Annual Report 2021 (IFRS/Group)

Hamburg Commercial Bank

Completion of the successful transformation

"In the course of our extensive transformation, it was important to focus on risks, increase efficiency and improve the bank's productivity in terms of its balance sheet and income statement. Today, we have a robust and strengthened position in the market. We are now aiming for moderate growth."

Stefan Ermisch
Chief Executive Officer
(CEO)

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Stefan Ermisch
Chief Executive Officer (CEO)

Christopher Brody
Chief Investment Officer

Ulrik Lackschewitz
Chief Risk Officer and Deputy CEO

Ian Banwell
Chief Financial Officer

Hamburg Commercial Bank has completed its three-year transformation with an excellent result. This reflects the bank's operational strength, its high balance sheet productivity, consistent risk management and stringent cost control. We have a high level of balance sheet resilience, which is a great asset, especially in increasingly difficult markets. Added to this is our excellent, highly motivated workforce. The bank's task now is to strengthen new business and thus lay the foundations for tomorrow's earnings.

Group overview

Income statement

Net income before taxes (€ million)
31/12/2021 (31/12/2020: 257)

299

Group net result (€ million)
31/12/2021 (31/12/2020: 102)

351

Net interest margin[1] (Basis points)
31/12/2021 (31/12/2020: 117)

145

[1] Net interest margin equals core net interest income divided by average balance sheet

Balance sheet

Reported equity (€ billion)
31/12/2021 (31/12/2020: 4.3)

4.7

Total assets (€ billion)
31/12/2021 (31/12/2020: 33.8)

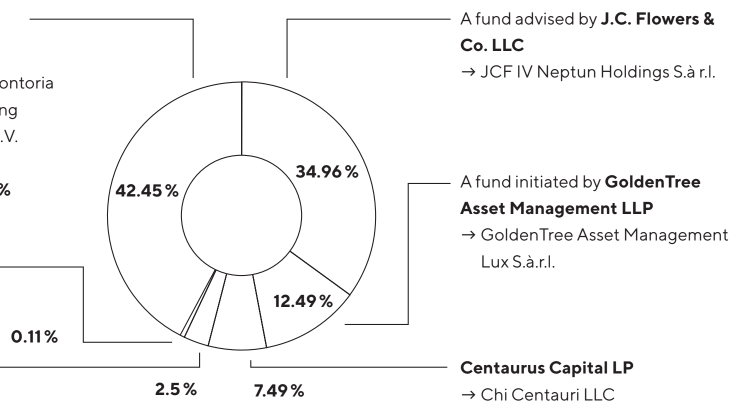
30.3

NPE Ratio

(in %)
31/12/2021 (31/12/2020: 1.8)

1.4

Ownership structure[2]



[2] as of 31/12/2021

Capital ratio[3], RWA & profitability

CET1 capital ratio (in %)
31/12/2021 (31/12/2020: 27.0)

28.9

[3] CET1 capital ratio as at 31/12/2021 calculated on a not-in-period basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital

Risk weighted assets (RWA (€ billion))
31/12/2021 (31/12/2020: 15.5)

14.0

RoE[4] after taxes (in %)
31/12/2021 (31/12/2020: 4.3)

18.4

[4] RoE after taxes based on CET1 ratio of 13%

Employees (Full time equivalent) total
31/12/2021 (31/12/2020: 1,122)

919

Administrative expenses (€ million)
31/12/2021 (31/12/2020: -365)

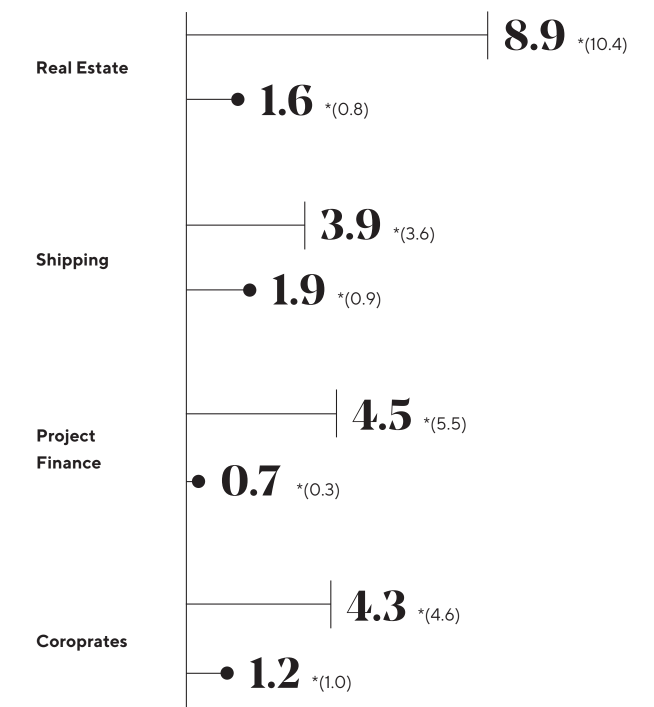
-328

Portfolio/New business in 2021[5]

Hamburg Commercial Bank successfully completed its three-year transformation at the end of 2021 with a pre-tax profit of EUR 299 million (after taxes: EUR 351 million).

New business – driven by deals in the core areas of Commercial Real Estate, Shipping, Project Finance and Corporates – increased from EUR 2.9 billion in 2020 to EUR 5.4 billion in 2021. As a result of lower refinancing costs and higher margins, the net interest margin increased from 117 to 145 basis points within the space of a year.

The foundations of Hamburg Commercial Bank



[5] Incl. rounding effects

“Strengthening and further expanding customer relationships”

Stefan Ermisch
Chief Executive Officer (CEO)

At the end of 2021, the bank completed its three-year transformation with a consolidated profit of EUR 299 million before taxes. After taxes, the figure is EUR 351 million. What are the main factors that led to this result?
Stefan Ermisch → In brief, what led to these good figures was the combination of falling costs, improved balance sheet productivity, the absence of risk charges and more new business. The key factor is the good pre-tax result of EUR 299 million. The greater after-tax result is due to technical factors related to the capitalization of tax loss carry forwards. Our pre-tax earnings reflect the strength of our operating business. We have made good progress in our core activities – Commercial Real Estate, Shipping, Project Finance and Corporates. Earnings in these areas are even higher than we had planned. This is important because after years of optimizing our balance sheet and improving our efficiency, we are now strengthening new business. After all, our business today determines our earnings tomorrow. At the same time, we have to continue to pay attention to costs – that applies to us as to any other bank.

Has the Covid pandemic that shaped life in 2021 had an impact on the bank’s business?
SE → We’ve had few problems so far. There are individual cases that we manage, but no systematic problem. We have a very clean portfolio because we’ve done our homework very well. Our NPE ratio decreased from 1.8 percent at year end 2020 to 1.4 percent at year end 2021, and that’s with a reduced balance sheet total. We’ve made considerable provision for risks in recent years and our coverage ratios are above average.

That sounds good.
SE → On the one hand, it is. But we have to realize that there was massive government intervention during the pandemic to help businesses. The recession caused by the pandemic will leave its mark. When the government support runs out, we will see how strong or weak some companies are post-crisis. We have prepared ourselves for the time when trouble looms. The geopolitical risks, which hardly played a role for so many years, are now becoming visible to everyone. This will place far greater demands on society than was the case in the past.

Covid seems to be gradually fading, but there has been a major change in the geopolitical situation due to the war in Ukraine. Is Hamburg Commercial Bank directly affected by the war and the resulting sanctions?
SE → First of all, the war is an unimaginable human tragedy for the Ukrainian people, but also for all of humanity. Nobody would have thought that something like this could happen again in Europe after decades of peace – a spiral of escalation has begun. We are learning that peace, freedom and prosperity cannot be taken for granted. We must all work hard to preserve them. It’s impressive how Europeans, the entire Western world and a lot of other countries are standing and acting together in this crisis. HCOB has virtually no direct exposure in Russia or Ukraine. But the general uncertainty is of course having a negative impact. High energy prices are putting pressure on companies, inflation could also rise further, global trade is being severely impacted. In some cases supply chains have been permanently disrupted and possibly destroyed for good. There will be a weakening of the growth that has just begun.

And there will be payment defaults, as Russian companies, individuals and institutions are subject to very tough sanctions. The risk of stagflation is increasing sharply. The exact economic impact of the war and its dislocations cannot be predicted at this point in time – but it will be clearly felt.

Hamburg Commercial Bank's new business has increased from EUR 2.9 billion in 2020 to EUR 5.4 billion in 2021. Does that mean an end to de-risking?

SE → In the course of our extensive transformation, it was important to focus on risks, increase efficiency and improve the bank's productivity in terms of its balance sheet and income statement. Today, we have a robust and strengthened position in the market. We are now aiming for moderate growth and anticipate a new business volume of around EUR 7 billion in 2022, with a further slight increase in subsequent years. However, these plans are subject to ongoing developments in the geopolitical situation, particularly in Ukraine. In any case, we will act with the necessary prudence and caution. As a matter of principle, we intend to strengthen and further expand our customer relationships. They are the foundation of the bank's future earnings.

"This puts us in a very good position in the German banking market. We want to maintain this position and even expand it further."

