof AC	-459	-766	-422	–	-1,647
thereof FVOCI	-392	2	–	–	-390
thereof receivables under finance leases	-16	–	–	–	-16
Carrying amounts as at 31 December 2019	**26,672**	**2,750**	**649**	**–**	**30,071**
thereof AC	25,011	2,750	649	–	28,410
thereof FVOCI	1,604	–	–	–	1,604
thereof receivables under finance leases	57	–	–	–	57

Development in loan loss provisions for loans and advances to customers

(€ m)	2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at January 2020	**57**	**308**	**343**	**–**	**708**
Transfer to LECL level 2	-10	10	-	–	-
Transfer to LECL level 3	-	-160	160	-	-
Transfer to 12M ECL	28	-28	-	-	-
Reversals due to disposals, repayments and other reductions	73	118	101	–	292
Additions due to new additions and other increases	91	207	196	1	495
Utilisation	-	-	337	–	337
Change in line with effective interest rate	-	-	19	–	19
Exchange rate changes	-2	-3	-19	–	-24
Loan loss provisions on 31 December 2020	**91**	**216**	**261**	**1**	**569**

Development in loan loss provisions for loans and advances to customers

(€ m)	2019				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at January 2019	**94**	**241**	**496**	**–**	**831**
Transfer to LECL level 2	-25	25	–	–	–
Transfer to LECL level 3	-1	-19	20	–	–
Transfer to 12M ECL	30	-30	–	–	–
Reversals due to disposals, repayments and other reductions	76	131	111	–	318
Additions due to new additions and other increases	33	218	60	–	311
Utilisation	–	–	134	–	134
Change in line with effective interest rate	–	–	8	–	8
Exchange rate changes	2	4	4	–	10
Loan loss provisions on 31 December 2019	**57**	**308**	**343**	**–**	**708**

Development in gross carrying amounts for financial investments

(€ m)	2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2020	**5,443**	**51**	**–**	**–**	**5,494**
thereof AC	112	–	–	–	112
thereof FVOCI	5,331	51	–	–	5,382
Other changes	- 553	- 51	–	–	- 604
thereof AC	- 26	–	–	–	- 26
thereof FVOCI	- 484	- 51	–	–	- 535
Carrying amounts as at 31 December 2020	**4,890**	**–**	**–**	**–**	**4,890**
thereof AC	86	–	–	–	86
thereof FVOCI	4,804	–	–	–	4,804

Development in gross carrying amounts for financial investments

(€ m)	2019				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2019	**9,413**	**55**	**–**	**–**	**9,468**
Transfer to LECL level 2	- 58	58	–	–	–
thereof FVOCI	- 58	58	–	–	–
New additions and increases	1,147	–	–	–	1,147
thereof AC	19	–	–	–	19
thereof FVOCI	1,128	–	–	–	1,128
Other changes	- 3,913	- 62	–	–	- 3,975
thereof AC	- 2	–	–	–	- 2
thereof FVOCI	- 3,911	- 62	–	–	- 3,973
Carrying amounts as at 31 December 2019	**5,442**	**51**	**–**	**–**	**5,493**
thereof AC	112	–	–	–	112
thereof FVOCI	5,330	51	–	–	5,381

Development in loan loss provisions for financial investments

(€ m)	2020			
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions on 1 January 2020	**–**	**1**	**–**	**1**
Reversals due to disposals and other reductions	–	1	–	1
Loan loss provisions on 31 December 2020	**–**	**–**	**–**	**–**

In the reporting period, changes in financial investments relate only to transactions categorised as FVOCI.

Development in loan loss provisions for financial investments

(€ m)	2019			
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions as at January 2019	**–**	**5**	**–**	**5**
Reversals due to disposals	–	4	–	4
Loan loss provisions on 31 December 2019	**–**	**1**	**–**	**1**

In the prior-year period, changes in financial investments relate only to transactions categorised as FVOCI.

Development in gross carrying amounts of non-current assets held for sale and disposal groups

(€ m)	2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2020	**245**	**–**	**–**	**–**	**245**
Other changes	364	17	–	–	381
Carrying amounts as at 31 December 2020	**609**	**17**	**–**	**–**	**626**

The net changes in the gross carrying amounts of assets held for sale and disposal groups result from reclassifications or disposals in the loans and advances to customers.

Development in gross carrying amounts of non-current assets held for sale and disposal groups

(€ m)	2019				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2019	**–**	**–**	**–**	**–**	**–**
Other changes	245	–	–	–	245
Carrying amounts as at 31 December 2019	**245**	**–**	**–**	**–**	**245**

Carrying amounts of off-balance sheet business

(€ m)	2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2020	**6,906**	**311**	**94**	**-**	**7,311**
Other changes	-2,649	-52	-18	-	-2,719
Carrying amounts as at 31 December 2020	**4,257**	**259**	**76**	**-**	**4,592**

Carrying amounts of off-balance sheet business

(€ m)	2019				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2019	**8,110**	**386**	**77**	**-**	**8,573**
Transfer to LECL level 2	-204	204	–	–	–
Transfer to LECL level 3	-25	-11	36	–	–
Transfer to 12M ECL	101	-101	–	–	–
Other changes	-1,076	-167	-19	–	-1,262
Carrying amounts as at 31 December 2019	**6,906**	**311**	**94**	**-**	**7,311**

Development in loan loss provisions for off-balance-sheet business

(€ m)	2020			
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions as at January 2020	**4**	**3**	**46**	**53**
Transfer to LECL level 3	–	-4	4	–
Reversals due to disposals and other reductions	-4	-11	-42	-57
Additions due to new additions and other increases	3	13	28	44
Exchange rate changes	–	–	-1	-1
Loan loss provisions on 31 December 2020	**3**	**1**	**35**	**39**
thereof provisions for contingent liabilities	–	–	11	11
thereof provisions for irrevocable loan commitments	3	1	24	28

Development in loan loss provisions for off-balance-sheet business

(€ m)	2019			
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions as at January 2019	**6**	**6**	**48**	**60**
Transfer to LECL level 3	–	-1	1	–
Transfer to 12-month ECL	4	-4	–	–
Reversals due to disposals and other reductions	13	1	40	54
Additions due to new additions and other increases	7	3	37	47
Loan loss provisions on 31 December 2019	**4**	**3**	**46**	**53**
thereof provisions for contingent liabilities	–	–	11	11
thereof provisions for irrevocable loan commitments	4	3	10	17
thereof other loan provisions	–	–	25	25

48. Residual maturity breakdown of financial instruments

When determining the residual maturities of financial liabilities for purposes of presenting liquidity risk, the contractually agreed maturity dates of non-discounted cash flows are used as the basis.

Residual maturity breakdown

(€ m) 2020	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
liabilities						
Liabilities to banks	473	120	576	5,230	1,268	7,667
Liabilities to customers	4,916	2,155	2,909	1,790	1,798	13,568
Securitised liabilities	-	391	1,168	4,141	230	5,930
Negative fair value of hedging derivatives	-	14	25	103	208	350
Trading liabilities	1	36	72	333	314	756
thereof: Derivatives	1	36	72	333	263	705
Other liabilities	-	81	52	177	1	311
Subordinated capital	-	-	163	29	995	1,187
Contingent liabilities	968	-	-	-	-	968
Irrevocable loan commitments	4,208	-	-	-	-	4,208
Total	**10,566**	**2,797**	**4,965**	**11,803**	**4,814**	**34,945**

Residual maturity breakdown

(€ m) 2019	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
liabilities						
Liabilities to banks	430	292	563	2,399	1,535	5,219
Liabilities to customers	6,965	5,060	5,002	5,149	2,840	25,016
Securitised liabilities	1	291	1,440	5,883	553	8,168
Negative fair value of hedging derivatives	-	33	65	235	266	599
Trading liabilities	6	181	223	1,008	999	2,417
thereof: Derivatives	6	181	223	1,008	999	2,417
Other liabilities	3	73	65	332	6	479
Subordinated capital	-	2	421	247	1,077	1,747
Contingent liabilities	1,438	-	-	-	-	1,438
Irrevocable loan commitments	6,485	-	-	-	-	6,485
Total	**15,328**	**5,932**	**7,779**	**15,253**	**7,276**	**51,568**

Interest rate swaps, cross currency interest rate swaps and equity swaps are presented on the basis of their future net payment obligations. Other derivatives are assigned to maturity bands by overall maturity at their carrying amount. Liquidity management is described in detail in the Bank's Risk Report.

49. Disclosure of fair value in accordance with IFRS 7 and IFRS 13

I. Fair values of financial instruments

The section below shows the fair values of the financial assets and liabilities presented by category of financial instrument, compared with the carrying amounts and divided into the three levels of the measurement hierarchy in accordance with IFRS 13.

Fair values of financial instruments

Assets

(€ m) 2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVOCI Mandatory	**5,878**	**5,878**	**1,954**	**3,788**	**136**
Loans and advances to banks	22	22	–	22	–
Loans and advances to customers	1,055	1,055	–	1,055	–
Financial investments	4,801	4,801	1,954	2,711	136
FVPL Designated	**123**	**123**	**–**	**123**	**–**
Loans and advances to banks	–	–	–	–	–
Loans and advances to customers	61	61	–	61	–
Financial investments	62	62	–	62	–
FVPL Held For Trading	**1,544**	**1,544**	**–**	**1,314**	**230**
Trading assets	1,544	1,544	–	1,314	230
FVPL Other	**832**	**832**	**12**	**489**	**331**
Loans and advances to customers	314	314	–	–	314
Financial investments	510	510	12	489	9
Non-current assets held for sale and disposal groups	8	8	–	–	8
AC assets	**24,663**	**25,486**	**–**	**4,264**	**21,222**
Cash reserve	1,741	1,741	–	1,741	–
Loans and advances to banks	1,536	1,539	–	961	578
Loans and advances to customers	20,429	21,239	–	1,260	19,979
Financial investments	86	88	–	57	31
Non-current assets held for sale and disposal groups	626	634	–	–	634
Other assets	245	245	–	245	–
No IFRS 9 category	**160**	**158**	**–**	**2**	**–**
Positive fair values of hedging derivatives	2	2	–	2	–
Receivables under finance leases	50	50	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	108	106[1]	n.r.	n.r.	n.r.
Total assets	**33,200**	**34,021**	**1,966**	**9,980**	**21,919**

[1] The part of the value adjustments from the portfolio fair value hedge that is attributable to financial investments, loans and advances to banks and loans and advances to customers in the FVOCI holding category is recognised at fair value. The remaining € 2 million pertain to loans and advances in the AC holding category.

The carrying amounts of loans and advances to banks and loans and advances to customers classified as AC HTC are shown less the loan loss provisions disclosed on the balance sheet, since fair value also reflects possible impairments.

Fair values of financial instruments

Assets

(€ m) 2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVOCI Mandatory	**7,039**	**7,039**	**3,764**	**3,255**	**20**
Loans and advances to banks	55	55	–	55	–
Loans and advances to customers	1,604	1,604	–	1,604	–
Financial investments	5,380	5,380	3,764	1,596	20
FVPL Designated	**218**	**218**	**-**	**218**	**-**
Loans and advances to customers	131	131	–	131	–
Financial investments	87	87	–	87	–
FVPL Held For Trading	**2,663**	**2,663**	**58**	**2,260**	**345**
Trading assets	2,663	2,663	58	2,260	345
FVPL Other	**1,035**	**1,035**	**11**	**607**	**417**
Loans and advances to customers	506	506	–	133	373
Financial investments	521	521	11	474	36
Non-current assets held for sale and disposal groups	8	8	–	–	8
AC assets	**35,407**	**36,265**	**-**	**9,207**	**27,058**
Cash reserve	4,850	4,850	–	4,850	–
Loans and advances to banks	2,466	2,470	–	1,796	674
Loans and advances to customers	27,702	28,554	–	2,202	26,352
Financial investments	112	114	–	82	32
Non-current assets held for sale and disposal groups	245	245	–	245	–
Other assets	32	32	–	32	–
No IFRS 9 category	**338**	**333**	**-**	**134**	**-**
Positive fair values of hedging derivatives	134	134	–	134	–
Receivables under finance leases	57	57	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	147	142[1)]	n.r.	n.r.	n.r.
Total assets	**46,700**	**47,553**	**3,833**	**15,681**	**27,840**

[1)] The part of the value adjustments from the portfolio fair value hedge that is attributable to financial investments, loans and advances to banks and loans and advances to customers in the FVOCI holding category is recognised at fair value. The remaining € 5 million pertain to loans and advances in the AC holding category.

The carrying amounts of loans and advances to banks and loans and advances to customers classified as LaR are shown less the loan loss provisions disclosed on the balance sheet, since fair value also reflects possible impairments.