Almost all of the bank's key financial ratios improved in 2021. The CET1 ratio stands out, having risen by a further two percentage points or so. It is now a very strong 28.9 percent. What level is the bank aiming for in the medium and long term?

SE → The current CET1 ratio of just under 30 percent is extremely high and far above that of the competition in Germany and Europe. Our medium-term goal is a CET1 ratio of below 20 percent. That would be lower than at present, but we would still be well above the regulatory requirements and among the leaders in Germany and Europe. Having a capital ratio that is significantly elevated on a permanent basis makes little economic sense.

How does the bank plan to reduce its CET1 ratio from 28.9 percent to less than 20 percent?

SE → Several factors will come together here. First, we plan to grow the balance sheet this year. That would lead to higher risk assets, which would – economically speaking – reduce our capital ratio somewhat. Second, we are changing our models for determining risk assets to use more conservative methods, which will also lead to rising risk assets and a somewhat reduced capital ratio. However, this effect will be temporary because we expect Basel IV to have a positive impact on the capital ratio from 2025 onwards. By scaling back our old advanced models to the foundation and standard approaches, we are reducing the "risk to models," i.e. the risk inherent in the type of models used to calculate risk assets. This allows us to act today to improve the quality of tomorrow's CET1 ratio. Another element is our dividend policy, which we will discuss at the appropriate time. It's normal for a company that is as profitable as we are and that has such a strong capital ratio to distribute something to its owners. If all the conditions are met, this could happen in 2023.

HCOB's return on equity after taxes has risen to a very high 18.4 percent – measured on the basis of a standardized capital of 13 percent. Why?

SE → The return on equity of 18.4 percent after taxes is, first of all, the mathematical expression of our result, with which we are very satisfied. However, this figure also includes tax effects which, in view of our operational strength, do not actually play a sustainable role. In addition, 2021 was an exceptional year overall, in terms of earnings as well as costs and risks. Our long-term goal is to provide the bank with a return on equity after taxes above our cost of capital, and this is around 9 percent. Our medium-term planning assumes a return on equity after taxes of between 10 and 11 percent. Our business areas already meet this requirement and we intend to keep it that way. Only a few banks in Germany currently achieve such high profitability.

Despite more new business, total assets fell from EUR 33.8 billion to EUR 30.3 billion in 2021. Why?

SE → A key factor here is relatively high loan repayments. This is evident in the shipping business, for example, where we concluded EUR 1.9 billion of solid new business last year, but segment assets only increased year-on-year from EUR 3.3 billion to EUR 3.7 billion. This was also because some customers took advantage of the excellent shipping markets to sell ships and repay loans earlier. In general, we need substantial new business to maintain our balance sheet level because we have relatively short loan terms and – associated with this – scheduled repayments that are relatively high. The new business we are planning for this year will be slightly above repayments. Looking ahead, our total assets are expected to grow again slightly.

The topic of sustainability is becoming increasingly important in business, politics and society. People often use the abbreviation ESG, which stands for environment, social and governance. How is HCOB adapting to this?

SE → We have taken ESG very seriously right from the start, and we now have a separate department, which reports to me, that is directly responsible for it. As a financial services provider, we have to make ESG part of our DNA. We want to support our customers in the transition to climate-friendly business practices, because the economy will have to gradually adapt over the coming years. At the same time, regulatory requirements are becoming more stringent, as can be seen from the climate stress test for banks, among other things. Regulators want to know exactly how banks are dealing with climate risks – those of their customers and within their own organizations.

By joining the Deposit Protection Fund (ESF) of the Association of German Banks (BdB), HCOB has achieved a key transformation objective. What has changed because of membership in BdB?

SE → Membership in the voluntary ESF is one of those things you only notice when you don't have it. A bank like HCOB, which receives large deposits from domestic companies, needs to be embedded in the protective framework of the voluntary deposit guarantee scheme if its competitors are as well. Therefore, membership in the ESF is a must if we want to be competitive. Conversely, nothing changes when you join the system – you are merely on par with your peers.

What are the bank's goals for 2022?

SE → We are now in post-transformation mode. We want to expand customer relationships and new business and further increase our efficiency. An example of this is our cost income ratio, which is 50 percent, but we are aiming for 40 to 42 percent. The bank has been constantly improving for a number of years and we are working to continue that trend. We have a strong capital position, a stable return above the cost of capital, consolidated, strong customer relationships, and we are focused on what we do. We have a high level of balance sheet resilience, which is a great asset, especially in increasingly difficult markets. Added to this is our excellent, highly motivated workforce. This puts us in a very good position in the German banking market. We want to maintain this position and even expand it further. And, of course, we very much hope that the war in Ukraine will end soon and that the suffering will be kept to a minimum. Given the difficulties stemming from the pandemic which began in 2020 and now Russia's war against Ukraine, we are going through difficult times. For Germany, for Europe and for the entire global community, it will be a great challenge to overcome the economic and political dislocations associated with the war and return to stability and strength.

"An excellent year for us"

Ulrik Lackschewitz
Chief Risk Officer and Deputy CEO

The bank was able to reduce its NPE (non-performing exposure) ratio, which indicates the ratio of loans at risk of default, from 1.8 percent to 1.4 percent in 2021. How did you achieve this?
Ulrik Lackschewitz → Two factors made a decisive contribution here: First, we reduced more NPE volumes last year than planned. At the same time, we added substantially less new NPE than we had expected in our models. As a result, we were able to reduce our NPE volume from EUR 624 million at the end of 2020 to EUR 467 million at the end of 2021. From a risk perspective, 2021 was an excellent year for us. In our scenarios, we had prepared for the worst and hoped for the best – in the end, last year the positive scenario came to pass.
Is an NPE ratio of 1.4 percent something that HCOB is aiming for in the future?
UL → Yes, that's a level we've set ourselves for the medium and long term.
Covid has shaped life in 2021. Has the pandemic had an impact on the bank's risks?
UL → To a certain extent it has, but much less than we had forecast. So far, the pandemic has generally hit the German economy less hard than one might have thought. But one of the biggest defaults we had last year was a shopping center in North Rhine-Westphalia. I think that was a Covid casualty. We also have hotels in our loan portfolio, which of course have suffered because of Covid. But the bottom line is that almost all of our customers have come through the pandemic well so far, even if they've had to struggle in some cases. However, I expect that we will not see the full extent of Covid's impact until the government support measures run out.
The war in Ukraine is causing great suffering and drastically changing the geopolitical situation. Is the bank being affected by the crisis economically?
UL → We are experiencing a human and political tragedy. The bank has virtually no business ties to the crisis region. Nevertheless, the war is having a variety of economic consequences, and we are responding to them. We are monitoring the situation very closely. But above all, our sympathies go out to the people in the war zones.
The bank has a high level of risk coverage. Is the bank thus equipped for a crisis?
UL → No matter how you look at our risk provisioning: We're covered to an exceptional degree. With our strong capital position, we can afford to maintain a high level of risk provisions. We live in uncertain times. The pandemic has kept the world very busy, and the war in Ukraine has now been added to this. Since we have extensive reserves, we are well equipped in any event.
The bank is active in commercial real estate financing. How have lockdowns and working from home affected this area and its prospects?
UL → Of course, Covid has had an impact on this business area, but no one can say at present what it will look like in detail in the medium and long term. I can't imagine that after the pandemic everyone will want to work from home. I certainly don't want that. In general, we have seen relatively stable prices in the real estate sector recently. Our job is to understand and manage markets and risks well. We have excellent market knowledge and the appropriate credit standards for doing this.
The bank is planning a moderate expansion of new business from EUR 5.4 billion in 2021 to around EUR 7 billion in 2022. Asset prices in key areas such as commercial real estate and shipping are currently quite high; at the same time the geopolitical situation has become much more tense. Does this increase the risks?
UL → In our calculations, we take into account geopolitical developments and their effects, and part of a risk assessment is naturally that we look not only at the current prices of assets, but also at their historical prices. As a bank, we make our money by closing deals. But we only take risks that we can assess and that fit our risk and return profiles. Our job is to structure loans so they can survive a crisis, even if there may always be individual defaults – that is priced into banks' risk costs. To protect ourselves, we require a relatively high equity ratio and in shipping, to give one example, we insist that the ships we finance are continuously deployed. Moreover, we aim to have loans repaid quickly.
Inflation has picked up and the probability is increasing that interest rates will rise, at least in the US, and perhaps in Europe. What does that mean for the bank's loan book?
UL → When considering new deals, we always respond to changing conditions, adjusting our standards and requirements to fit the new circumstances. Recently, this has worked out very well. I'm convinced it will continue to be the case.

"The profitability has increased in its pace and is also sustainable"

Ian Banwell
Chief Financial Officer

The bank has finished a three-year transformation process. What do HCOB's financial figures look like?
Ian Banwell → When I think about our financial figures, I think first about our strong capital position with a CET1 ratio of 28.9 percent and our strong capital generation. The bank has had new owners since 2018 and has been profitable every year since then. In 2021, we earned EUR 351 million after tax – an impressive result. The profitability has increased in its pace and is also sustainable. We are earning and even exceeding our cost of capital. Second, we are being very conservative in our liquidity and capital management, and in our credit quality. That supports our profitability and our ability to serve clients. And third, our people are motivated by the idea that they can compete with anybody as Germany's best bank. That's a great story.
Lower funding costs are important with respect to the bank's profitability. How do you see funding costs developing in the medium and long term?
IB → Our nominal funding costs are likely to go up because the European Central Bank and the Federal Reserve might raise interest rates. More interesting is our cost of funds relative to our competitors in the market. And there we have a very strong position. In part because we have a very strong franchise – our goal this year is to fund about 70 percent of our liability stake organically from our deposit business and from our Corporates clients. That is typically a good and relatively cheap way to raise funds, and it's sustainable. That's something we're investing in.
How important is granularity in the funding structure?
IB → Safe balance sheets in banking are very granular, typically. To me, granularity is an optimization and part of our business plan. We diversify – which continues to make us a safer and safer and better and better company.
What impact has the war in Ukraine had on HCOB, especially its funding?
IB → It's had no impact on our funding so far. In general, we have a very high level of liquidity and we have one of the highest capital ratios and capital levels among European banks. In terms of exposure, we are nearly not affected by the crisis in Ukraine.

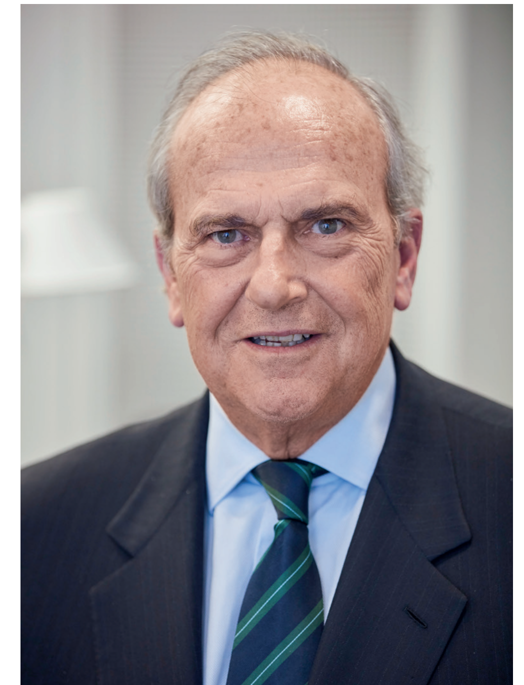
After the first bond issuance in 2020, the bank became quite active in the capital markets in 2021. How is HCOB perceived by the markets now?
IB → We are perceived as a special story. Large international investors see our story as a special case. In general, they still view German banking with a lot of concern, but they know our story well and they obviously like it. They like being in business with us.
What are the bank's plans for the capital markets this year?
IB → It will be a rather quiet year for us. We have some covered bonds we need to place. We have a very high liquidity position, and we are well positioned for higher rates because we made many issuances before rates started to move.
The bank's financial figures have continued to improve. Do you think a rating upgrade is possible this year?
IB → Following the upgrade by Moody's to Baa1 last year, I am optimistic we can strengthen our rating further. Most of our major financial metrics are well above those of our German or European peers, and we are still on "outlook positive" by Moody's. We have very strong capital ratios and have significantly strengthened our recurring profitability and operational leverage. We also maintain sound credit quality, having reduced our NPEs to all-time lows for the bank, at 1.4 percent. Furthermore, we are well positioned with high provisions as buffers for a more adverse, post-Covid credit environment, which may evolve from current developments. The rating agencies will look at whether we are a solid, well-managed and process-driven company that can repeat its very successful 2021 financial year and lengthen its track record. They understand how we run our company and I think they like it. Our aspiration is to get to an A3 rating at some point this year. I doubt rating agencies will be upgrading anybody in the current geopolitical and economic situation, but I think it's still probable by year end.
You are also responsible for the bank's IT department which is undergoing a major transformation. How do things stand there?
IB → Even though some projects have been delayed, things are generally in a good place. We will have some important go-lives in April and May. When they are done, we will begin to see the other side of the mountain. Our view is that we will conclude the IT transformation in early 2023. This project is not just about getting applications installed, it's also about making sure we treat our colleagues at the bank like clients.
Why is state-of-the-art IT critical for the success of the bank?
IB → We're putting in place amazing tools that are improving productivity and allowing us to serve our clients much more quickly. This will be a key strategic advantage. We all know that we will require other digital capabilities in the future. We need to invest in them – and that's what we're doing.

“Lower funding costs and increased margins”

Christopher Brody
Chief Investment Officer

Hamburg Commercial Bank raised its new business from EUR 2.9 billion in 2020 to EUR 5.4 billion in 2021. Where did this increase come from?
Christopher Brody → We did more new business across all divisions. Everyone in the team contributed to our increased revenue compared to the relatively low volume in 2020, when we were mainly focusing on de-risking our book, which at that point in time was the right decision.
What kind of impact did Covid have on the bank's new business in 2021?
CB → The exact impact of Covid on the new business is hard to measure. Certainly, Covid had an effect on how we looked at some business areas and it played a role in the range of loans we were able to make. In light of Covid, we wouldn't finance industries that are very sensitive to the restrictions connected to the virus. That applied, for example, to hotels, airplanes and travel.
What are the new business plans for 2022?
CB → This year, we plan to do new business in order of EUR 7 billion. Since May 2021, we have been on track to generate roughly EUR 500 million in new business per month, which is a six-billion run rate per year. With regard to this, I am very confident that we can achieve our new business goals in 2022.
Are the developments in Ukraine and the new geopolitical situation having any impact on HCOB's business plans?
CB → We are looking very closely at the situation. It is a tragedy for the Ukrainian people. It was hard to imagine that a war like this could happen again in Europe. Hamburg Commercial Bank is not doing business in Russia, or in Ukraine or Belarus. At the moment, we are confirming our mid-term plan, including new business – but we will adjust, if necessary.
The main drivers of new business last year were Commercial Real Estate, Shipping and Corporates and Project Finance. Will these segments remain the key pillars?
CB → Yes, they are the core of Hamburg Commercial Bank. We want to maintain these business areas at least at their current levels or grow them slightly if we can. Commercial Real Estate and Shipping are segments where we have frequent repayments. We have to deploy our capital to maintain the volume of our credit book.
In Commercial Real Estate and in Shipping, asset prices at the moment are quite high. Do you see the risk of asset price bubbles?
CB → I believe we are already seeing some asset price bubbles – which are caused by very low interest rates from the central banks. But with higher inflation rates, the gate is now open to higher interest rates. If the central banks stop the quantitative easing, risks will be repriced and this will have an impact on the valuation of assets.
Does that mean that asset prices might decline a bit?
CB → Yes. If interest rates rise, the amount of money that you can borrow goes down because your available cashflows to service your debt are reduced. It's like the mortgage on a house: As interest rates rise, you have to spend more of your disposable income on the interest. In consequence, you can afford less of a mortgage for your house. That also means the price people get when they sell their house will go down. But I think that the central bank will act cautiously. Their aim is to control inflation and asset prices. I don't think we will see an asset price crash.
How difficult is it for a bank to evaluate risk properly in this complex economic and political environment?
CB → It's never easy, and now it's really challenging. But we have very strict risk standards and a clear credit process. When we make a loan, we are comfortable that there is no significant risk to lose money.
Which role does the Corporate business – national and international – play for HCOB?
CB → We want to maintain the volume of this business area on our balance sheet at its current level, roughly EUR 3.7 billion in total. It is not easy to do business profitably in the Corporates segment in Germany, since the competition is tough. We have to be nimble in the niche. We work with leasing companies, we offer payment services and we lend to corporates. Our international Corporates business is basically focused on deals in Europe – it represents a little bit more than EUR 1 billion on a EUR 30 billion balance sheet. We are very profitable in this international segment but not very big.
The development of infrastructure and renewable energy is an important topic in the public debate in Germany. Is this leading to new projects?
CB → You would think it should. We would like to do more business in renewables. But at the moment we see more projects in Scandinavia and in France than in Germany, where the permit-granting process is difficult and where some projects face local resistance. There are a lot of people who don't want a wind park in their backyard. On the infrastructure side, we continue to do new business – for example we are financing fiber deals.
HCOB has improved its net interest margin in the last year from 117 basis points to 145 basis points – how did you accomplish that?
CB → The increase is a result of two things: our lower funding costs and our increased margins in the new business. At the same time, older business deals with lower margins are coming to an end. If we continue to generate new business at the current level, we will further improve our Net Interest Margins – this is our goal.

Report of the Supervisory Board



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

2021 annual financial statements and Group financial statements of Hamburg Commercial Bank AG

Report of the Supervisory Board on the 2021 financial year

The Supervisory Board performed its duties under the law and the Articles of Association during the 2021 financial year. In particular, it monitored the management of the company and provided advice to the Management Board in matters relating to corporate governance.