Fair values of financial instruments

Liabilities

(€ m) 2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVPL Designated	**932**	**932**	**–**	**448**	**484**
Liabilities to banks	112	112	–	11	101
Liabilities to customers	417	417	–	151	266
Securitised liabilities	403	403	–	286	117
FVPL Held For Trading	**686**	**686**	**–**	**625**	**61**
Trading liabilities	686	686	–	625	61
AC liabilities	**26,505**	**27,160**	**–**	**22,411**	**4,749**
Liabilities to banks	7,366	7,364	–	7,333	31
Liabilities to customers	12,687	13,131	–	8,496	4,635
Securitised liabilities	5,267	5,347	–	5,264	83
Other liabilities	245	245	–	245	–
Subordinated capital	940	1,073	–	1,073	–
No IFRS 9 category	**640**	**371**	**–**	**371**	**–**
Negative fair value of hedging derivatives	371	371	–	371	–
Value adjustments from the portfolio fair value hedge	269	–	n.r.	n.r.	n.r.
Total liabilities	**28,763**	**29,149**	**–**	**23,855**	**5,294**

Fair values of financial instruments

Liabilities

(€ m) 2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVPL Designated	**1,788**	**1,788**	**–**	**980**	**808**
Liabilities to banks	122	122	–	11	111
Liabilities to customers	633	633	–	290	343
Securitised liabilities	1,033	1,033	–	679	354
FVPL Held For Trading	**1,946**	**1,946**	**–**	**1,859**	**87**
Trading liabilities	1,946	1,946	–	1,859	87
AC liabilities	**36,845**	**37,662**	**–**	**37,212**	**450**
Liabilities to banks	4,944	4,931	–	4,900	31
Liabilities to customers	23,333	23,954	–	23,768	186
Securitised liabilities	6,812	6,911	–	6,801	110
Other liabilities	407	407	–	407	–
Subordinated capital	1,349	1,459	–	1,336	123
No IFRS 9 category	**1,003**	**609**	**–**	**609**	**–**
Negative fair value of hedging derivatives	609	609	–	609	–
Value adjustments from the portfolio fair value hedge	394	–	n.r.	n.r.	n.r.
Total liabilities	**41,582**	**42,005**	**–**	**40,660**	**1,345**

At the end of the period under review, financial instruments measured at fair value were transferred from one hierarchy level to another. These transfers are shown below together with the carrying amounts at the time of transfer for each class of financial instruments.

Transfer, assets

(€ m) 2020	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Trading assets (FVPL Trading)	-	-	4	-3	3	-4
Financial investments						
thereof FVOCI Mandatory	437	-1,613	1,613	-437	-	-
Total	**437**	**-1,613**	**1,617**	**-440**	**3**	**-4**

Transfer, assets

(€ m) 2019	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Trading assets (FVPL Trading)	44	-6	15	-45	1	-9
Financial investments						
thereof FVOCI Mandatory	454	-1,235	1,235	-454	-	-
Total	**498**	**-1,241**	**1,250**	**-499**	**1**	**-9**

There were no liability transfers in the reporting period.

Transfer, liabilities

(€ m) 2019	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Trading liabilities (HfT)	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

IFRS 13 and IDW RS HFA 47 specify the principles to be applied in determining the fair value. They also include the guidelines for assigning input factors to the fair value hierarchy levels. Hamburg Commercial Bank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities that are commonly traded on the OTC market. Average prices determined on the basis of binding offers or transaction-based prices are level 2 input factors within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities were accordingly transferred from level 1 to level 2 or vice versa in the reporting period – depending on the prices used for measurement.

The following shows the reconciliation for all assets and liabilities recognised at fair value and assigned to level 3 in the fair value hierarchy. The data is presented from the start to the end of the period. The table takes into account all movements of assets and liabilities that were or are allocated to level 3 during the reporting period.

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Quantitative change in balance	
2020	01.01.2020	Realised net income (income statement)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	373	-23	-	38	-16
Trading assets (FVPL Trading)	345	-143	-	56	-10
Financial investments					
thereof FVOCI Mandatory	20	1	-	115	-
thereof FVPL Other	36	4	-	1	-1
Non-current assets held for sale and disposal groups					
thereof FVPL Other	8	-	-	-	-
Total	**782**	**-161**[1)]	**-**	**210**	**-27**

[1)] Of the net income in the income statement recognised in profit or loss, € -157 million relates to the result from financial instruments categorised as FVPL and € -4 million to the net interest result.

	Quantitative change in balance		Transfers					
	Issues	Settlements	From level 3	To level 3	Transfer/ recategorisa-tion	Exchange rate changes	31 December 2020	Net income from assets held as at 31 December 2020
	–	–39	–	–	–	–19	314	–5
	–	–13	–4	3	–	–4	230	–11
	–	–	–	–	–	–	136	–
	–	–	–	–	–	–	9	–
-	–	–	–	–	–	–	8	–
	-	**-52**	**-4**	**3**	**-**	**-23**	**697**	**-16**

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Quantitative change in balance	
2019	1 January 2019	Realisednet in-come(income statement)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	411	53	–	173	-223
Trading assets (FVPL Trading)	291	-24	–	99	–
Financial investments					
thereof FVOCI Mandatory	15	–	1	4	–
thereof FVPL Other	90	-1	–	–	-1
Non-current assets held for sale and disposal groups					
thereof FVPL Other	8	–	–	–	-8
Total	**815**	**28**	**1**	**276**	**-232**

[1] Of the net income in the income statement recognised in profit or loss, € -65 million relates to the result from financial instruments categorised as FVPL and € 16 million to net interest income.

	Quantitative change in balance		Transfers					
	Issues	Settlements	From level 3	To level 3	Transfer/ recategorisa-tion	Exchange rate changes	31 December 2019	Net income from assets held as at 31 December 2019
	–	-44	–	–	–	3	373	1
	–	-14	-9	1	–	1	345	-5
	–	–	–	–	–	–	20	1
	–	-44	–	–	-8	–	36	-2
	–	–	–	–	8	–	8	–
	-	**-102**	**-9**	**1**	**-**	**4**	**782**	**-5**

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Quantitative change in balance	
2020	01.01.2020	Net income recognised in profit or loss	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	111	-3	–	–	–
Liabilities to customers					
FVPL Designated	343	1	–	–	–
Securitised liabilities					
FVPL Designated	354	-51	-4	-204	70
Trading liabilities (FVPL Trading)	87	-80	–	50	–
Total	**895**	**-133**[1)]	**-4**	**-154**	**70**

[1)] Of the net income in the income statement, € -128 million relates to the result from financial instruments categorised as FVPL and € -5 million to the net interest result.

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Quantitative change in balance	
2019	01.01.2019	Net income recognised in profit or loss	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	108	2	1	-	-
Liabilities to customers					
FVPL Designated	384	-13	4	-	-23
Securitised liabilities					
FVPL Designated	366	-8	-2	-2	2
Trading liabilities (FVPL Trading)	93	-6	-	-	-
Total	**951**	**-25**[1)]	**3**	**-2**	**-21**

[1)] Of the net income in the income statement recognised in profit or loss, € -27 million relates to the result from financial instruments categorised as FVPL and € -14 million to net interest income.

Quantitative change in balance		Transfers					
Newbusiness	Settlements	From level 3	To level 3	Transfer/ recategorisa-tion	Exchange rate changes	31 December 2020	Net income from assets held as at 31 December 2020
–	-7	–	–	–	–	101	-2
–	-75	–	–	–	-3	266	-10
–	-37	–	–	–	-11	117	-4
–	–	–	6	-2	–	61	-4
–	**-119**	**–**	**6**	**-2**	**-14**	**545**	**-20**

Quantitative change in balance		Transfers					
Newbusiness	Settlements	From level 3	To level 3	Transfer/ recategorisa-tion	Exchange rate changes	31 December 2019	Net income from assets held as at 31 December 2019
–	–	–	–	–	–	111	2
–	-9	–	–	–	–	343	-6
–	-12	–	–	–	10	354	-9
–	–	–	–	–	–	87	7
–	**-21**	**–**	**–**	**–**	**10**	**895**	**-6**

II. Information on significant unobservable inputs

QUANTITATIVE INFORMATION ON SIGNIFICANT UNOBSERVABLE INPUTS

The following overview contains quantitative information on significant unobservable inputs.

Fair value

(€ m) 2020		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)		Margin
Loans and advances to customers	FVPL Other	314		DCF method	Spread (bps)		48 – 1470
				Option pricing model	Interest rate FX correlation	9%	-35%-
				Price	Price		2 – 85
Trading assets/trading liabilities	FVPL Held For Trading	230	61	DCF method	Spread		48 – 1470
					Longevity	33	10% - %
				Option pricing model	Interest rate volatility	47	9% - %
					Interest rate FX correlation	9	-35% - %
					FX correlation	79	3% - %
Financial investments	FVPL Other	9		Price	Price		1 – 11471
				DCF method	Capital costs	8	6% - %
	Mandatory FVOCI	136		DCF method	Spread (bps)		48 – 1470
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Capital costs	8	6% - %
Liabilities to banks	FVPL Designated		101	Option pricing model	Interest rate volatility	47	9% - %
					Interest rate FX correlation	9	-35% - %
Liabilities to customers	FVPL Designated		266	Option pricing model	Interest rate volatility	47	9% - %
					Interest rate FX correlation	9	-35% - %
				Price	Price		2- 10
Securitised liabilities	FVPL Designated		117	Option pricing model	Interest rate volatility	47	9% - %
					FX correlation	79	3% - %
Total		**697**	**545**				

Fair value

(€ m) 2019		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)		Margin
Loans and advances to customers	FVPL Other	373		DCF method	Spread (bps)		61 – 1327
				Option pricing model	Interest rate FX correlation	12	-31% - %
				Price	Price		2 – 106
Trading assets/trading liabilities	FVPL Held For Trading	345	87	DCF method	Spread		61 – 1327
				Option pricing model	Interest rate volatility	28	8% - %
					Interest rate FX correlation	12	-31% - %
					FX correlation	68	22% - %
Financial investments	FVPL Other	36		Option pricing model	Interest rate volatility	28	8% - %
				Price	Price		2 – 11900
				DCF method	Capital costs	9	7% - %
	Mandatory FVOCI	20		DCF method	Spread (bps)		61 – 1327
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Capital costs	9	7% - %
Liabilities to banks	FVPL Designated		111	Option pricing model	Interest rate volatility	28	8% - %
					Interest rate FX correlation	12	-31% - %
Liabilities to customers	FVPL Designated		343	Option pricing model	Interest rate volatility	28	8% - %
					Interest rate FX correlation	12	-31% - %
Securitised liabilities	FVPL Designated		354	Option pricing model	Interest rate volatility	28	8% - %
					Interest rate FX correlation	68	22% - %
Total		**782**	**895**				

The correlation and volatility ranges shown for derivatives cover derivatives with different types of underlying, tenors and exercise prices.

The overview also includes financial instruments whose change in value resulting from inputs unobservable in the market does not give rise to any P&L effect due to economic hedging relationships (at the micro level). Changes in value attributable to the respective relevant inputs are offset for these financial instruments by the changes in value of the hedging derivatives.

Sensitivities of fair values in relation to unobservable inputs

The following describes how the fair values of financial instruments can change as a result of fluctuations in significant unobservable inputs.

CORRELATION

Correlation can represent an important unobservable input for the measurement of derivatives. It is a measure of the degree to which two reference values move in relation to each other. Correlation is an important input for the model-based determination of the fair value of derivatives with more than one underlying. Financial instruments of this type include, for example, derivatives with several currencies ("FX basket") or several shares as the underlyings ("equity basket" derivatives). Currency correlations describe the relationship between changes in value of several currencies. Share correlations express the relationship between yields on different shares. A high degree of correlation means that there is a close relationship between the changes in value of the respective underlyings.

Depending on the type of derivative changes in correlation can have a positive or negative effect on the fair value. For example, in the case of a "best of two" derivative, an increase in the correlation between two underlyings results in a decrease of the fair value of the derivative from the perspective of the purchaser.

VOLATILITY

Volatility can also represent an important unobservable input for the measurement of options. It expresses how strongly the value of the underlying fluctuates over time. The amount of volatility depends on the type of the underlying, its tenor and the exercise price agreed for the option.

The fair value of options typically increases if volatility increases. The sensitivity of the fair value of options to changes in volatility can vary considerably. For example, the sensitivity of the fair value to changes in volatility is comparatively high, if the price of the underlying is close to the agreed exercise price ("at-the-money"). By contrast, sensitivity to changes in volatility is lower, if the price of the underlying is far from the exercise price ("far out-of-the-money" or "far in-the-money").

PRICE

Prices can represent an important unobservable input for the measurement of financial instruments. These prices represent pricing information of third parties within the meaning of IFRS 13.93(d) sentence 4, whereby the Bank does not produce any quantitative, unobservable input factors for measuring the fair value of the respective financial instrument. More detailed quantitative information on these input factors is therefore not required. The fair value increases, if the price increases, and it falls, if the price declines.

Reciprocal effects between unobservable inputs

Reciprocal effects between unobservable inputs can exist in principle. If several unobservable inputs are used in determining fair value, the range of the possible characteristics for another unobservable input can be restricted or increased by the characteristic used for one of the relevant unobservable inputs.

Effects of unobservable inputs

If the measurement of a financial instrument is based partly on unobservable inputs, the fair value determined is the best estimated value in accordance with a discretionary decision made by the Bank. However, it remains subjective in that there may be alternative input selection options that cannot be refuted by observable market data. For many of the financial instruments included (such as derivatives) the unobservable inputs only represent a subset of the total inputs required for the measurement. The remaining inputs are observable inputs.

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had certain effects on the fair values of the financial instruments in question. Advantageous and disadvantageous changes to fair value have been determined by recalculating the fair values based on possible alternative values to the relevant unobservable inputs. The interest volatilities were changed by +/- 5 %, all correlations by +/- 20 % (capped at +/- 100 %), price parameters by +/- 2 % and spreads by +/- 50 bp. Overall, this would then have had a positive/negative effect on the fair values of the financial instruments in question in the amount of € 50 million (previous year: € 26 million). Of this amount, € 16 million was recognised in the income statement as income/expense and € 3 million in the revaluation reserve (previous year: € 1 million income statement).

III. Day One Profit and Loss

The day one profit and loss reserve developed as follows:

(€ m)	**2020**	2019
Holdings as at 1 January	**6**	**2**
Additions not recognised in profit or loss	1	4
Reversals recognised in profit or loss	1	-
Holdings as at 31 December	**6**	**6**

The day one profit and loss reserve is solely attributable to financial instruments classified as FVPL Trading.

50. Offsetting of financial instruments

Financial assets and financial liabilities are netted and disclosed as a net amount on the balance sheet, if there is a legal entitlement to do so at the current point in time and there is the intention to settle the claims on a net basis or to settle the associated liability at the time the asset concerned is realised.

Set out below are the financial instruments on the balance sheet that were netted as at the reporting date as well as financial instruments, which are subject to a legally enforceable global netting agreement, irrespective of whether the financial instruments concerned are actually netted on the face of the balance sheet. Master agreements commonly used at Hamburg Commercial Bank are master agreements for repo transactions and, for OTC transactions, ISDA master agreements and the German master agreement for financial derivatives (DRV). These provide for offsetting of mutual claims and obligations only in the event of termination of all individual transactions under a master agreement based on certain events and therefore do not entitle the parties to offset the recognised assets and liabilities. Hamburg Commercial Bank has entered into clearing agreements with brokers for certain OTC derivatives enabling the Bank to access central counterparties (clearing houses). The contractual provisions for these transactions include a legal right to offset financial assets and financial liabilities that can be enforced at any time and thus, in accordance with IAS 32.42, result in the offsetting of the positive and negative fair values of the derivative financial instruments and collateral provided and received included in loans and advances to banks and customers or liabilities to banks and customers for accounting purposes.

In addition, loans and advances to banks and customers actually netted and liabilities to banks and customers arising from genuine repo transactions are shown on the basis of netting agreements.

Financial assets

(€ m) 2020	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
Loans and advances to banks	1,173	419	754	-	500	254
Loans and advances to customers	146	-	146	-	136	10
Derivatives	1,603	438	1,165	258	303	604

Of the net amount of derivatives disclosed on the statement of financial position, positive market values of hedging derivatives account for € 2 million and trading assets for € 1,163 million.

Financial liabilities

(€ m) 2020	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	381	85	296	–	273	23
Liabilities to customers	30	–	30	–	30	–
Derivatives	1,775	772	1,003	258	636	109

Of the net amount of derivatives disclosed on the balance sheet negative market values of hedging derivatives account for € 371 million and trading liabilities for € 632 million.

Financial assets

(€ m) 2019	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
Loans and advances to banks	1,631	321	1,310	–	1,057	253
Loans and advances to customers	433	27	406	–	353	53
Derivatives	2,766	522	2,244	1,036	497	711

Of the net amount of derivatives disclosed on the balance sheet positive market values of hedging derivatives account for € 132 million and trading assets for € 2,112 million.

Financial liabilities

(€ m) 2019	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	416	73	343	–	331	12
Liabilities to customers	192	24	168	–	166	2
Derivatives	3,321	773	2,548	1,036	1,410	102

Of the net amount of derivatives disclosed on the balance sheet negative market values of hedging derivatives account for € 609 millionand trading liabilities for € 1,939 million.

51. Credit risk analysis of financial assets

I. Credit quality

The following table contains information on the credit quality of all financial instruments held by the Bank. It shows the credit risk exposures by classifying the gross carrying amounts of financial assets and the nominal amounts of off-balance sheet transactions by credit risk level and assigning them to rating categories. This is based on the DSGV master scale, which is used in all
rating procedures.

Credit quality

(€ m) 2020		1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve				
	thereof AC assets	1,741	–	–	–
	Loans and advances to banks				
	thereof AC assets	854	406	269	7
	thereof FVOCI Mandatory	22	–	–	–
	Loans and advances to customers				
	thereof AC assets	562	3,899	7,296	5,785
	thereof FVOCI Mandatory	937	112	–	–
	Financial investments				
	thereof AC assets	–	–	55	31
	thereof FVOCI Mandatory	2,598	1,564	638	3
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	351	258
	Other assets				
	thereof AC assets	–	245	–	–
	No holding category				
	Receivables under finance lease transactions	–	50	–	–
	Contingent liabilities	11	128	139	48
	Irrevocable loan commitments	122	481	1,891	1,424
Financial instruments with a significant deterioration in credit quality (LECL level 2)	Loans and advances to customers				
	thereof AC assets	–	–	613	872
	thereof FVOCI Mandatory	–	–	6	–
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	–	17
	No holding category				
	Contingent liabilities	–	–	13	6
	Irrevocable loan commitments	–	–	90	67
Credit-impaired (LECL level 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
	No holding category				
	Contingent liabilities	–	–	–	–
	Irrevocable loan commitments	–	–	–	–
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
Total		**6,847**	**6,885**	**11,361**	**8,518**

Credit quality

(€ m) 2020		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve			
	thereof AC assets			
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to customers			
	thereof AC assets	121	57	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	Other assets	–	–	–
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	–	–
	Irrevocable loan commitments	8	5	–
Financial instruments with a significant deterioration in credit quality (LECL level 2)	Loans and advances to customers			
	thereof AC assets	922	310	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	No holding category			
	Contingent liabilities	2	10	–
	Irrevocable loan commitments	49	23	–
Credit-impaired (LECL level 3)	Loans and advances to customers			
	thereof AC assets	–	–	545
	No holding category			
	Contingent liabilities	–	–	27
	Irrevocable loan commitments	–	–	48
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	16
Total		**1,102**	**405**	**636**

The Bank does not apply the simplified approach under IFRS 9.5.5.15, meaning that the disclosure under IFRS 7.35 M(b)(iii) is not relevant.

Credit quality

(€ m) 2019		1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve				
	thereof AC assets	4,850	–	–	–
	Loans and advances to banks				
	thereof AC assets	1,020	950	392	103
	thereof FVOCI Mandatory	55	–	–	–
	Loans and advances to customers				
	thereof AC assets	1,233	6,086	9,055	8,507
	thereof FVOCI Mandatory	1,483	121	–	–
	Financial investments				
	thereof AC assets	–	56	56	–
	thereof FVOCI Mandatory	3,185	1,808	338	–
	Non-current assets held for sale and disposal groups	–	–	–	–
	thereof AC assets	245	–	–	–
	Other assets				
	thereof AC assets	–	32	–	–
	No holding category				
	Receivables under finance lease transactions	–	57	–	–
	Contingent liabilities	32	207	269	195
	Irrevocable loan commitments	145	693	3,071	2,291
Financial instruments with a significant deterioration in credit quality (LECL level 2)	Loans and advances to customers				
	thereof AC assets	–	–	580	711
	Loans and advances to banks				
	thereof AC assets	–	–	1	–
	Financial investments				
	thereof FVOCI Mandatory	–	–	–	51
	No holding category				
	Contingent liabilities	–	–	31	12
	Irrevocable loan commitments	–	–	89	144
Credit-impaired (LECL level 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	13
	No holding category				
	Contingent liabilities	–	–	–	–
	Irrevocable loan commitments	–	–	–	7
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
Total		**12,248**	**10,010**	**13,882**	**12,034**

Credit quality

(€ m) 2019		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve			
	thereof AC assets	–	–	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to customers			
	thereof AC assets	119	5	6
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups	–	–	–
	thereof AC assets	–	–	–
	Other assets	–	–	–
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	–	–
	Irrevocable loan commitments	3	–	–
Financial instruments with a significant deterioration in credit quality (LECL level 2)	Loans and advances to customers			
	thereof AC assets	949	474	36
	Loans and advances to banks			
	thereof AC assets	–	–	–
	Financial investments			
	thereof FVOCI Mandatory	–	–	–
	No holding category			
	Contingent liabilities	1	6	–
	Irrevocable loan commitments	5	23	–
Credit-impaired (LECL level 3)	Loans and advances to customers			
	thereof AC assets	119	–	517
	No holding category			
	Contingent liabilities	8	–	66
	Irrevocable loan commitments	5	–	7
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	–
Total		**1,209**	**508**	**632**

II. Credit risk exposure

With the exception of loans and advances to banks and customers, the credit risk exposure as at the reporting date corresponds to the carrying amount of financial assets, as presented in Note 47, as well as the nominal value of off-balance sheet liabilities as presented in Note 55.

In the case of loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount after loan loss provisions as presented in Note 24. The maximum default risk of the loans and advances recognised at fair value through profit or loss (FVPL) is not reduced by associated credit derivatives.

Collateral and other risk-reducing agreements are not reflected in these amounts.

III. Collateral received

A) COLLATERAL VALUES OF FINANCIAL ASSETS THAT MINIMISE THE DEFAULT RISK AND ARE NOT SUBJECT TO THE IMPAIRMENT PROCEDURE

The following information quantifies the extent to which the collateral retained and other loan collateralisation reduce the maximum default risk for financial instruments that are not subject to the impairment procedure pursuant to IFRS 9. The amount of risk reduction from the value of each form of collateral is indicated for each class of financial instruments.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio.

The following table shows the respective carrying amount for each class of financial instrument as well as the collateral value that reduces default risk.

Financial assets and associated collateral

(€ m)		Value of collateral received		
2020	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	61	–	–	–
Financial investments	62	–	–	–
FVPL Other				
Loans and advances to customers	314	50	–	–
Financial investments	510	–	–	–
Non-current assets held for sale and disposal groups	8	–	–	–
FVPL Held For Trading				
Trading assets	1,544	180	24	298
No holding category				
Positive fair values of hedging derivatives	2	–	–	–
Value adjustments from the portfolio fair value hedge	108	–	–	–
Total assets	**2,609**	**230**	**24**	**298**

Financial assets and associated collateral

(€ m)		Value of collateral received		
2019	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	131	–	–	–
Financial investments	87	–	–	–
FVPL Other				
Loans and advances to customers	506	204	–	–
Financial investments	521	–	–	11
Non-current assets held for sale and disposal groups	8	–	–	–
FVPL Held For Trading				
Trading assets	2,663	352	35	13
No holding category				
Positive fair values of hedging derivatives	134	–	–	–
Value adjustments from the portfolio fair value hedge	147	–	–	–
Total assets	**4,197**	**556**	**35**	**24**

B) IMPAIRED FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

The following overview shows the volume and concentration of collateral held by Hamburg Commercial Bank to reduce the default risk and other loan collateralisation for impaired financial assets.

(€ m)		Value of collateral received		
2020	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	560	120	1	48
No holding category				
Contingent liabilities	27	4	2	9
Irrevocable loan commitments	48	–	–	–
Total assets	**635**	**124**	**3**	**57**

(€ m)		Value of collateral received		
2019	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	649	123	4	16
No holding category				
Contingent liabilities	74	–	2	8
Irrevocable loan commitments	19	–	–	–
Total assets	**742**	**123**	**6**	**24**

For loans and advances to customers amounting to € 42 million (31 December 2019: € 27 million), no impairment losses were recognised despite default due to the collateral available.

Collateral is a key instrument for managing default risks. They are included in the main procedures for managing and monitoring default risks to reduce risk. The methods and processes for the valuation and management of collateral are set out in Hamburg Commercial Bank's Collateral Guideline.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio. Only collateral listed in the collateral catalogue is included as valuable collateral. Upon initial recognition, the value of movable property and real estate recognised as collateral is determined by an appraiser who is independent of the market. Depending on the type of collateral, the recoverability and realisation options are reviewed regularly at set intervals, and more frequently in the event of considerable market fluctuations.

Collateral values are provided by domestic collateral providers. The creditworthiness of the collateral providers is mainly in the 1(AAA) to 1(A-) rating categories.

Information on the risk concentrations for the collateral provided can be found in the Risk Report in the Default risk section.

C) THEREOF COLLATERAL RECEIVED FOR WHICH THERE ARE NO RESTRICTIONS ON DISPOSAL OR REALISATION EVEN IF THERE IS NO DEFAULT IN PAYMENT

Hamburg Commercial Bank received collateral from counterparties with a total fair value of € 326 million (31 December 2019: € 402 million). The collateral received is split up as follows: € 326 million (31 December 2019: € 402 million) relates to OTC derivatives and structured transactions. As in the previous year, the Group did not receive any collateral from genuine repo transactions as the lender. Collateral received includes cash collateral in the amount of € 326 million (31 December 2019: € 402 million). Collateral received was not resold or pledged. There are no restrictions on disposal or realisation. Hamburg Commercial Bank is obliged to return all collateral resold or pledged to the guarantor without exception.