In the 2021 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 2021 financial year was the final year of transformation for Hamburg Commercial Bank. The extensive and multi-year restructuring of the Bank was successfully completed at the end of the year with the seamless transition to the Deposit Protection Fund of the Association of German Banks (BdB). The Supervisory Board addressed the related issues in detail and received detailed reports on them throughout the year. HCOB was restructured more quickly than originally planned and generated a strong result in 2021 that was well above expectations. The Bank has changed significantly, both in terms of its external image as a focused specialist financier, and also internally. With a strong set of financial ratios, the BdB's stringent requirements for admission to the voluntary Deposit Protection Fund have been fully met. This yet again underlined the Bank's progress in achieving its targets for balance sheet volume/structure, margin level, cost efficiency, asset quality and capital resources. The Bank has established a clear ESG approach to its business activities (ESG = Environmental, Social, Governance). These include specific sustainability criteria, which are firmly anchored in the Lending Guidelines, and a Sustainability Framework that is integrated into the Bank's strategic architecture. The Supervisory Board was kept informed of the status of these key milestones on an ongoing basis.

The Supervisory Board was involved in decisions of material importance to the Bank. Where necessary, the Supervisory Board sought legal advice.

The Chairman of the Supervisory Board and the Chairs of the Risk Committee and Audit Committee were also informed by the Management Board about important topics and upcoming decisions, also between the scheduled meeting dates. For example, the Chairs of the Supervisory Board, Risk Committee and Audit Committee received weekly updates on the key figures for monitoring the impact of the COVID-19 pandemic on the Bank via the "Corona Dashboard". Similarly, in the case of the cum/ex investigations by the Cologne public prosecutor's office against (former) HCOB employees, the Chairman of the Audit Committee has direct access to the Bank's legal advisors. The Management Board also provides the Supervisory Board and Audit Committee with timely and regular information on the current status of the investigations, which are fully supported by Hamburg Commercial Bank. In addition, the Chairman of

the Supervisory Board receives the monthly management report and the daily reports on asset liability management, liquidity risk and market risk.

With regard to the Bank's comprehensive IT transformation, the implementation of which is closely monitored by the Supervisory Board, the consultant appointed by HCOB to support the Bank's IT transformation may also report directly to the Chairs of the Supervisory Board and the Audit Committee, in addition to reporting to the Chairman of the Management Board. The consultant is also a regular guest at the meetings of the Supervisory Board's IT Transformation Committee, which was established in July 2021. In this way, a high level of information is constantly ensured regarding this important project. Another important project of the Bank is the change of payment service provider, which like the IT transformation was closely monitored by the Audit Committee and its Chairman.

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 seven meetings in the 2021 financial year, two of which were convened as extraordinary meetings. In addition, the Supervisory Board held strategy workshops with the Management Board on May 5th, 2021 and October 20th, 2021. Furthermore, in light of the pragmatic SREP, the Supervisory Board held informal discussions with the ECB's management along with representatives of the Joint Supervisory Team on April 27th, 2021. The Supervisory Board also received detailed information about the Data Management Initiative on April 27th, 2021. Due to the COVID-19 pandemic, the meetings of the Supervisory Board were mainly held by video conference. The exceptions were the meetings on August 18th, 2021 and October 20th, 2021, which took place both as a face-to-face meeting and via video conference (hybrid).

The Management Board provided the Supervisory Board with regular information on the Bank's situation. Within this context, it provided the Supervisory Board with information based on the figures available for each quarter, particularly 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 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. A key component of the reporting on the Bank's situation was also the management of the impacts of the COVID-19 pandemic, the progress made in restructuring of the balance sheet, regulatory issues, and progress regarding the targeted move to the Deposit Protection Fund of the 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 the comprehensive IT transformation, the change of payment transaction service provider, the personnel restructuring, and the integration of ESG criteria into the Bank's business activities. The Supervisory Board also dealt with compliancerelated issues on a regular basis, such as prevention of money laundering, terrorism financing and fraud prevention, and information security.

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. In addition, the Supervisory Board dealt with various Management Board matters.

The auditor attended the meetings of the Supervisory Board regularly and was available to the Supervisory Board for additional 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 monthend.

The Supervisory Board was also informed in writing about significant matters between the meetings. For example, in February 2021, the Chairman of the Management Board informed the Supervisory Board about the correspondence with the ECB regarding the "Identification and measurement of credit risk in connection with the coronavirus pandemic (COVID-19)" and about the governance of HCOB according to the principles of a dual board system or 2-tier system. In addition, in April and June 2021, the Supervisory Board was informed in writing about the topics of ILAAP/ICAAP and the deep dive carried out by the ECB in this regard, and also about the results of the ECB stress test at the end of July 2021. On July 7th and 27th, 2021, the Supervisory Board was also informed about the current status of the investigations by the Cologne public prosecutor's office against (former) HCOB employees regarding cum/ex transactions in the past, together with the offer of further discussions. Furthermore, the Supervisory Board was provided with the latest important internal communications as well as rating and press information, such as on November 8th, 2021, about the admission of Hamburg Commercial Bank to the Association of German Banks (BdB) and its Deposit Protection Fund.

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

At the meeting on February 10th, 2021, as part of the usual report on the Bank's situation, the Supervisory Board discussed the preliminary Group net result for 2021, which was published in a press release on February 11th, 2021. In addition, the Supervisory Board received overviews of the secondary activities of the Management Board and the material donations made by HCOB (donations > EUR 10,000) in 2020. In the absence of the Management Board, the Supervisory Board also discussed the further process regarding the target achievement for 2020 and the target agreement for 2021 for the Management Board, after receiving reports on the Remuneration Committee meeting held on January 20th, 2021 to discuss these matters. Finally, the Supervisory Board was informed about the issues of D&O insurance for the Supervisory Board and conflicts of interest/requests for information in connection with the identification of related party transactions by members of the Supervisory Board.

The subject of the meeting held on March 31st, 2021 (annual financial statements meeting) was primarily the presentation of the results of the audit of the 2020 annual and Group financial statements by the auditor and the report of the Audit Committee on the audit of the 2020 annual and Group financial statements. Following Supervisory Board's own assessment and prior discussion with the auditor, and based on the recommendation made by the Audit Committee, the annual financial statements for 2020 were adopted and the Group financial statements for 2020 were approved. The standard resolutions to be passed regarding the recommendations to be made to the ordinary annual general meeting were also passed.
In connection with the annual and Group financial statements for 2020, the combined separate non-financial report ("CSR Report") for 2020 pursuant to Sections 315b, 315c in conjunction with 289b to 289e HGB (German Commercial Code) 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 2021 financial year.
The Supervisory Board also approved the amendments to the medium-term plan for 2021 with regard to the proposed capital reduction through the redemption of shares.
As part of the report on the transformation program, the Supervisory Board also received an overview of the strategy process in preparation for the strategy workshop on May 5th, 2021.
Furthermore, the Supervisory Board was kept informed about the current state of integration of ESG aspects into HCOB's business activities and the establishment of sustainability governance as of April 1st, 2021. In this context, the Supervisory Board was informed about the HCOB's Sustainability Framework.
In addition, the Management Board discussed the Data Management Initiative and balance sheet management with the Supervisory Board. The Supervisory Board also received further information on the Data Management Initiative and balance sheet management in a deep dive on April 27th, 2021.
During its meeting on March 31st, 2021, in the absence of the Management Board, the Supervisory Board also discussed the target achievement of the Management Board for the 2020 financial year and the target agreements for the 2021 financial year, and approved them in line with the recommendation by the Remuneration Committee. Finally, the Supervisory Board approved the request of the Management Board member Dr. Nicolas Blanchard (CCO) to terminate his employment on March 31st, 2021, in line with the recommendations by the Remuneration Committee and the Nomination Committee.

In addition to the usual reports, the Supervisory Board received a strategy update including a downside scenario at its meeting on June 3rd, 2021.
The Supervisory Board also primarily passed resolutions on formal amendments to the Rules of Procedure for the Supervisory Board and the Management Board.

At its meeting on August 18th, 2021, the Supervisory Board dealt with the interim financial statements as at June 30th, 2021, as well as current developments. The Supervisory Board also discussed the forecast for the second half of 2021 with the Management Board, as well as for the 2021, 2022 and 2023 financial years respectively, and received a comprehensive report on the status of the cum/ex investigation by the public prosecutor. In addition, the Supervisory Board approved inclusion of the regulations for the IT Transformation Committee set up on July 1st, 2021 in the Rules of Procedure for the Supervisory Board, along with otherwise predominantly editorial amendments to the Rules of Procedure for the Supervisory Board and the Management Board. The Supervisory Board passed a further resolution on a legal matter and was also informed about the status of the D&O insurance. In the absence of the Management Board, the Supervisory Board finally discussed in detail the amendments to the HCOB remuneration principles for members of the Management Board and the extension of the terms of office for the members of the Management Board Ian Banwell and Christopher Brody, along with their service agreements, as well as the changes to the service agreements of the Management Board members Stefan Ermisch and Ulrik Lackschewitz, and approved the proposed resolutions in line with the recommendations by the Nomination Committee and the Remuneration Committee.

On October 20th, 2021, the Supervisory Board held two extraordinary meetings before the joint strategy workshop with the Management Board. Initially, in the absence of the Management Board, it dealt with remuneration issues related to the Management Board. Thereafter, in the subsequent meeting together with the Management Board, it discussed in detail the implementation of the share capital reduction to offset the losses brought forward in the HGB balance sheet, and agreed to the proposed resolution recommendations, including the corresponding resolution recommendations for the General Meeting. In addition, the Supervisory Board received a comprehensive update on the status of the cum/ex investigation by the public prosecutor at this meeting.

The last ordinary meeting of the year was held on December 2nd, 2021. At this meeting, in addition to the usual reports on the Bank's situation, the status of the completed transformation program and the anchoring of ESG into the business activities of HCOB, 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. Furthermore, the Supervisory Board discussed and approved the mediumterm plan for 2022 – 2024, and also approved amendments to the Lending Guideline with effect from December 31st, 2021, in line with the recommendation by the Risk Committee. Subject to the reservation defined in the submission, the Supervisory Board also approved the resolution on conclusion of the amendment agreement regarding the control and profit transfer agreement between HCOB and BINNENALSTER-Beteiligungsgesellschaft mbH and the corresponding recommendations for resolutions to the General Meeting. Finally, in the absence of the Management Board, the Supervisory Board discussed the draft framework for the Management Board targets for the 2022 financial year.

In the reporting year, the Supervisory Board also adopted six resolutions using the written procedure. The subjects of the resolutions were legal disputes (in March and November 2021) as well as Management Board and Supervisory Board matters. The latter concerned at the beginning of January 2021 the election of Mag. Friedrich Spandl as successor to Sat Shah as a member of the Risk Committee, at the end of June 2021 the formation of the IT Transformation Committee, at the end of October 2021 the amendment of the service agreements of two Management Board members (Stefan Ermisch and Ulrik Lackschewitz), in line with the recommendation by the Remuneration Committee, and at the end of September 2021 the approval of minutes. In addition, the Supervisory Board received the 2021 Remuneration Monitoring Report for consideration on November 26th, 2021.

In the past year, the Supervisory Board also continued its further training in various topical issues relevant to the financial sector, such as regulatory developments, information security and ESG. In addition, individual members of the Supervisory Board participated in training on further specialized topics, such as ESG.

Insofar as individual members of the Supervisory Board were affected by resolutions of the Supervisory Board or its committees, either personally or due to their function, or if other potential conflicts of interest arose, they did not participate in the deliberations and decisions of the respective body. 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 far more than 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 five committees from among its members that support it in its work.

The *Nomination Committee* met three times last year. The Nomination Committee prepared the resolutions for the Supervisory Board in accordance with the Rules of Procedure for the Supervisory Board. The Nomination Committee, together with the Management Board, also supports the Supervisory Board with regard to long-term succession planning. Where necessary, the Committee passed its own resolutions or the Supervisory Board was provided with recommendations on the passing of resolutions.

The *Risk Committee* held a total of four ordinary meetings during the past financial year. In the reporting year, the Risk Committee also adopted one resolution using the written procedure. In addition, the Risk Committee was informed in writing on February 5th, 2021 about risk development on the occasion of the preliminary annual results for 2020, and on October 15th, 2021 about the adjustment of the Strategic Risk Framework.

Representatives of the auditors also attended the meetings regularly.

The Risk Committee dealt intensively with the Bank's risk situation and risk management. Within this context, it addressed the updates to the Strategic Risk Framework, which provides the risk framework for the business strategy and the planning.

At all meetings, the Committee obtained reports on current events and developments as well as their impact on the risk situation, in particular also in light of the COVID-19 pandemic. The Risk Committee has regularly reviewed the state of the Bank's strategic risk issues, in particular with regard to NPL/NPE and funding. In this context, it regularly obtained reports on topics such as diversification of the Bank portfolio and pension management.

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.

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 Internal Audit 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 Remuneration Committee, the Risk Committee also reviewed the Bank's remuneration systems to see whether the incentives set by these remuneration 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 2021, one of which was an extraordinary meeting. In the reporting year, the Audit Committee also approved the minutes of one meeting using the written procedure.

Representatives of the auditor attended all meetings.

The members of the Audit Committee discussed the annual and Group financial statements of the Bank for 2020 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 PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor of the annual financial statements for the 2021 financial year.
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 nonaudit 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 regularly reviewed the state of the IT transformation on the basis of the reports by the Bank, the IT Transformation Committee of the Supervisory Board and the auditor PwC.
Furthermore, the topics at meetings included reports on the change of payment service provider and the status of the cum/ex investigations by the Cologne public prosecutor's office.
Finally, the Audit Committee has examined the new requirements for the work of the Audit Committee as a result of the legislative amendments to the Financial Market Integrity Strengthening Act (FISG) and has decided on a procedure for implementing the new regulations on monitoring audit quality.

The *Remuneration Committee* met nine times in the reporting year, three of which were extraordinary meetings, and once in what was, in part, a joint meeting with the Risk Committee.

It took an indepth look at remuneration issues relating to Management Board members. In particular, the Remuneration Committee dealt with the remuneration system, as well as the target agreements and target achievement levels of Management Board members. It also dealt with the Bank's remuneration system for employees. Furthermore, the Remuneration 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 Remuneration Officer also reported to the Remuneration Committee on the results of his control activities and presented his Remuneration Monitoring Report, which has to be prepared once a year, to the Committee. The Chairperson of the Remuneration Control Committee consulted the Remuneration Committee on relevant issues on a regular basis even outside of the meetings.

The *IT Transformation Committee* of the Supervisory Board was established with effect from July 1st, 2021. The Committee closely monitors the Bank's comprehensive IT transformation. The committee has seven members, its Chair is the Chairman of the Supervisory Board, and its members include the Chairs of the Audit Committee and the Risk Committee. The committee met three times during the reporting year, one of which was an extraordinary meeting.

Representatives of the auditors and the external IT consultant employed by the Management Board to support the IT transformation also attended the meetings regularly.

The committee obtains reports on current issues as well as progress with the Bank's IT transformation, the payment service provider change and vendor management in its meetings, and discusses these issues in detail with the Management Board.

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 2021 annual financial statements and Group financial statements

The accounts, the annual financial statements, and the Group financial statements, including the combined management report, for 2021 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 19th, 2021. The audits led to an unqualified audit opinion being issued in each case.

The financial statement documents and the audit reports, together with all appendices, were sent to all members of the Supervisory Board 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 April 5th, 2022. On this basis, and on the basis of its own review, the Audit Committee discussed the results in detail with the auditor. 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 April 6th, 2022. The auditor also attended the meeting of the Supervisory Board and reported on the main results of its audit. On the recommendation of the Audit Committee, the Supervisory Board finally approved the results of the audits, after examining the reports of the auditor and in-depth discussion, and concluded that no objections could be raised even after the final result of the own investigations. The Supervisory Board approved the 2021 annual financial statements drawn up by the Management Board, meaning that they have been formally adopted, and approved the 2021 Group financial statements. It also approved the Report of the Supervisory Board for the 2021 financial year.

Personnel matters

There were no changes made to the Supervisory Board in the 2021 reporting year.

The Management Board was reduced from five to four members in the 2021 reporting year:
Dr. Nicolas Blanchard left the Management Board at the end of March 31st, 2021.

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 and the final year of its transformation.

Hamburg, 6th of April 2022

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 the 16th of 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 (HCOB) 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 April 2022, 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 the 16th of 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 the 20th of 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 the 31st of March 2021.

The Management Board and Supervisory Board of Hamburg Commercial Bank declare that Hamburg Commercial Bank has complied with the GCGC recommendations 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 55

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 2021, the Supervisory Board looked at the skills, competencies and experience within the Supervisory Board and updated its competence profile, which was prepared in 2020 (see 2021 Corporate Governance Report and Report of the Supervisory Board 2021). The shareholder representatives on the Supervisory Board consider the number of independent shareholder representatives to be appropriate. The names can be found in the 2021 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 2021 Corporate Governance Report). No publication on the age limit has been made in the Corporate Governance Statement.

Acording 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 2021 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 Supervisory Board's committees and the respective committee members as well as the committee chairs can be found in the notes to the annual financial statements and the notes to the 2021 Group financial statements. Moreover, this information is published on the HCOB website. No publication has been made in the Corporate Governance Statement.

According to Recommendation D.5, the Supervisory Board is to form a Nomination Committee, composed exclusively of shareholder representatives, which names suitable candidates to the Supervisory Board for its proposals to the annual general meeting.
The Nomination 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 Nomination 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, meetings in 2021 continued to be held primarily by video or telephone conference.

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. 2021 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 very narrowly not publish the Group financial statements or the Group management report for the 2020 financial year or the interim report for 2021 by the recommended deadlines (April 1st, 2021 and August 19th, 2021, respectively).

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

Hamburg, 6th of April 2022

For the Management Board	For the Supervisory Board
Stefan Ermisch **Supervisory Board**	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. 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 in HCOB's transformation and future positioning.