Hamburg Commercial Bank carries out securities repurchase and lending transactions as well as tri-party repo transactions under standard master agreements with selected counterparties. The same conditions and collateralisation methods apply as for collateral transferred and received.

D) OTHER COLLATERAL RECEIVED

As in the previous year, no assets from the realisation of collateral were capitalised in the reporting period.

IV. Assets that have been written off and are still subject to an enforcement measure

In the current reporting period, financial assets that are still subject to an enforcement measure were written off in the amount outstanding under contract law of € 96 million (31 December 2019: € 30 million).

52. Restructured or modified loans

The following table shows the carrying amounts of loans and loan commitments that have been restructured or whose contractual terms and conditions have been modified in order to place the debtor in a position to continue to service or resume servicing its capital debt despite financial difficulties.

Forbearance exposure

(€ m) 2020	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	645	460	1,105
Irrevocable and revocable loan commitments	36	41	77
Total	**681**	**501**	**1,182**

Forbearance exposure

(€ m) 2019	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	721	643	1,364
Irrevocable and revocable loan commitments	15	3	18
Total	**736**	**646**	**1,382**

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 322 million have already been set up for the portfolios measured at amortised cost (previous year: € 448 million).

53. Information on unconsolidated structured entities

I. Interests in unconsolidated subsidiaries

Hamburg Commercial Bank maintains business relationships with unconsolidated structured entities, within the meaning of an interest pursuant to IFRS 12, if Hamburg Commercial Bank is exposed to variable returns based on equity, debt instruments, derivatives, guarantees, etc.

These unconsolidated structured entities relate to ABS investments, securitisation and refinancing vehicles, investment funds and other structured entities.

With a total of 39 unconsolidated structure entities (previous year: 28), Hamburg Commercial Bank maintains a business relationship (i.e. holds and interest). The following table shows the accumulated total assets of the unconsolidated structured entities with which Hamburg Commercial Bank maintains a business relationship within the meaning of an interest:

Information on the size of unconsolidated entities

(€ m)	Number		Total assets	
	2020	2019	2020	2019
ABS investments	8	1	2,499	8
Investment funds	10	10	2,898	2,166
Securitisation and refinancing vehicles	19	14	391	376
Other	2	3	398	372
Total	**39**	**28**	**6,186**	**2,922**

The function of refinancing and securitisation vehicles is to issue securities. These companies are involved in the (revolving) purchase and securitisation of loan, trading and lease receivables, including refinancing with investors. They are mainly financed through issuing debentures (and promissory notes). Furthermore, the Bank has eight ABS investments. ABS structures are financed by the issuance of debentures. In addition, investments in ABS structures are backed up by collateral. These companies are involved in the (revolving) purchase and securitisation of loan receivables, including refinancing via investors.

The main corporate purposes of investment funds are to finance assets, participate in non-listed companies and hold shares in real estate funds. The main activities of such investment funds are to carry out research for analysing markets, make decisions on investment and disinvestment in order to adjust portfolios and to attract investors. Investment funds raise their funds by the issuing of equity and debt instruments. The investment funds are funds launched by third parties, to which Hamburg Commercial Bank has mainly granted loans.

II. Risks from interests in unconsolidated structured entities

The following information concerning risk refers not just to the current reporting period but also to risks which result from business relationships with unconsolidated structured entities in earlier reporting periods.

The risks from unconsolidated structured entities are presented in the form of the maximum potential loss which may arise from these business relationships based on an interest within the meaning of IFRS 12. Hamburg Commercial Bank discloses the carrying amounts of these transactions as a maximum potential loss. In the case of irrevocable loan commitments and contingent liabilities, the carrying amount matches the par value.

There are no credit derivatives relating to unconsolidated structured entities as of the balance sheet date.

The following table shows the IFRS carrying amounts of exposures involving unconsolidated structured entities as of 31 December 2020 broken down into the items of financial position.

Type of business relationship

(€ m) 2020	Investment funds	ABS	Securitisation and refinancing vehicles	Other structured entities	Total
Loans and advances to customers	100	-	118	66	284
Positive fair value of hedging derivatives	-	-	-	-	-
Trading assets	-	-	-	-	-
Financial investments	-	116	11	-	127
Total assets	**100**	**116**	**129**	**66**	**411**
Liabilities to customers	3	-	7	2	12
Total liabilities	**3**	**-**	**7**	**2**	**12**

Type of business relationship

(€ m) 2019	Investment funds	ABS	Securitisation and refinancing vehicles	Other structured entities	Total
Loans and advances to customers	103	-	102	66	271
Positive fair value of hedging derivatives	-	-	-	-	-
Trading assets	-	-	-	-	-
Financial investments	-	-	56	103	159
Total assets	**103**	**-**	**158**	**169**	**430**
Liabilities to customers	3	-	6	2	11
Total liabilities	**3**	**-**	**6**	**2**	**11**

The above table contains the loans, debentures, deposits and derivatives in respect of unconsolidated structured entities.

In addition, there are maximum potential losses from irrevocable loan commitments amounting to € 42 million (previous year: € 33 million), thereof € 0 million results from investment funds (previous year: € 0 million) and € 42 million from securitisation and refinancing vehicles (previous year: € 33 million).

There are no business relationship risks based on an interest in unconsolidated structured entities as defined in IFRS 12.B26 that exceed the maximum potential loss, such as contractual terms under which Hamburg Commercial Bank would have to grant financial support, liquidity arrangements, guarantees extended or support provided by Hamburg Commercial Bank in the event of difficulties in refinancing unconsolidated structured entities.

Furthermore, Hamburg Commercial Bank has not entered into any loss-transfer agreements with unconsolidated structured entities. Mainly net interest income for granting loans and commission income were generated from business relationships with unconsolidated structured entities based on an interest within the meaning of IFRS 12.

III. Sponsoring

Hamburg Commercial Bank has sponsor relationships within the meaning of IFRS 12 if Hamburg Commercial Bank is exposed to variable return flows, although there is no business relationship in the form of an interest within the meaning of IFRS 12. Hamburg Commercial Bank is a sponsor if it was involved in establishing an unconsolidated structured entity, if it stands to gain the main profit from the entity or is the main collateral taker, if Hamburg Commercial Bank provides implicit guarantees or if the name of Hamburg Commercial Bank is part of the name of the structured entity or of the products issued by such entity.

The Bank currently has no sponsor relationships in the aforementioned sense.

IV. Provision of support

During the current reporting period, Hamburg Commercial Bank has not supported any unconsolidated structured entity financially or in any other way without a contractual commitment to do so. Hamburg Commercial Bank also has no intention of granting financial support to any unconsolidated structured entity or helping to procure financial support from third parties.

54. Non-substantially modified financial instruments

As far as modifications are concerned, a distinction is made between substantial and non-substantial modifications.

The following overview shows the amortised cost, taking into account the loan loss provisions before adjustments, and the net results of all financial instruments at levels 2 and 3 that were not substantially modified during the reporting period. The gains or losses resulting from the modification are based on the change in the gross carrying amount of the financial instrument as a result of the modification.

Assets

(€ m)	Amortised cost for level 2, level 3 financial instruments modified in the reporting period before modification		Gains or losses from the modification at level 2, 3 in the reporting period	
	2020	2019	2020	2019
AC				
Loans and advances to customers	344	69	4	2
Total	**344**	**69**	**4**	**2**

55. Contingent liabilities and irrevocable loan commitments

Contingent liabilities

(€ m)	2020	2019
Contingent liabilities from guarantees and warranty agreements		
Loan guarantees	87	189
Letters of credit	124	104
Other guarantees	757	1,145
Total	**968**	**1,438**

Loan commitments

(€ m)	2020	2019
Loan commitments for		
Open account loans to banks	-	-
Open account loans to customers	4,187	6,418
Guarantees	2	47
Other	19	20
Total	**4,208**	**6,485**

Information on collateral transferred is presented in Note 57 .

In addition to the values shown in the table, there are other contingent liabilities arising in connection with hybrid financial instruments rights of the Bank.

To determine for which claim the possibility of a loss is likely, and in order to estimate the amount of the potential payment obligations, Hamburg Commercial Bank takes a variety of factors into account. These include, among other things, the type of claim and the underlying facts of the case, the status of the individual proceedings, (provisional) decisions made by courts and arbitration bodies, the experience of Hamburg Commercial and third parties in comparable cases (insofar as they are known to the Bank), prior settlement negotiations, as well as the expert opinions and assessments of the Bank's internal and external legal advisors and other professionals.

Please also refer to the Note on Provisions and the explanations set out in the Risk Report, which forms part of the Combined Management Report, with respect to existing uncertainties regarding risks arising from legal disputes.

Other disclosures

56. Report on business in derivatives

Derivative financial instruments are used to a considerable degree in order to hedge risk efficiently, to take advantage of market opportunities and to cover special customer financing needs. The derivatives business of Hamburg Commercial Bank is predominantly transacted with banks based in OECD countries.

Positive and negative fair values are presented on the basis of gross values before offsetting in accordance with IAS 32.42.

I. Volume

Derivative transactions with interest rate risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2020	2019	2020	2019	2020	2019
Interest rate swaps	22,725	47,927	1,577	2,511	1,028	2,054
Swaptions						
Purchases	963	3,321	17	25	11	12
Sales	1,089	3,301	7	11	100	102
Caps, floors	4,971	11,124	17	16	9	41
Exchange-traded contracts	95	419	–	–	–	–
Other forward interest rate transactions	142	352	1	15	2	21
Total	**29,985**	**66,444**	**1,619**	**2,578**	**1,150**	**2,230**

Derivatives transactions with interest rate and foreign exchange risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2020	2019	2020	2019	2020	2019
Cross-currency interest rate swaps	1,569	4,068	13	49	43	49
Total	**1,569**	**4,068**	**13**	**49**	**43**	**49**

Derivatives transactions with foreign exchange risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2020	2019	2020	2019	2020	2019
Forward exchange transactions	3,388	5,101	55	38	12	30
Currency options						
Purchases	–	66	–	3	–	–
Sales	–	9	–	–	–	–
Total	**3,388**	**5,176**	**55**	**41**	**12**	**30**

Derivatives transactions with equity and other price risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2020	2019	2020	2019	2020	2019
Equity options						
Purchases	–	9	–	–	–	–
Exchange-traded contracts	1	12	–	–	–	–
Equity/index-based swaps	8	26	1	10	–	–
Total	**9**	**47**	**1**	**10**	**–**	**–**

Credit derivatives

(€ m)	Nominal values		Positive market values		Negative market values	
	2020	2019	2020	2019	2020	2019
Guarantor position	10	28	–	–	–	–
Collateral-taker position	–	68	–	10	–	–
Total	**10**	**96**	**–**	**10**	**–**	**–**

Derivatives transactions with structured products

(€ m)	Nominal values		Positive market values		Negative market values	
	2020	2019	2020	2019	2020	2019
Structured products	1,300	2,412	99	246	116	311
Total	**1,300**	**2,412**	**99**	**246**	**116**	**311**

Derivatives transactions in fair value hedge accounting

(€ m)	Nominal values		Positive market values		Negative market values	
	2020	2019	2020	2019	2020	2019
Fair value hedges						
Interest rate swaps	6,645	9,414	30	190	457	708
Total	**6,645**	**9,414**	**30**	**190**	**457**	**708**

II. Counterparty classification

Counterparty classification

(€ m)	Nominal values		Positive market values		Negative market values	
	2020	2019	2020	2019	2020	2019
OECD banks	31,170	50,439	965	1,465	1,596	2,463
Non-OECD banks	5	59	1	1	–	1
Non-banks[1]	11,462	33,461	809	1,406	169	531
Public authorities	270	3,698	42	252	14	333
Total	**42,907**	**87,657**	**1,817**	**3,124**	**1,779**	**3,328**

[1] Including exchange-traded contracts.

III. Maturities

Maturities

(€ m)	Positive market value of derivatives		Positive market value of derivatives from fair value hedging		Negative market value of derivatives		Negative market value of derivatives from fair value hedging	
	2020	2019	2020	2019	2020	2019	2020	2019
Residual maturity								
Up to 3 months	46	54	-	-	14	76	3	-
3 months to 1 year	37	92	6	-	45	53	4	9
1 year to 5 years	238	439	14	152	218	484	38	117
Over 5 years	1,466	2,349	10	38	1,045	2,007	412	582
Total	**1,787**	**2,934**	**30**	**190**	**1,322**	**2,620**	**457**	**708**

57. Disclosures on collateral transferred and financial assets transferred with retention of rights and/or obligations

I. Collateral transferred

As at 31 December 2020, Hamburg Commercial Bank had transferred assets as collateral that do not meet the requirements for derecognition under IFRS 9. The assets transferred as collateral continue to be recognised in the Group statement of financial position as the interest rate risk, credit risk and other material risks as well as the prospects of appreciation and interest income largely reside with Hamburg Commercial Bank.