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 2021, 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, as in the previous year, used questionnaires 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 2021 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 expertise, training courses are held for the Supervisory Board both when new Supervisory Board members are appointed and on special 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 for HCOB. 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: the 22nd of March 2022)
Juan Rodríguez Inciarte	1
Manuel González Cid	3
Frederick Haddad	1
Chad Leat	4
Dr. Ilinca Rosetti	2
Mag. Friedrich Spandl	1
Stephan Wilcke	4
Peter Yordán	3

Further information on diversity can be found in the combined management report and the CSR Report. Detailed information on the Supervisory Board activities in 2021 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 2022, the Management Board of Hamburg Commercial Bank consists of four members and is divided into the following areas of Board responsibility: CEO (Chief Executive Officer), CRO (Chief Risk Officer), CFO (Chief Financial Officer) and CIO (Chief Investment 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 Nomination 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 in management or supervisory functions

One member of the Management Board holds one mandate on the supervisory board of a subsidiary of the Bank and one member of the Management Board holds a mandate on the supervisory body of an institution. Other than this, the Management Board members do not perform any management or supervisory functions at other companies.

Remuneration

Details of the remuneration 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.

The Annual General Meeting in May 2021 dealt – in addition to the agenda items required by law for an Annual General Meeting – with a proposed resolution on the redivision of the nominal share capital and the corresponding amendment to the Articles of Association. Extraordinary General Meetings were held in November 2021 and December 2021. The agenda included proposed resolutions on the reduction of the share capital through the redemption of shares provided free of charge by the Company in a simplified redemption procedure and related amendments to the Articles of Association of HCOB, as well as the agreement on the amendment of the control and profit and loss transfer agreement existing between the Company as controlling company and BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg, as controlled company.

According to Principle 23 GCGC, the annual general meeting should generally adopt advisory resolutions concerning the approval of the remuneration 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 remuneration system for the members of the Management Board, prepared by the Supervisory Board, in greater detail.

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Information on the combined management report
To improve the clarity of presentation, the management reports of Hamburg Commercial Bank AG and the Hamburg Commercial Bank Group have been combined in accordance with Section 315 (5) of the German Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The annual and Group financial statements of Hamburg Commercial Bank (including the combined management report) will be jointly submitted to the operator of the German Federal Gazette and published in the Federal Gazette. In addition, the annual and Group financial statements of Hamburg Commercial Bank are available on the Internet at www.hcob-bank.de. The following information in the combined management report relates to the Hamburg Commercial Bank Group as a general rule; in the event of material differences with regard to Hamburg Commercial Bank AG, separate explanations are provided. Due to rounding, numbers presented throughout this report may not add up precisely to the totals shown and percentages may not precisely reflect the absolute figures.

Basis of the Group

Business activities

Transformation programme

With the change of ownership completed at the end of December 2018, which marked the first successful privatisation of a Landesbank in Germany, Hamburg Commercial Bank AG, supported by the strong commitment of its international owners, had embarked on a comprehensive and far-reaching transformation programme spanning a period of several years. The strategic objective associated with the transformation programme was successful realignment to create a sustainably profitable and efficient specialist finance provider, as well as the achievement of a seamless transition to the Deposit Protection Fund of private banks on 1 January 2022. With regard to the targeted financial ratios, the strategic objective for 2022 set at the start of the transformation phase was a CET1 capital ratio of at least 16 %, an NPE ratio of no more than 2%, a maximum cost-income ratio of 40 % and pre-tax profitability of more than 8 %.

The positive effects of the systematic implementation of the individual packages of measures forming part of the transformation programme since the end of 2018 can be seen throughout the Bank as a whole at the end of 2021 in the following developments that the Bank has undergone in key categories during the transformation period. In general, the comprehensive staff restructuring measures, which led to a significant reduction in employee capacities (- 46 % on an FTE basis) as against the end of 2018, played a particularly decisive role in the Group's restructuring success.

- **Operational profitability:** Systematic price discipline focusing on the shareholder value added concept in business transactions, de-risking and deleveraging of the legacy portfolio, optimisation of asset allocation and lower funding costs have led to a significant increase in profitability ratios, such as the net operating interest margin.
- **Client business:** The Bank has developed new profitable and risk-oriented growth strategies (e.g. for international corporates), which has served to diversify its income sources and reduce concentration risks. At the same time, the client franchise has been strengthened in the Bank's core business areas. Transactions and product lines that do not meet the profitability requirements set out above were wound down whilst minimising losses.
- **Efficiency and cost culture:** Hamburg Commercial Bank has implemented and established a stringent and efficient cost culture on the basis of which administrative expenses have decreased on an ongoing basis while at the same time allowing the Bank to make value-enhancing investments in IT/digitalisation and in strategic initiatives. Within this context, the Bank has simplified its business model and processes, streamlined its organisational structure and consolidated its locations/branches and portfolio of buildings.
- **Risk:** The transformation phase was characterised by proactive risk management. This primarily featured a tightening of risk standards, risk-conscious restraint in new business and, in particular, forward-looking de-risking of the loan and derivatives portfolio, a move that was initiated at an early stage. As a result of proactive risk management, the Group's total assets and RWA have been substantially reduced, significantly strengthening the Bank's capital position among other things. The risk profile of the credit and derivatives book was reduced considerably despite the macroeconomic headwind from the economic environment triggered by the COVID-19 crisis that occurred halfway through the transformation phase.
- **Liability management:** In addition to the assets side, the liabilities side of the balance sheet was also revamped in full. Key milestones included the restructuring of the capital structure, the optimisation of the deposit structure and the Bank's return to the capital market through a series of successful benchmark bond issues. All in all, these changes have led to a significant reduction in funding costs.
- **Corporate culture:** The Bank has established a corporate culture characterised by flat hierarchies, fast decision-making processes and pragmatic solutions, and focusing on performance and agility as its key elements. At the same time, the very challenging staff reduction measures, which have served to substantially reduce the number of FTEs in the Group, were implemented successfully.

By the end of the 2021 reporting year, the Bank had exceeded the strategic goals set at the beginning of the transformation period overall. Hamburg Commercial Bank has a CET1 ratio of 28.9 %, an NPE ratio of 1.4 %, a CIR of 50 % and return on equity after tax of 18.4 % as at 31 December 2021. For further details on the development of these key performance indicators in the 2021 financial year, please refer to the comments in the section entitled "Earnings, net assets and financial position"; further information on the expected development of these indicators is presented in the section "Forecast report including opportunities and risks".

Based in particular on this strong set of financial ratios, the seamless transition to the Deposit Protection Fund of private banks was achieved as planned on 1 January 2022 (see also the comments in this chapter under "Deposit Protection Fund"), which marks the official end of the transformation phase at the same time.

Headquarters, regional focus, clients and products

Hamburg Commercial Bank (HCOB) is a private commercial bank and specialist finance provider with its headquarters in Hamburg. It is managed in the legal form of a German public limited company.

The Bank offers its clients a high level of structuring expertise in the financing of commercial real estate projects with a focus on Germany, as well as neighbouring European countries. It also has a strong market position in international shipping. The Bank is one of the pioneers in Europe-wide project financing for renewable energies. It is also committed to the expansion of digital and other key infrastructure sectors. HCOB offers individual financing solutions for international corporate clients, as well as a focused corporates business in Germany. Digital products and services for reliable, timely national and international payment transactions and trade finance round off the Bank's offering.

Segments and locations

Hamburg Commercial Bank's operating business activities are divided into four market-oriented segments, Real Estate, Shipping, Project Finance and Corporates, as well as the Treasury & Group Functions segment. The latter segment includes the Bank's capital market activities, as well as the other staff and service functions. With regard to the adjustments made to the segment reporting in the reporting year, we refer to the section "Segment results" in this combined management report and to Note 49 to the Group financial statements.

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 has branches abroad, namely in Athens and Luxembourg, as well as a representative office in London in line with its focused direction. In the Athens branch, the Bank serves international shipping clients. The focus of the Luxembourg branch is on the International Corporates 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 13 fully consolidated subsidiaries as at the reporting date (31 December 2020: twelve fully consolidated subsidiaries). There were two additions to the group of fully consolidated companies in the reporting period, offset by one disposal.

HPS Elbe Unlevered Direct Lending Fund, SCSp (Loan Fund), Luxembourg, which was established in the reporting year, and HCOB Investment Management S.à.r.l., which is also based in Luxembourg, were included in the scope of consolidation for the first time on a fully consolidated basis. Hamburg Commercial Bank diversifies its activities in the international corporates business through the Loan Fund. HCOB Investment Management S.à.r.l. currently acts as an asset manager for the plan assets invested to cover the Bank's pension liabilities. As it commenced its business activities in the reporting year, it was included in the scope of consolidation for the first time on a fully consolidated basis.

The disposal from the scope of consolidation relates to Funding II (formerly: HCOB Funding II), George Town. This company, which originally served as a refinancing vehicle for a capital market transaction, no longer has any operating business activities following the termination of the transaction, the repayment of most of its items in the statement of financial position and the fulfilment of its business purpose. It was deconsolidated in the second half of 2021 as it was no longer material to the earnings, net assets and financial position of the Hamburg Commercial Bank Group.

Further details on the changes in the scope of consolidation and the impact of the deconsolidation of Funding II on the Group's income statement in the reporting year can be found in Note 7 (Scope of consolidation) to the Group financial statements.

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. 9.87 %	Promontoria Holding 231 B.V. 13.87 %	Promontoria Holding 233 B.V. 18.71 %	JCF IV Neptun Holdings S.à r.l.	GoldenTree Asset Management Lux S.à r.l.	Chi Centauri LLC		
42.45 %			**34.96 %**	**12.49 %**	**7.49 %**	**2.50 %**	**0.11 %**

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

At its meeting on 31 March 2021, the Supervisory Board of Hamburg Commercial Bank AG decided to comply with Dr Nicolas Blanchard's request not to renew his contract as CCO, which expires at the end of 2021. Christopher Brody (CIO) has been responsible for the Bank's entire client business since 1 April 2021. The bundling the sales activities in one Management Board department also involved the reorganisation and focusing of the sales organisational structure.

By reducing the number of Management Board members from five to four and reorganising the front office, Hamburg Commercial Bank has continued to streamline its organisational structure as part of its ongoing transformation process.

The Management Board of Hamburg Commercial Bank consists of: Stefan Ermisch (CEO), Ulrik Lackschewitz (CRO/Deputy CEO), Ian Banwell (CFO) and Christopher Brody (CIO).

Further information on the members of corporate bodies is set out in Note 62 (Related companies and parties).

Deposit Protection Fund

Hamburg Commercial Bank AG has been assigned to the Compensation Scheme of German Private Banks (*Entschädigungseinrichtung deutscher Banken GmbH*, EdB) since 1 January 2022. EdB is entrusted with the task of acting as the statutory compensation scheme for all CRR credit institutions assigned to it. The EdB generally protects deposits up to EUR 100,000 per Hamburg Commercial Bank AG depositor.

Since 1 January 2022, Hamburg Commercial Bank AG has also voluntarily participated in the Deposit Protection Fund of the Association of German Banks (*Einlagensicherungsfonds des Bundesverband deutscher Banken e.V.*) (ESF). In accordance with its By-laws, the ESF protects deposits of certain HCOB customers, subject to the exceptions provided therein. The protected deposits are mainly demand, time and savings deposits. Deposits included in the Bank's own funds, liabilities from bearer and registered bonds as well as deposits from credit institutions, financial institutions, securities firms and local authorities are not protected. The following shall further apply to the protection in the Deposit Protection Fund:

- Deposits by creditors other than natural persons and foundations with legal capacity are only protected if (i) the deposit is not a liability arising from a registered bond or a promissory note and (ii) the term of the deposit does not exceed 18 months. Deposits which already existed before 1 January 2020 shall not be subject to the limitation of term. After 31 December 2019, the "grandfathered" status under the preceding sentence shall cease to apply as soon as the deposit in question falls due, can be terminated or otherwise reclaimed, or if the deposit is transferred by way of individual or universal succession in title.
- Liabilities of banks that already existed before 1 October 2017 shall in principle be protected in accordance with and under the conditions laid down in the provisions of the By-laws of the Deposit Protection Fund applying until 1 October 2017. This does not apply to liabilities of Hamburg Commercial Bank AG, as the Bank was not yet participating in the Deposit Protection Fund at that time.
- The protection ceiling for each creditor is, until 31 December 2019, 20 %, until 31 December 2024, 15 % and, as of 1 January 2025, 8,75 % of the Bank's own funds within the meaning of Article 72 of Regulation (EU) No 575/2013 used for deposit protection purposes. Deposits established or renewed after 31 December 2011 shall be subject to the respective new protection ceilings as of the aforementioned dates, irrespective of the time when the deposits are established. Deposits established before 31 December 2011 shall be subject to the old protection ceilings until maturity or until the next possible termination date.

At the same time as HCOB switched to EdB and ESF, HCOB's membership in the security reserve of the Landesbanken and Girozentralen (*Sicherungsreserve*) as part of the institutional protection system of the Savings Banks Group (*Sicherungssystem der Sparkassen-Finanzgruppe*) ended.

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 Association of German Banks (BdB).

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. Along the value chain, these processes can be divided into strategy/planning, sales, support and monitoring processes. The strategy process/planning processes form the basis for the sales processes, which essentially comprise the Bank's lending business and capital market activities. The main support processes include loan and collateral management, payment transactions and trade settlement. The key monitoring activities, as the main components of the ICS, are defined in the risk management and compliance processes, as well as in the overall bank management processes.

Objectives and strategy

As a private commercial bank and specialist finance provider, Hamburg Commercial Bank makes clear, binding commitments and supports its clients in the long term. The Bank is committed to its clients and stands for reliability and honesty, taking decisive and timely action. A focussed and entrepreneurial approach, which creates value added for clients, the Bank and its employees, shareholders and society, is at the heart of our self-image and identity.

Following the completion of its far-reaching transformation programme and successful transition to the Deposit Protection Fund of private banks, Hamburg Commercial Bank is focusing on further developing its business model as a profitable and focused specialist finance provider. For the coming years, the Bank is aiming to achieve moderate and risk-conscious growth, with new business in Germany and the diversification of its international business, especially in Europe.

In view of the demands placed on the Bank by a dynamically changing banking environment, the Bank continues to focus on a business model that is viable and agile in the long run. Our corporate structure is based on cost efficiency and is designed to offer products and services that meet our clients' needs in business areas where our expertise gives us a strong competitive position.

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] Incl. Non-Financial Risk Framework
[2] Incl. all sub-risk strategies according to the Strategic Risk Framework

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. The handling of sustainability risks was increasingly established as a firm component of our risk management processes. 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 further 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 2021 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/konzernbericht erstattung 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 **Real Estate** segment has a risk-conscious focus, taking the development of the real estate markets into account. 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 and selective business in the US.

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.

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 financing infrastructure projects, on the area of renewable energy and on projects 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, for example the fast-growing digital infrastructure market.

In the **Corporates** segment, the Bank continues to pursue its established nationwide distribution strategy. The northern German core region has traditionally been a particular focus of these activities. To diversify the portfolio, the Bank also operates in international markets in addition to its German domestic market, with a focus on Europe (mainly western Europe) and North America (mainly the US). In addition to geographical diversification, the Bank is also aiming to increase the granularity of the loan portfolio through participation in securitisation and fund structures, also via the indirect financing of North American corporates.

Activities in the **Treasury & Group Functions** segment focus 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. The Global Sales & Syndicate business area combines the sales activities for capital market-related products, as well as payment transaction products with an adapted future-oriented product range, syndication activities and also customer service for savings banks, banks and institutional clients.

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, planning and forecasting 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 2022 and the objectives for 2024 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 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 backing (average RWA and CET1 ratio of 13 %).
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 common equity Tier 1 capital after deductions 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 voluntary deposit guarantee into account, i.e. taking into account the limit on the deposit guarantee for client deposits of € 100,000 per client.
Non-financial key management indicators	
Rating	Credit ratings awarded by the rating agencies in relation to the issuer rating (long-term).

The extent of the indicators used at Hamburg Commercial Bank for managing the Overall Bank goes far beyond the 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. Shareholder value added (SVA) is an important internal parameter for managing and measuring investment performance (business policy decisions). SVA expresses the profit contribution made by each individual transaction after deducting income taxes and capital costs. This key figure makes an investment's contribution to the Bank's enterprise value transparent. The systematic focus on the SVA approach, which underpins the shift to a performance-oriented corporate culture, is aimed at achieving an optimal allocation of resources at all levels of the business, boosting enterprise value in the long term. 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

Bank hindered in return to the former growth path

Economic activity remained subdued in 2021. Although global economic output is estimated to have grown by 5.9 % in 2021, the underlying conditions – the COVID-19 pandemic, supply chain bottlenecks and a surprisingly pronounced rise in inflation – made it difficult for the Bank to return to its former growth path. The slow progress of the vaccination campaign, coupled with the emergence of new coronavirus variants – first Delta, and most recently Omicron – triggered recurring waves of infection and put a corresponding damper on global economic momentum.

The second half of the year in particular was marked by global supply bottlenecks and raw materials shortages. This led to significant price increases for intermediate products and raw materials and played a decisive role in putting the brakes on industrial activity. The rise in commodity and energy prices, as well as supply bottlenecks, are also reflected in a sharp increase in inflation, which has risen dramatically in both the US and the eurozone. In the US, the annual rate of inflation climbed to 6.8 % in November, with the figure for the eurozone rising to 5 % in December.

In terms of the pace of economic recovery, the upswing was not a synchronised trend. Due to uneven vaccine distribution and more generous state aid in the world's industrialised nations, the latter expanded more robustly than a large part of the world's emerging markets, especially in the first half of the year. In the course of the year, however, the growth differentials decreased as the differences in vaccination progress became less pronounced.

The global PMI purchasing managers' indices for manufacturing and services sectors initially showed a significant increase in the first half of the year before a visible slump followed in the third quarter. The indices stabilised at the end of the year. The relatively high level (>50 indicates growth) belies how challenging the situation actually is. While industry is grappling with supply bottlenecks, the retail industry is threatened with more sales losses at the end of the year after the COVID-19 measures were tightened up again in a large number of countries. The bottom line is that the global economy made it back on track for growth in 2021, although the momentum generally tapered off towards the end of the year. This is due to the uncertainties surrounding Omicron, combined with persistent supply bottlenecks and the current inflationary trend.