The following table mainly shows the collateral used to collateralise OTC derivative transactions and funds raised at central banks and other credit institutions. Notes on repurchase agreements are separately disclosed below. A small amount of collateral has been transferred in the course of securities lending business.

Carrying amounts of transferred collateral

(€ m)	2020	2019
Receivables	6,071	7,834
Loans and advances to banks	1,329	2,078
Loans and advances to customers	4,742	5,756
Trading assets/Financial investments	1,179	7
Non-current assets held for sale and disposal groups	596	-
Total	**7,846**	**7,841**

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. Promissory notes and other receivables from lending are not pledged to the European Central Bank or other banks, but are assigned without this being disclosed. It is not possible to re-sell or pledge in the interim.

In addition, Hamburg Commercial Bank concludes repurchase agreements under repo master agreements both on a national and international scale. The associated liabilities are recognised under Liabilities to banks or Liabilities to customers. Repo and securities lending transactions are monitored by measuring transactions on a daily basis. If there is a shortfall in collateral the counterparty may require Hamburg Commercial Bank to provide additional securities to increase collateral. Where Hamburg Commercial Bank has provided collateral and the market situation changes such that the cover provided is excessive, it is entitled to require the counterparty to release collateral. The collateral provided is subject to a full transfer of rights, i.e. the party receiving collateral may act like an owner and in particular may transfer or pledge such collateral. In the case of securities collateral, securities of the same type and quality ('the same sort') must be delivered or returned unencumbered. Where collateral has been provided in the form of securities, it may not be returned in cash.

The above conditions and collateral modalities apply to tri-party repo transactions between Hamburg Commercial Bank and its counterparties accordingly. The transactions are executed via a tri-party agent.

II. Financial assets transferred with retention of rights and/or obligations

Hamburg Commercial Bank has transferred assets to third parties outside the Group that meet the conditions for full derecognition. The rights and obligations retained under these transfers were of an overall immaterial nature. The risks become transparent by recognition of provisions and/or recording of contingent liabilities. There is a hypothetical repurchase option relating to the sale of an equity holding, which the Bank, however, can only exercise based on the occurrence of certain biometric events. The option has a time value of € 0; it entails no risk.

58. Trust transactions

The table below shows the volume of trust transactions not recognised in the statement of financial position.

Trust transactions

(€ m)	2020	2019
Loans and advances to customers	11	2
Trust assets	**11**	**2**
Liabilities to banks	10	-
Liabilities to customers	1	2
Trust liabilities	**11**	**2**

59. Related parties

Hamburg Commercial Bank does business with related parties and companies.

These include the funds and accounts managed by Cerberus Capital Management, L.P. and J.C. Flowers IV L.P., which exert a significant influence over the Bank.

Furthermore, business relations exist with subsidiaries which are controlled but not included in the Group financial statements for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of Hamburg Commercial Bank AG.

In the course of the normal business operations, transactions are entered into at arm’s length with companies and parties that are related parties. These transactions include loans, call and fixed-term deposits, derivatives and securities transactions.

I. Entities with a significant influence over the Bank

The following table shows transactions with companies with a significant influence over the Bank:

Companies with a significant influence – Assets

(€ m)	2020	2019
Loans and advances to customers	-	84
Total	**-**	**84**

Entities with a significant influence – Liabilities

(€ m)	2020	2019
Liabilities to customers	1	-
Total	**1**	**-**

Companies with a significant influence – Statement of income

(€ m)	2020	2019
Net interest income	4	1
Result from the disposal of assets classified as AC	6	-
Total	**10**	**1**

In addition to the transactions listed in the table, the Bank is still providing services for some of the transactions sold as part of the portfolio transaction in 2018. In relation to some transactions of the portfolio transaction for which the legal transfer has not yet been completed, the Bank still has cash sub-participations and back-to-back deals in place.

Moreover, the Bank maintains insignificant business relations with a business partner in the context of payment services on a nostro account basis.

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

Subsidiaries – Liabilities

(€ m)	2020	2019
Liabilities to customers	1	-
Other liabilities	1	1
Total	**2**	**1**

III. Associates

The transactions with unconsolidated associates are shown below:

Associates – Liabilities

(€ m)	2020	2019
Liabilities to customers	4	-
Total	**4**	**-**

Associates – Income statement

(€ m)	2020	2019
Result from financial instruments categorised as FVPL	-	-1
Total	**-**	**-1**

IV. Joint ventures

The following tables show the transactions with joint ventures:

Joint ventures – Assets

(€ m)	2020	2019
Loans and advances to customers	12	15
Total	**12**	**15**

Joint ventures – Liabilities

(€ m)	2020	2019
Liabilities to customers	3	3
Total	**3**	**3**

Joint ventures – Income statement

(€ m)	2020	2019
Result from financial instruments categorised as FVPL	-2	1
Total	**-2**	**1**

V. Other related parties and companies

The following transactions had been entered into with individuals in key positions at Hamburg Commercial Bank AG and their close relatives or companies controlled by these individuals as at the balance sheet date:

Other related companies and parties – Liabilities

(€ m)	2020	2019
Liabilities to customers	-	1
Total	**-**	**1**

VI. Remuneration of persons in key management positions

The remuneration of persons in key positions at Hamburg Commercial Bank is based on the German Remuneration Regulation for Institutions (Institutsvergütungsverordnung). In addition to the fixed annual salary, the fixed remuneration of the Management Board includes a pension contribution corresponding to up to 20 % of the fixed annual salary, other fringe benefits and appropriate remuneration in kind.

LONG-TERM VARIABLE 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. 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 consolidated statement of income. Pursuant to IFRS 2.7, the consideration for the service received is recognised in equity. At Hamburg Commercial Bank, 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 of persons in key management positions. 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.

Remuneration of persons in key management positions

(€ k)	Management Board		Supervisory Board		Total	
	2020	2019	2020	2019	2020	2019
Short-term benefits	11,126	10,825	3,247	3,173	14,373	13,998
Termination benefits	2,400	-	-	-	2,400	-
Other long-term benefits	3,157	3,413	-	-	3,157	3,413
Post-employment benefits	1,386	1,280	-	-	1,386	1,280
Share-based payment	3,157	3,413	-	-	3,157	3,413
Total remuneration	**21,226**	**18,931**	**3,247**	**3,173**	**24,473**	**22,104**

VII. Additional disclosures under Section 315e HGB

Hamburg Commercial Bank is obliged to provide additional disclosures in its Group financial statements under Section 315e HGB. The following differences compared to the IFRS disclosures should be borne in mind in this regard: termination benefits payable are not included in the total remuneration of the active members of the Management Board. This remuneration is disclosed instead under total remuneration payable to former members of the Management Board.

In contrast to the presentation under IFRS, the total remuneration of active members of the Management Board in the previous year only included the variable remuneration resulting from share-based payments. In the reporting year, the HGB presentation also includes all variable remuneration (cash bonus and share bonus). 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 €k 57,984 (previous year: €k 57,771) 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 €k 0 in 2020 (previous year: €k 0).

VIII. 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 system

(€)	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 €k 850. The remuneration is paid pro rata temporis based on the membership 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 €k 812 was formed as at 31 December 2020.

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

An amount of €k 2,395 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 €k 852 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:

Members of the Supervisory Board

(€)	Fixed remuneration		Attendance fee		Total	
Members of the Supervisory Board	**2020**	2019	**2020**	2019	**2020**	2019
Juan Rodríguez 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[2] (until 22 August 2020)	–	–	–	–	–	–
Peter Axmann (until 12 March 2019)	–	3,452	–	250	–	3,702
Michael Christner[2] (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[2] (until 23 April 2020)	–	–	–	–	–	–
Allen Gibson (until 29 February 2020)	30,330	190,301	–	250	30,330	190,551
Manuel González Cid[2]	–	–	–	–	–	–
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[2]	–	–	–	–	–	–
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 Schwettscher (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[2] (from 1 September 2019)	–	–	–	–	–	–
Total	**3,246,638**	**3,168,972**	**–**	**4,000**	**3,246,638**	**3,172,972**

[1] Amounts before deduction of Supervisory Board tax and solidarity surcharge.

[2] Supervisory Board remuneration waived.

The members of the Supervisory Board have again not provided any advisory or brokerage services or any other personal services to the Bank in the year 2020. Accordingly, no additional remunerations were granted.

60. Other financial obligations

The transactions listed below include payment obligations under pending contracts or continuing obligations that cannot be recognised in the balance sheet as well as other financial obligations that could have a material effect on the future financial position of Hamburg Commercial Bank.

With regard to equity investments, there is a payment obligation vis-à-vis a fund in the amount of € 36 million (previous year: € 36 million)

Under the German Deposit Protection Act (EinSiG), the guarantee scheme of the German Savings Banks Finance Group is required to meet a statutory target volume by 3 July 2024. For this purpose, the guarantee scheme of the German Savings Banks Finance Group calculates the proportionate target volume allocated to the individual member institution every year, by 31 May of the current year, on the basis of data as at 31 December of the previous year, and arrives at the annual premium per member institution based on this data. The premium is collected before 30 September of each year. In previous years, Hamburg Commercial Bank AG had contributed a portion of its premium obligations as irrevocable payment obligations (total € 6 million, previous year: € 6 million). Special or additional contributions over and above the annual membership fees referred to above may be levied, for instance, as part of a compensation case where support is provided. This means that, until it leaves the guarantee scheme of the German Savings Banks Finance Group at the end of 2021 and until the planned subsequent seamless transition of Hamburg Commercial Bank AG to the deposit guarantee fund for private banks, the Bank is obliged to pay any special or additional contributions potentially levied by the guarantee scheme of the German Savings Banks Finance Group, and these represent a risk with regard to the financial position of Hamburg Commercial Bank AG.

With the transposition of the Bank Recovery and Resolution Directive (BRRD) into German law, a new legal basis for determining the bank levy came into force as at 1 January 2015. The target amount of the EU-wide Single Resolution Fund (SRF) is to be achieved by 1 January 2024 through contributions paid by European banks. The current levy is determined by the supervisory authorities as at 31 May of each year and is payable by 30 June. Subsequent assessments are not provided for.

Obligations amounting to € 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).

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.

As part of its former guarantor function the Bank also has a general liability towards Deka Bank Deutsche Girozentrale together with other former shareholders. It applies to liabilities entered into until 18 July 2001 regardless of their term.

There exist no material other financial obligations apart from those listed above.

61. List of shareholders

The following information is based on German commercial law.

Consolidated subsidiaries with a share of voting rights of the Bank of more than 50 %

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg[2]	100.00	100.00	EUR	843,373.72	-1,526.95
2	GmbH Altstadt Grundstücksgesellschaft, Hamburg[1) 10)]	89.90	89.90	EUR	138,695.43	276,558.35
3	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,506,969.79	2,852.68
4	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey[8]	100.00	100.00	EUR	409,491.00	63,327.00
5	HCOB Funding II, George Town, Cayman Islands[10]	56.33	100.00	USD	687,255,772.00	55,691,044.00
6	HCOB Private Equity GmbH, Hamburg[2]	100.00	100.00	EUR	550,000.00	-5,538,411.69
7	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	4,046,072.00	52,849.00
8	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	205,084,656.00	6,584,656.18
9	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong[1) 10)]	0.01	100.00	USD	-1,457,300.00	-9,147.00
10	RESPARCS Funding II Limited Partnership, St. Helier, Jersey[1) 10)]	0.01	100.00	EUR	0.00	-134,803.00

Consolidated subsidiaries with a share of voting rights of the Bank of 50 % or less

- of which subsidiaries due to contractual rights

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
11	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz[8]	0.00	0.00	EUR	-333,740.13	55,569.86
12	OCEAN Funding 2013 GmbH, Frankfurt am Main[8]	0.00	0.00	EUR	31,201.72	1,222.74

Unconsolidated subsidiaries with a share of voting rights of the Bank of more than 50 %

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
13	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong[1]	51.00	51.00	USD	114.00	0.00
14	Avia Management S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	-29,402.40	-10,360.47
15	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	33,870.58	7,576.07
16	European Capital Investment Opportunities Limited, St. Helier, Jersey[1]	51.00	51.00	EUR	25.00	-99.00
17	HCOB Care+Clean GmbH, Hamburg[2]	51.00	51.00	EUR	25,000.00	140,893.25
18	HCOB Investment Management S.à.r.l., Findel, Luxemburg	100.00	100.00		[3]	[3]
19	HCOB Move+More GmbH, Kiel[2]	51.00	51.00	EUR	25,000.00	531,372.89
20	HCOB Structured Situations Limited, St. Helier, Jersey[5]	100.00	100.00	USD	346,449.00	-68.00
21	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	73,894.70	0.00
22	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg[7]	100.00	100.00	USD	62,763.63	0.00
23	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		[3]	[3]
24	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	36,335.75	2,401.00

Unconsolidated subsidiaries with a share of voting rights of the Bank of 50 % or less

- of which subsidiaries due to a principal-agent relationship

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
25	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland[1)6)]	49.00	49.00	USD	20,674.00	-21,122.00
26	Next Generation Aircraft Finance 2 S.à.r.l., Findel, Luxembourg[1) 10)]	49.00	49.00	EUR	-37,301.00	-387,784.00
27	Next Generation Aircraft Finance 3 S.à.r.l., Findel, Luxembourg[1) 10)]	49.00	49.00	EUR	-18,846.00	-213,838.00

Unconsolidated joint ventures

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
28	Infrastructure Holding S.à.r.l., Luxembourg, Luxembourg [4)]	0.00	0.00	EUR	12,500.00	0.00

Unconsolidated associates

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
29	Global Format GmbH & Co. KG, Munich[8)]	28.57	28.57	EUR	1,949,701.82	1,609.10
30	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg[9)]	56.44	56.44	EUR	4,147,064.83	-3,063,497.79
31	KAIACA LLC, New York, USA[9)]	55.30	55.30	USD	20,206.69	0.00

Long-term equity investments

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
32	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main[8)]	1.33	1.33	EUR	246,672,103.15	12,040,000.00
33	Deutsche WertpapierService Bank AG, Frankfurt am Main	2.51	2.51	EUR	211,436,017.45	15,655,778.07
34	EDD AG, Düsseldorf[8)]	0.89	0.89	EUR	22,491,403.37	-5,300,916.61
35	GLB GmbH & Co. OHG, Frankfurt am Main[8)]	15.77	15.77	EUR	2,891,543.84	– 61,301.09
36	GLB-Verwaltungs-GmbH, Frankfurt am Main[8)]	15.80	15.80	EUR	55,665.10	1,957.27
37	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekte Hamburg und Potsdam KG, Hamburg	5.15	5.16	EUR	5,559,846.89	413,596.34
38	HGA Objekt München GmbH & Co. KG, Hamburg	5.23	5.23	EUR	3,604,658.30	– 22,425.57
39	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	8,883,056.56	– 1,693,606.51
40	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg	5.10	5.09	EUR	6,116,221.87	517,366.64
41	Hines European Development Fund Limited Partnership, Wilmington, USA[1)]	9.90	9.90	EUR	60,898,000.00	-519,000.00
42	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	1,710,932.81	-242,381.21
43	RSU Rating Service Unit GmbH & Co KG, Munich	13.60	13.60	EUR	9,060,754.55	-2,270,032.63
44	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T. SCRL), La Hulpe, Belgium	0.03	0.03	EUR	442,950,000.00	39,830,000.00
45	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,928,143.76	119,247.90
46	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) Only data as at 31 December 2015 is available.
5) Only data as at 31 December 2016 is available.
6) Only data as at 31 December 2017 is available.
7) Only data as at 9 December 2018 is available.
8) Only data as at 31 December 2018 is available.
9) This is not a subsidiary due to the requirement for a qualified voting majority for important decisions.
10) Structured entity.

Foreign exchange rates for € 1 as at 31 December 2020

USA	USD	1.2271

62. Other disclosures in accordance with German commercial law

I. Basic principles

Under the terms of Section 315e (1) German Commercial Code (HGB), Hamburg Commercial Bank AG, which has its registered office in Hamburg (Hamburg commercial register number HRB 87366) is required to observe the standards of the German Commercial Code in preparing and presenting the annual financial statements, as well as the IFRS standards. You may request the unabridged IFRS Group financial statements by following this link: www.hcob-bank. de. The complete list of equity holdings is set out in Note 61.

II. Number of employees

The average number of employees as of the reporting date is calculated on the basis of staff figures at quarter-end for all fully consolidated companies:

Number of employees

	2020			2019
	Male	Female	Total	Total
Full-time employees	733	256	989	1,270
Part-time employees	53	274	327	467
Total	**786**	**530**	**1,316**	**1,737**
Apprentices/trainees	9	3	12	21

III. Corporate governance code

Hamburg Commercial Bank AG supports the aims of the German Corporate Governance Code and has recognised the Code’s rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of Hamburg Commercial Bank AG have given a declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) that the recommendations of the German Corporate Governance Code Commission together with the restrictions have been complied with and will be complied with until the subsequent declaration is made. The Declaration of Conformity is published on the website of Hamburg Commercial Bank AG. The Declaration of Conformity does not form part of the Notes to the Group financial statements.

IV. Fees and activities of the auditor

AUDITOR’S ACTIVITIES

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements and Group financial statements of Hamburg Commercial Bank as at 31 December 2020 and conducted audits of annual financial statements 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 to confirmations for guarantee schemes were performed. Training sessions were also conducted.

AUDITORS' FEES WITHIN THE MEANING OF IDW ACPS HFA 36 (NEW VERSION)

AUDITOR’S FEES

Auditor’s fees

(€ m)	2020	2019
Audits of annual financial statements PWC GmbH	4	4
Other certification and valuation services PWC GmbH	1	1
Total	**5**	**5**

In addition, other services in an amount below € 100,000 were rendered.

V. Seats on supervisory bodies

On the reporting date, the following seats are held by members of the Management Board on statutory supervisory bodies of major corporations or financial institutions:

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

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

63. Names of Board members and directorships held

I. The Supervisory Board of the Hamburg Commercial Bank Group

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

II. 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

III. Members of the Audit Committee

KLAUS HEINEMANN
Chair

OLAF BEHM

OLIVER DIRCKS

MANUEL GONZÁLEZ CID

PAULUS DE WILT

IV. Members of the General/ Nominating Committee

JUAN RODRÍGUEZ INCIARTE
Chair

MANUEL GONZÁLEZ CID

SIMONE GRAF

PETER YORDÁN

V. Members of the Remuneration Control Committee

JUAN RODRÍGUEZ INCIARTE
Chair

ALLEN GIBSON
(until 29 February 2020)

KLAUS HEINEMANN
(from 20 March 2020)

RIEKA MEETZ-SCHAWALLER

STEPHAN WILCKE

VI. The Management Board of the Hamburg Commercial Bank Group

STEFAN ERMISCH
Born in 1966
Chief Executive Officer (CEO)

ULRIK LACKSCHEWITZ
Born in 1968
Chief Risk Officer (CRO)
Deputy CEO

IAN BANWELL
Born in 1963
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)

Annex to the Group financial statements

Country-by-Country Reporting 2020

Basic principles

The requirements for country-specific reporting, referred to as country-by-country reporting in Article 89 of the Directive 2013/36/EU (Capital Requirement Directive, CRD IV), have been transposed into German law in Section 26a (1) of the German Banking Act (KWG).

Disclosure at Hamburg Commercial Bank
Hamburg Commercial Bank's country-by-country reporting includes the necessary information for all the subsidiaries fully consolidated in the Group financial statements as of this reporting date. Entities that were deconsolidated during the reporting year are not included in the figures presented. The geographical allocation is made on the basis of the location of a company's registered office. Branches are disclosed as independent companies. Representative offices are not listed. All accounting-related information is based on IFRS accounting.

In this report, Hamburg Commercial Bank defines the required size of turnover as the sum of total income as presented in the income statement and Other operating income (gross amounts before consolidation). The consolidated non-bank entities in particular report their turnover in Other operating income.

The profit or loss before tax disclosed in this report corresponds to the result before taxes of the individual entities presented. The tax position also corresponds to the definition under IFRS standards in the income statement.

The figure for the number of employees corresponds to the arrangement of Section 267 (5) of the German Commercial Code (HGB) for the entities still included in the Group financial statements as of the reporting date.

The information on the type of activities of the relevant companies is presented in line with the definitions used in Article 4 (1) CRR once the CRR came into effect.

The return on capital to be disclosed as at 31 December 2020, calculated as the quotient of net profit (Group net result after taxes) and total assets, is 0.42%.

Reporting
Country-specific details of turnover, profit or loss and taxes as well as employee numbers

(€ m/number) 2020 Country	Turnover	Profit or loss before tax	Tax on profit or loss (+) expense/ (-) income	Employees
EU				
Germany	1,255	587	182	1,285
Luxembourg	176	175	– 26	14
Greece	2	–	–	9
Third countries				
Singapore	2	– 1	–	8
British Channel Islands	1	–	–	–
Bermuda	-1	-1	–	–
Cayman Islands	37	37	–	–

Nature of activities and geographical location of the branches and fully consolidated subsidiaries

Serial. no.	Name of the company	City	Country	Nature of activities
1	Hamburg Commercial Bank AG	Hamburg, Kiel	Germany	Bank
2	Hamburg Commercial Bank AG, Luxembourg branch	Luxembourg	Luxembourg	Bank
3	Hamburg Commercial Bank AG, Singapore branch	Singapore	Singapore	Bank
4	Hamburg Commercial Bank AG, Athens branch	Athens	Greece	Bank
5	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Mainz	Germany	Miscellaneous activities
6	BINNENALSTER-Beteiligungsgesellschaft mbH	Hamburg	Germany	Financial institution
7	GmbH Altstadt Grundstücksgesellschaft	Mainz	Germany	Miscellaneous activities
8	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	Germany	Financial institution
9	HCOB Care+Clean GmbH	Hamburg	Germany	Miscellaneous activities
10	HCOB Finance (Guernsey) Limited	St. Peter Port	Guernsey	Financial institution
11	HCOB Funding II	George Town	Cayman Islands	Financial institution
12	HCOB Move+More GmbH	Kiel	Germany	Miscellaneous activities
13	HCOB Private Equity GmbH	Hamburg	Germany	Financial institution
14	HCOB Residual Value Ltd.	Hamilton	Bermuda	Insurance company
15	HCOB Securities S.A.	Luxembourg	Luxembourg	Bank
16	OCEAN Funding 2013 GmbH	Frankfurt a. M.	Germany	Miscellaneous activities
17	RESPARCS Funding II Limited Partnership	St. Helier	Jersey	Financial institution
18	RESPARCS Funding Limited Partnership I	Hong Kong	Hong Kong	Financial institution

Date of release for publication

The Management Board of Hamburg Commercial Bank has prepared the Group financial statements on 16 March 2021 and released these for forwarding to the Supervisory Board.

The Supervisory Board is responsible for reviewing the Group financial statements and approving of these.

Hamburg, 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 CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

WE HAVE AUDITED THE CONSOLIDATED FINANCIAL STATEMENTS OF HAMBURG COMMERCIAL BANK AG, HAMBURG, AND ITS SUBSIDIARIES (THE GROUP), WHICH COMPRISE THE GROUP STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020, AND THE GROUP STATEMENT OF COMPREHENSIVE INCOME, GROUP STATEMENT OF INCOME, GROUP STATEMENT OF CHANGES IN EQUITY AND GROUP CASH FLOW STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2020, AND GROUP NOTES, INCLUDING A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. IN ADDITION, WE HAVE AUDITED THE COMBINED MANAGEMENT REPORT OF HAMBURG COMMERCIAL BANK AG, WHICH IS COMBINED WITH THE COMPANY'S MANAGEMENT REPORT, FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 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 CONSOLIDATED FINANCIAL STATEMENTS COMPLY, IN ALL MATERIAL RESPECTS, WITH THE IFRSS AS ADOPTED BY THE EU AND THE ADDITIONAL REQUIREMENTS OF GERMAN COMMERCIAL LAW PURSUANT TO § 315E ABS. 1 HGB AND, IN COMPLIANCE WITH THESE REQUIREMENTS, GIVE A TRUE AND FAIR VIEW OF THE ASSETS, LIABILITIES, AND FINANCIAL POSITION OF THE GROUP AS AT 31 DECEMBER 2020, AND OF ITS FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2020, AND

THE ACCOMPANYING COMBINED MANAGEMENT REPORT AS A WHOLE PROVIDES AN APPROPRIATE VIEW OF THE GROUP'S POSITION. IN ALL MATERIAL RESPECTS, THIS IS CONSISTENT WITH THE CONSOLIDATED FINANCIAL STATEMENTS, COMPLIES WITH GERMAN LEGAL REQUIREMENTS AND APPROPRIATELY PRESENTS THE OPPORTUNITIES AND RISKS OF FUTURE DEVELOPMENT. OUR AUDIT OPINION ON THE COMBINED MANAGEMENT REPORT DOES NOT COVER THE CONTENT OF THE STATEMENT ON CORPORATE GOVERNANCE REFERRED TO ABOVE.

PURSUANT TO § 322 ABS. 3 SATZ [SENTENCE] 1 HGB, WE DECLARE THAT OUR AUDIT HAS NOT LED TO ANY RESERVATIONS RELATING TO THE LEGAL COMPLIANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT.

BASIS FOR THE AUDIT OPINIONS

WE CONDUCTED OUR AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT IN ACCORDANCE WITH § 317 HGB AND THE EU AUDIT REGULATION (NO. 537/2014, REFERRED TO SUBSEQUENTLY AS "EU AUDIT REGULATION") IN COMPLIANCE WITH GERMAN GENERALLY ACCEPTED STANDARDS FOR FINANCIAL STATEMENT AUDITS PROMULGATED BY THE INSTITUT DER WIRTSCHAFTSPRÜFER [INSTITUTE OF PUBLIC AUDITORS IN GERMANY] (IDW). OUR RESPONSIBILITIES UNDER THOSE REQUIREMENTS AND PRINCIPLES ARE FURTHER DESCRIBED IN THE "AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT" SECTION OF OUR AUDITOR'S REPORT. WE ARE INDEPENDENT OF THE GROUP ENTITIES IN ACCORDANCE WITH THE REQUIREMENTS OF EUROPEAN LAW AND GERMAN COMMERCIAL AND PROFESSIONAL LAW, AND WE HAVE FULFILLED OUR OTHER GERMAN PROFESSIONAL RESPONSIBILITIES IN ACCORDANCE WITH THESE REQUIREMENTS. IN ADDITION, IN ACCORDANCE WITH ARTICLE 10 (2) POINT (F) OF THE EU AUDIT REGULATION, WE DECLARE THAT WE HAVE NOT PROVIDED NON-AUDIT SERVICES PROHIBITED UNDER ARTICLE 5 (1) OF THE EU AUDIT REGULATION. WE BELIEVE THAT THE AUDIT EVIDENCE WE HAVE OBTAINED IS SUFFICIENT AND APPROPRIATE TO PROVIDE A BASIS FOR OUR AUDIT OPINIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS AND ON THE COMBINED MANAGEMENT REPORT.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

KEY AUDIT MATTERS ARE THOSE MATTERS THAT, IN OUR PROFESSIONAL JUDGMENT, WERE OF MOST SIGNIFICANCE IN OUR AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2020. THESE MATTERS WERE ADDRESSED IN THE CONTEXT OF OUR AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AS A WHOLE, AND IN FORMING OUR AUDIT OPINION THEREON; WE DO NOT PROVIDE A SEPARATE AUDIT OPINION ON THESE MATTERS.

IN OUR VIEW, THE MATTERS OF MOST SIGNIFICANCE IN OUR AUDIT WERE AS FOLLOWS:

❶ LOAN LOSS PROVISIONS IN THE CUSTOMER LENDING BUSINESS

❷ ACCOUNTING FOR LITIGATIONS

❸ 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:

❶ LOAN LOSS PROVISIONS IN THE CUSTOMER LENDING BUSINESS

① IN THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS LOAN RECEIVABLES AMOUNTING TO EUR 22,478 MILLION ARE REPORTED UNDER THE "LOANS TO CUSTOMERS" BALANCE SHEET LINE ITEM. AS AT 31 DECEMBER 2020, THE RISK PROVISION RECOGNIZED AMOUNTS TO EUR 569 MILLION, WHICH WAS REPORTED IN A SEPARATE ITEM. THE BANK CALCULATES THE RISK PROVISION USING A 3-STEP MODEL BASED ON THE EXPECTED CREDIT LOSS SYSTEM IN ACCORDANCE WITH IFRS 9. FOR FINANCIAL INSTRUMENTS IN LEVEL 1 AND 2, MATHEMATICAL-STATISTICAL TECHNIQUES ARE USED; FOR FINANCIAL INSTRUMENTS IN LEVEL 3, THE EXPECTED CREDIT LOSSES ARE CALCULATED BASED ON ESTIMATED FUTURE CASH FLOWS AT THE LEVEL OF THE INDIVIDUAL FINANCIAL INSTRUMENT.

THE MEASUREMENT OF THE EXPECTED-CREDIT-LOSS IS DETERMINED IN PARTICULAR BY THE STRUCTURE AND QUALITY OF THE LOAN PORTFOLIOS AND GENERAL ECONOMIC FACTORS (AMONG OTHER THINGS ALSO AGAINST THE BACKGROUND OF THE EXPECTED EFFECTS OF THE COVID-19 PANDEMIC). ADDITIONALLY THE EXECUTIVE DIRECTORS' ESTIMATES WITH RESPECT TO CLASSIFICATION OF FINANCIAL INSTRUMENTS INTO LEVELS AS WELL AS CERTAIN PARAMETERS SUCH AS THE LOAN AMOUNT ON DEFAULT, PROBABILITY OF DEFAULT AND LOSS RATIO AT THE TIME OF DEFAULT AND – AS IS THE CASE FOR FINANCIAL INSTRUMENTS CLASSIFIED IN LEVEL 3 – BY ESTIMATES OF THE FUTURE CASH FLOWS, TAKING INTO ACCOUNT EXISTING COLLATERAL. IN ADDITION, FURTHER VALUATION-RELEVANT RISK FACTORS ARE TAKEN INTO ACCOUNT IN THE CONTEXT OF SO-CALLED MODEL OVERLAYS.

THE CALCULATION OF THE RISK PROVISIONS IS HIGHLY SIGNIFICANT FOR THE ASSETS, LIABILITIES AND FINANCIAL PERFORMANCE OF THE GROUP AND THEY INVOLVE CONSIDERABLE JUDGMENT ON THE PART OF THE EXECUTIVE DIRECTORS, AMONG OTHER THINGS ALSO AGAINST THE BACKGROUND OF THE EXPECTED EFFECTS OF THE ONGOING COVID-19 PANDEMIC ON THE CUSTOMER LOANS BUSINESS. ESTIMATING THE AFOREMENTIONED PARAMETERS AND FACTORING IN FUTURE-ORIENTED MACROECONOMIC INFORMATION HAS A MATERIAL INFLUENCE ON THE RECOGNITION AND AMOUNT OF RISK PROVISIONS. AGAINST THIS BACKGROUND, THIS MATTER WAS OF PARTICULAR SIGNIFICANCE DURING OUR AUDIT.

② AS PART OF OUR AUDIT, WE INITIALLY ASSESSED THE APPROPRIATENESS OF THE DESIGN OF THE CONTROLS IN THE COMPANY'S RELEVANT INTERNAL CONTROL SYSTEMS AND TESTED THE CONTROLS' EFFECTIVENESS. 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 VALUATION ALLOWANCES, WE EVALUATED THE CALCULATION METHODOLOGY APPLIED BY THE COMPANY TOGETHER WITH THE UNDERLYING ASSUMPTIONS AND PARAMETERS.

WITH THE ASSISTANCE OF OUR SPECIALISTS IN MATHEMATICAL FINANCE, WE EXAMINED THE SUITABILITY AND APPROPRIATE USE OF THE MODELS APPLIED TO CALCULATE THE RISK PROVISIONS. 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 APPROPRIATE OVERALL, AND THAT THE CONTROLS IMPLEMENTED BY THE COMPANY ARE APPROPRIATE AND EFFECTIVE.

③ THE COMPANY'S DISCLOSURES ON LOAN LOSS PROVISIONS ARE CONTAINED IN THE NOTES OF THE FINANCIAL STATEMENTS IN SECTION 5 "MANAGEMENT ESTIMATES AND DISCRETIONARY DECISIONS" AND SECTION 6 "ACCOUNTING AND MEASUREMENT PRINCIPLES" (UNDER 6.I.D) AND IN SECTIONS 13 AND 24 "LOAN LOSS PROVISIONS". IN ADDITION, THE GROUP MANAGEMENT REPORT CONTAINS THE RELEVANT DISCLOSURES IN THE REPORT ON ECONOMIC PERFORMANCE (RESULTS OF OPERATIONS) AND THE RISK REPORT.

❷ ACCOUNTING FOR LITIGATIONS

① IN THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS OTHER PROVISIONS AMOUNTING TO EUR 634 MILLION ARE REPORTED. OF THIS AMOUNT, EUR 122 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 IN-HOUSE 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 FOR THE RECOGNITION AND MEASUREMENT OF THESE PROVISIONS, THE PROBABILITY AS WELL AS THE AMOUNT OF EXPECTED FUTURE CASH OUTFLOWS TO SETTLE THE UNDERLYING OBLIGATIONS HAVE TO BE ESTIMATED BY THE COMPANY. AS PART 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 ARE APPROPRIATE OVERALL IN ORDER TO APPROPRIATELY MEASURE THE PROVISIONS FOR LITIGATIONS.

③ THE RECOGNITION AND MEASUREMENT OF PROVISIONS IS EXPLAINED IN THE NOTES TO THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS IN SECTION 5 ´ESTIMATES AND MANAGEMENT DISCRETIONARY DECISIONS´ AND IN SECTION 6 ´ACCOUNTING AND MEASUREMENT PRINCIPLES´. IN ADDITION, PROVISIONS FOR LITIGATION RISKS ARE EXPLAINED IN MORE DETAIL IN SECTION 38 ´PROVISIONS´ IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS. EXPLANATIONS OF CONTINGENT LIABILITIES ARISING FROM LEGAL DISPUTES ARE PROVIDED IN SECTION 55 ´CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS´.

❸ DEFERRED TAXES

① IN THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS DEFERRED TAX ASSETS AMOUNTING TO EUR 532 MILLION AFTER NETTING ARE REPORTED. DEFERRED TAX ASSETS AMOUNTING TO EUR 1,176 MILLION ARE RECOGNIZED BEFORE NETTING WITH MATCHING DEFERRED TAX LIABILITIES. THE DEFERRED TAX ASSETS WERE RECOGNIZED 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 UTILIZED. FOR THIS PURPOSE, IF INSUFFICIENT DEFERRED TAX LIABILITIES ARE AVAILABLE, FUTURE TAXABLE PROFITS ARE PROJECTED ON THE BASIS OF THE ADOPTED BUSINESS PLAN INCLUDING EXPECTED EFFECTS RESULTING FROM THE COVID-19 PANDEMIC. NO DEFERRED TAX ASSETS WERE RECOGNIZED IN RESPECT OF UNUSED TAX LOSSES AMOUNTING IN TOTAL TO EUR 4,953 MILLION SINCE IT IS NOT PROBABLE THAT THEY WILL BE UTILIZED FOR TAX PURPOSES BY MEANS OF OFFSET AGAINST TAXABLE PROFITS.

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, 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 TAX LOSS CARRYFORWARDS ARE CONTAINED THE NOTES OF THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS IN NOTE 6 ´ACCOUNTING AND MEASUREMENT PRINCIPLES´ AND NOTE 32 ´DEFERRED TAX ASSETS´.

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 THE ANNUAL REPORT – EXCLUDING CROSS-REFERENCES TO EXTERNAL INFORMATION – WITH THE EXCEPTION OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS, THE AUDITED COMBINED MANAGEMENT REPORT AND OUR AUDITOR'S REPORT, AND THE SEPARATE NON-FINANCIAL REPORT PURSUANT TO § 289B ABS. 3 HGB AND § 315B ABS. 3 HGB.

OUR AUDIT OPINIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS AND ON THE COMBINED MANAGEMENT REPORT DO NOT COVER THE OTHER INFORMATION, AND CONSEQUENTLY WE DO NOT EXPRESS AN AUDIT OPINION OR ANY OTHER FORM OF ASSURANCE CONCLUSION THEREON.

IN CONNECTION WITH OUR AUDIT, OUR RESPONSIBILITY IS TO READ THE OTHER INFORMATION AND, IN SO DOING, TO CONSIDER WHETHER THE OTHER INFORMATION
IS MATERIALLY INCONSISTENT WITH THE CONSOLIDATED FINANCIAL STATEMENTS, WITH THE COMBINED MANAGEMENT REPORT OR OUR KNOWLEDGE OBTAINED IN THE AUDIT, OR OTHERWISE APPEARS TO BE MATERIALLY MISSTATED.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

THE EXECUTIVE DIRECTORS ARE RESPONSIBLE FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS THAT COMPLY, IN ALL MATERIAL RESPECTS, WITH IFRSS AS ADOPTED BY THE EU AND THE ADDITIONAL REQUIREMENTS OF GERMAN COMMERCIAL LAW PURSUANT TO § 315E ABS. 1 HGB AND THAT THE CONSOLIDATED FINANCIAL STATEMENTS, IN COMPLIANCE WITH THESE REQUIREMENTS, GIVE A TRUE AND FAIR VIEW OF THE ASSETS, LIABILITIES, FINANCIAL POSITION, AND FINANCIAL PERFORMANCE OF THE GROUP. IN ADDITION, THE EXECUTIVE DIRECTORS ARE RESPONSIBLE FOR SUCH INTERNAL CONTROL AS THEY HAVE DETERMINED NECESSARY TO ENABLE THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS THAT ARE FREE FROM MATERIAL MISSTATEMENT, WHETHER DUE TO FRAUD OR ERROR.

IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS, THE EXECUTIVE DIRECTORS ARE RESPONSIBLE FOR ASSESSING THE GROUP'S ABILITY TO CONTINUE AS A GOING CONCERN. THEY ALSO HAVE THE RESPONSIBILITY FOR DISCLOSING, AS APPLICABLE, MATTERS RELATED TO GOING CONCERN. IN ADDITION, THEY ARE RESPONSIBLE FOR FINANCIAL REPORTING BASED ON THE GOING CONCERN BASIS OF ACCOUNTING UNLESS THERE IS AN INTENTION TO LIQUIDATE THE GROUP OR TO CEASE OPERATIONS, OR THERE IS NO REALISTIC ALTERNATIVE BUT TO DO SO.

FURTHERMORE, THE EXECUTIVE DIRECTORS ARE RESPONSIBLE FOR THE PREPARATION OF THE COMBINED MANAGEMENT REPORT THAT, AS A WHOLE, PROVIDES AN APPROPRIATE VIEW OF THE GROUP'S POSITION AND IS, IN ALL MATERIAL RESPECTS, CONSISTENT WITH THE CONSOLIDATED FINANCIAL STATEMENTS, COMPLIES WITH GERMAN LEGAL REQUIREMENTS, AND APPROPRIATELY PRESENTS THE OPPORTUNITIES AND RISKS OF FUTURE DEVELOPMENT. IN ADDITION, THE EXECUTIVE DIRECTORS ARE RESPONSIBLE FOR SUCH ARRANGEMENTS AND MEASURES (SYSTEMS) AS THEY HAVE CONSIDERED NECESSARY TO ENABLE THE PREPARATION OF A COMBINED 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 COMBINED MANAGEMENT REPORT.

THE SUPERVISORY BOARD IS RESPONSIBLE FOR OVERSEEING THE GROUP'S FINANCIAL REPORTING PROCESS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT.

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

OUR OBJECTIVES ARE TO OBTAIN REASONABLE ASSURANCE ABOUT WHETHER THE CONSOLIDATED FINANCIAL STATEMENTS AS A WHOLE ARE FREE FROM MATERIAL MISSTATEMENT, WHETHER DUE TO FRAUD OR ERROR, AND WHETHER THE COMBINED MANAGEMENT REPORT AS A WHOLE PROVIDES AN APPROPRIATE VIEW OF THE GROUP'S POSITION AND, IN ALL MATERIAL RESPECTS, IS CONSISTENT WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND THE KNOWLEDGE OBTAINED IN THE AUDIT, COMPLIES WITH THE GERMAN LEGAL REQUIREMENTS AND APPROPRIATELY PRESENTS THE OPPORTUNITIES AND RISKS OF FUTURE DEVELOPMENT, AS WELL AS TO ISSUE AN AUDITOR'S REPORT THAT INCLUDES OUR AUDIT OPINIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS AND ON THE COMBINED 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 REGULA-

TION AND IN COMPLIANCE WITH GERMAN GENERALLY ACCEPTED STANDARDS FOR FINANCIAL STATEMENT AUDITS PROMULGATED BY THE INSTITUT DER WIRTSCHAFTSPRÜFER (IDW) WILL ALWAYS DETECT A MATERIAL MISSTATEMENT. MISSTATEMENTS CAN ARISE FROM FRAUD OR ERROR AND ARE CONSIDERED MATERIAL IF, INDIVIDUALLY OR IN THE AGGREGATE, THEY COULD REASONABLY BE EXPECTED TO INFLUENCE THE ECONOMIC DECISIONS OF USERS TAKEN ON THE BASIS OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND THIS COMBINED MANAGEMENT REPORT.

WE EXERCISE PROFESSIONAL JUDGMENT AND MAINTAIN PROFESSIONAL SKEPTICISM THROUGHOUT THE AUDIT. WE ALSO:

IDENTIFY AND ASSESS THE RISKS OF MATERIAL MISSTATEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT, WHETHER DUE TO FRAUD OR ERROR, DESIGN AND PERFORM AUDIT PROCEDURES RESPONSIVE TO THOSE RISKS, AND OBTAIN AUDIT EVIDENCE THAT IS SUFFICIENT AND APPROPRIATE TO PROVIDE A BASIS FOR OUR AUDIT OPINIONS. THE RISK OF NOT DETECTING A MATERIAL MISSTATEMENT RESULTING FROM FRAUD IS HIGHER THAN FOR ONE RESULTING FROM ERROR, AS FRAUD MAY INVOLVE COLLUSION, FORGERY, INTENTIONAL OMISSIONS, MISREPRESENTATIONS, OR THE OVERRIDE OF INTERNAL CONTROL.

OBTAIN AN UNDERSTANDING OF INTERNAL CONTROL RELEVANT TO THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF ARRANGEMENTS AND MEASURES (SYSTEMS) RELEVANT TO THE AUDIT OF THE COMBINED MANAGEMENT REPORT IN ORDER TO DESIGN AUDIT PROCEDURES THAT ARE APPROPRIATE IN THE CIRCUMSTANCES, BUT NOT FOR THE PURPOSE OF EXPRESSING AN AUDIT OPINION ON THE EFFECTIVENESS OF THESE SYSTEMS.

EVALUATE THE APPROPRIATENESS OF ACCOUNTING POLICIES USED BY THE EXECUTIVE DIRECTORS AND THE REASONABLENESS OF ESTIMATES MADE BY THE EXECUTIVE DIRECTORS AND RELATED DISCLOSURES.

CONCLUDE ON THE APPROPRIATENESS OF THE EXECUTIVE DIRECTORS' USE OF THE GOING CONCERN BASIS OF ACCOUNTING AND, BASED ON THE AUDIT EVIDENCE OBTAINED, WHETHER A MATERIAL UNCERTAINTY EXISTS RELATED TO EVENTS OR CONDITIONS THAT MAY CAST SIGNIFICANT DOUBT ON THE GROUP'S ABILITY TO CONTINUE AS A GOING CONCERN. IF WE CONCLUDE THAT A MATERIAL UNCERTAINTY EXISTS, WE ARE REQUIRED TO DRAW ATTENTION IN THE AUDITOR'S REPORT TO THE RELATED DISCLOSURES IN THE CONSOLIDATED FINANCIAL STATEMENTS AND IN THE COMBINED MANAGEMENT REPORT OR, IF SUCH DISCLOSURES ARE INADEQUATE, TO MODIFY OUR RESPECTIVE AUDIT OPINIONS. OUR CONCLUSIONS ARE BASED ON THE AUDIT EVIDENCE OBTAINED UP TO THE DATE OF OUR AUDITOR'S REPORT. HOWEVER, FUTURE EVENTS OR CONDITIONS MAY CAUSE THE GROUP TO CEASE TO BE ABLE TO CONTINUE AS A GOING CONCERN.

EVALUATE THE OVERALL PRESENTATION, STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING THE DISCLOSURES, AND WHETHER THE CONSOLIDATED FINANCIAL STATEMENTS PRESENT THE UNDERLYING TRANSACTIONS AND EVENTS IN A MANNER THAT THE CONSOLIDATED FINANCIAL STATEMENTS GIVE A TRUE AND FAIR VIEW OF THE ASSETS, LIABILITIES, FINANCIAL POSITION AND FINANCIAL PERFORMANCE OF THE GROUP IN COMPLIANCE WITH IFRSS AS ADOPTED BY THE EU AND THE ADDITIONAL REQUIREMENTS OF GERMAN COMMERCIAL LAW PURSUANT TO § 315E ABS. 1 HGB.

OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE REGARDING THE FINANCIAL INFORMATION OF THE ENTITIES OR BUSINESS ACTIVITIES WITHIN THE GROUP TO EXPRESS AUDIT OPINIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS AND ON THE COMBINED MANAGEMENT REPORT. WE ARE RESPONSIBLE FOR THE DIRECTION, SUPERVISION AND PERFORMANCE OF THE GROUP AUDIT. WE REMAIN SOLELY RESPONSIBLE FOR OUR AUDIT OPINIONS.

EVALUATE THE CONSISTENCY OF THE COMBINED MANAGEMENT REPORT WITH THE CONSOLIDATED FINANCIAL STATEMENTS, ITS CONFORMITY WITH GERMAN LAW, AND THE VIEW OF THE GROUP'S POSITION IT PROVIDES.

PERFORM AUDIT PROCEDURES ON THE PROSPECTIVE INFORMATION PRESENTED BY THE EXECUTIVE DIRECTORS IN THE COMBINED MANAGEMENT REPORT. ON THE BASIS OF SUFFICIENT APPROPRIATE AUDIT EVIDENCE WE EVALUATE, IN PARTICULAR, THE SIGNIFICANT ASSUMPTIONS USED BY THE EXECUTIVE DIRECTORS AS A BASIS FOR THE PROSPECTIVE INFORMATION, AND EVALUATE THE PROPER DERIVATION OF THE PROSPECTIVE INFORMATION FROM THESE ASSUMPTIONS. WE DO NOT EXPRESS A SEPARATE AUDIT OPINION ON THE PROSPECTIVE INFORMATION AND ON THE ASSUMPTIONS USED AS A BASIS. THERE IS A SUBSTANTIAL UNAVOIDABLE RISK THAT FUTURE EVENTS WILL DIFFER MATERIALLY FROM THE PROSPECTIVE INFORMATION.

WE COMMUNICATE WITH THOSE CHARGED WITH GOVERNANCE REGARDING, AMONG OTHER MATTERS, THE PLANNED SCOPE AND TIMING OF THE AUDIT AND SIGNIFICANT AUDIT FINDINGS, INCLUDING ANY SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL THAT WE IDENTIFY DURING OUR AUDIT.

WE ALSO PROVIDE THOSE CHARGED WITH GOVERNANCE WITH A STATEMENT THAT WE HAVE COMPLIED WITH THE RELEVANT INDEPENDENCE REQUIREMENTS, AND COMMUNICATE WITH THEM ALL RELATIONSHIPS AND OTHER MATTERS THAT MAY REASONABLY BE THOUGHT TO BEAR ON OUR INDEPENDENCE, AND WHERE APPLICABLE, THE RELATED SAFEGUARDS.

FROM THE MATTERS COMMUNICATED WITH THOSE CHARGED WITH GOVERNANCE, WE DETERMINE THOSE MATTERS THAT WERE OF MOST SIGNIFICANCE IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CURRENT PERIOD AND ARE THEREFORE THE KEY AUDIT MATTERS. WE DESCRIBE THESE MATTERS IN OUR AUDITOR'S REPORT

UNLESS LAW OR REGULATION PRECLUDES PUBLIC DISCLOSURE ABOUT THE MATTER.

OTHER LEGAL AND REGULATORY REQUIREMENTS

ASSURANCE REPORT IN ACCORDANCE WITH § 317 ABS. 3B HGB ON THE ELECTRONIC REPRODUCTION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP 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 CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT (HEREINAFTER THE "ESEF DOCUMENTS") CONTAINED IN THE ATTACHED ELECTRONIC FILE HCOB_AG_KA+KLB_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 CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP 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 CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP 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 CONSOLIDATED FINANCIAL STATEMENTS AND THE ACCOMPANYING GROUP MANAGEMENT REPORT FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2020 CONTAINED IN THE "REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ON THE GROUP MANAGEMENT REPORT" ABOVE.

BASIS FOR THE REASONABLE ASSURANCE CONCLUSION

WE CONDUCTED OUR ASSURANCE ENGAGEMENT ON THE REPRODUCTION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP 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 "GROUP 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 CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT IN ACCORDANCE WITH § 328 ABS. 1 SATZ 4 NR. 1 HGB AND FOR THE TAGGING OF THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH § 328 ABS. 1 SATZ 4 NR. 2 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 CONSOLIDATED FINANCIAL STATEMENTS AND AUDITED GROUP 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.

GROUP 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 CONSOLIDATED FINANCIAL STATEMENTS AND TO THE AUDITED GROUP MANAGEMENT REPORT.
EVALUATE WHETHER THE TAGGING OF THE ESEF DOCUMENTS WITH INLINE XBRL TECHNOLOGY (IXBRL) ENABLES AN APPROPRIATE AND COMPLETE MACHINE-READABLE XBRL COPY OF THE XHTML REPRODUCTION.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

WE WERE ELECTED AS GROUP 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 GROUP AUDITOR OF THE HAMBURG COMMERCIAL BANK AG, HAMBURG, WITHOUT INTERRUPTION SINCE THE FINANCIAL YEAR 2018.

WE DECLARE THAT THE AUDIT OPINIONS EXPRESSED IN THIS AUDITOR'S REPORT ARE CONSISTENT WITH THE ADDITIONAL REPORT TO THE AUDIT COMMITTEE PURSUANT TO ARTICLE 11 OF THE EU AUDIT REGULATION (LONG-FORM AUDIT REPORT).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

THE GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT IS LOTHAR SCHREIBER.

Hamburg, 17 March 2021
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber	ppa. Tim Brücken
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility statement by the management board

We hereby affirm that to the best of our knowledge the Group financial statements have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, financial position and results of operations of the Hamburg Commercial Bank Group and that the Group management report presents the course of business, including the results of the business and the Hamburg Commercial Bank Group's situation, in such a manner that it gives a true and fair view and describes the main opportunities and risks for the Hamburg Commercial Bank Group's foreseeable performance.

Hamburg, 16 March 2021

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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 genderspecic manner, but occurs exclusively for the sake of better readability. This Annual 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 Annual Report.

Forward-looking Statements

This Annual Report includes certain forwardlooking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forwardlooking statement involves information that does not simply reflect historical facts, information relating to possible or anticipated future growth and future economic development. Such forwardlooking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are beyond our control.

Therefore actual events may differ from those forecast in the forwardlooking statements. In view of this, you are advised never to rely to an inappropriate degree on forwardlooking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this Annual Report. Furthermore, we are not obliged to update the forwardlooking statements following the publication of this information. In addition, information contained in this Annual Report does not represent any kind of offer for the acquisition or sale of any type of securities of Hamburg Commercial Bank AG.

Hamburg Commercial Bank AG

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