If we look at the world's three major economic areas, the US, the eurozone and China, a more differentiated picture emerges, After initially benefiting from temporary post-COVID boom phases and additional public-sector spending on a huge scale, growth momentum has increasingly tailed off. The three regions differ significantly in terms of the scale of GDP growth. According to forecasts released by the International Monetary Fund, China is set to have closed 2021 with growth of 8 %. Economic growth in the US is estimated to have come in at 6 % last year, while this figure is estimated at 5 % in the eurozone. For more details, see the following section "Economic development by region".

The COVID-19 crisis largely overshadowed other issues in 2021, without eliminating geopolitical tensions entirely. The takeover by the Taliban in Afghanistan, the smouldering trade conflict between the US and China and the Russia-Ukraine conflict are fundamental stress factors for the global economy. It is also worth mentioning the German federal elections, which resulted in Olaf Scholz being elected as Germany's new Chancellor, supported by a "traffic-light" coalition of the Social Democrats (SPD, red), the Green Party (*Die Grünen*, green) and the Liberals (FDP, yellow). This marks the end of the Merkel era after the former Chancellor opted not to run for re-election and left office after 16 years.

The world's major central banks, the Fed and the ECB, have continued to take extraordinary monetary policy steps in 2021 to mitigate the real economic impact of the pandemic. Asset purchases were continued for the time being. Inflation, long considered a temporary phenomenon, forced central banks to reconsider their loose monetary policy in the second half of the year and implement moderate tightening steps by whittling down their bond purchases. The monetary policy measures once again came hand-in-hand with fiscal policy steps in 2021. Both in the US (1.9 trillion US dollars) and the eurozone (€ 0.75 trillion as part of the New Generation Fund), extensive economic stimulus packages were put together, although these will largely only have an effect on demand in years to come. In the eurozone, many countries also extended the furlough arrangements already put in place in 2020. In the wake of a rebounding labour market, the use of furlough pay fell during the year.

Yields on German and US government bonds rose significantly in the first half of 2021, starting from a very low level. The trend reversed halfway through the year. Since then, yields have been extremely volatile. At the end of the year, however, bottom-line yields were significantly higher than

they were in January 2021. The stock markets still appear to be pricing in a rapid global economic recovery. In the US in particular, they were headed in one direction only: upwards. European equities showed somewhat more subdued but still robust performance. The euro/US dollar exchange rate was extremely volatile in the first half of the year. The euro then incurred massive losses in the second half of the year in particular. For further details, please refer to the section after next in this chapter, entitled "Financial markets".

Economic development by region

The economic recovery is progressing at different speeds in the three major economic regions.

The US economy, which ended 2020 down 3.5 %, experienced a strong recovery in 2021. The IMF forecasts an estimated 6 % increase in GDP for the US economy in 2021. This growth is quite remarkable in view of new COVID variants and the accompanying protective measures, and also in light of the existing supply bottlenecks. The US labour market delivered a surprise with strong employment growth at the end of the year. The unemployment rate fell to 3.9 % in December 2021. Domestically, the year was a challenging one. President Joe Biden's inauguration went far from smoothly. The storming of the US Capitol at the beginning of the year symbolises the deep divisions running through American society – and going beyond the fundamental question of Democrats vs. Republicans. The climate has become radicalised and economic policy projects are proving difficult to implement in this environment.

In China, whose economy was the only major economy to expand in 2020 (2.3 %) and which grew at an estimated rate of 8.1 % in 2021, the government is committed to a strict zero-COVID strategy. Mass tests, travel restrictions, strict quarantine rules and lockdowns are being used to systematically combat the spread of the virus in the affected regions. In recent months, for example, cities with millions of inhabitants have repeatedly been sealed off completely when individual COVID-19 cases came to light. The costs of the zero-COVID strategy are high. China's growth rate is slowing. The purchasing managers' index (IHS-Markit) has fallen below the 50-point expansion threshold at times. The knock-on effects for the global economy are not to be ignored either. Container port closures exacerbated global supply chain problems in the second half of the year.

In the eurozone, GDP is expected to have grown by 5 % (YoY) in 2021, according to IMF forecasts, after slumping by 6.4 % on the previous year. The economic recovery is progressing at a slower pace than in the US. In the first half of the year, the economy was slowed down by tighter lockdown measures. In the second half, supply bottlenecks increasingly hampered production despite well-filled order books. In the fourth quarter, the new virus variant Omicron was responsible for renewed widespread restrictions in many EMU countries. Industrial production in the four major economies (Germany, France, Italy and Spain) was unable to bounce back to its former strength in 2021. In Germany, the sector even went into recession with a contraction in the third and fourth quarters. 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 grew by 2.5 % in 2021, according to the Bundesbank forecast, following a 4.9 % drop in GDP in 2020. The pre-crisis GDP level is not expected to be reached again until 2022. The German labour market stands out as a comparatively positive example. Unemployment in Germany remains below the eurozone average (7.6 %) at 5.2 % thanks to relatively generous state aid and furlough schemes.

Financial markets

Central banks maintained their loose monetary policy in 2021. This is also reflected in their balance sheets. The ECB increased its total assets to € 8.6 trillion in 2021 as part of the pandemic emergency purchase programme (PEPP). This represents an increase of 23 % compared to December 2020. Meanwhile, the ECB left the key interest rate unchanged at 0%. The deposit rate remains in negative territory (-0.5 %). The US Federal Reserve left the key interest rate unchanged at between 0 % and 0.25 %. The Fed also increased its total assets considerably by making bond purchases on a massive scale. Its balance sheet increased by around 19 % in 2021 to total USD 8.83 trillion. High inflation, however, prompted central banks to tighten the monetary reins slightly in the second half of the year: the ECB had already reduced its asset purchases under the PEPP in the fourth quarter and confirmed that the programme would be discontinued in March 2022. The Fed began tapering its bond purchases in November, meaning that no more bonds are to be purchased in net terms from April. At the same time, most Fed members consider two to three rate hikes in 2022 to be appropriate.

The uncertainty surrounding the pandemic has had comparatively little effect on the stock markets. The S&P 500 in particular was unaffected. Over the course of the year, the most important benchmark index in the US rose by almost 27 %. At the end of the year, the S&P 500 was trading at 4,766 points. Germany's benchmark index was much more volatile. It touched on its high for the year in mid-November at around 16,200 points. Overall, a significant increase was also observed in the Dax at the end of the year. The Dax ended 2021 up by around 16 %.

Yields on German and US government bonds rose significantly in the first half of 2021, starting from a very low level. 10-year Bunds were trading at -0.09 % in mid-May (reaching a high on 19 May). The corresponding T-notes peaked at 1.74 % (19 March). The trend reversed halfway through the year. At the end of the year, however, yields were significantly higher than they were in January 2021: T-notes were trading at 1.52 % and Bunds at -0.21 % at the close of the year.

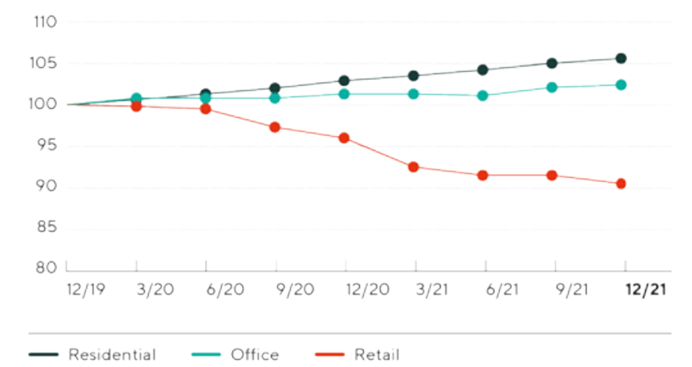
The euro/US dollar exchange rate was extremely volatile in the first half of the year. Especially in the second half of the year, the euro took a drastic tumble as the Fed signalled that it would be tightening its monetary policy earlier than the ECB and the US proved more resilient to the pandemic. This year's low was reached on 24 November at 1.1206 US dollars/euro, resulting in a relatively strong dollar at the close of the year. Over the year, the euro lost almost 8 % against the US dollar.

The mixed performance of the real estate markets continues as the COVID-19 pandemic remains virulent and the economic recovery volatile

In 2021, the **German real estate markets** were affected to varying degrees by the consequences of the pandemic and did not benefit from the economic recovery to the same extent following the recession in the previous year. Whereas the residential property markets once again showed very positive development, unscathed by the pandemic, there were sectors of the commercial property markets that benefited from the effects of the pandemic as well as those that were negatively affected. By way of example, the negative trend affecting inner-city retail properties and hotels in particular continued. Although construction activity remained brisk in the year under review, it had to contend with delays from the middle of the year onwards due to supply bottlenecks for building materials. Building permits and construction orders picked up noticeably, especially for single-family homes and office buildings. As in 2020, crisis-resilient real estate benefited from very low interest rates and was sought after as an attractive investment alternative.

Rents

(Indexed market average, 12/2019 = 100)



The **residential property markets** benefited from the strong recovery on the labour market. Unemployment and furlough decreased noticeably and companies started hiring more workers again. This means that the influx into the major cities is likely to have recovered after their population declined slightly in the recession year of 2020 due to net migration losses. The fact that nominal incomes rose considerably also had a positive effect. The slight increase in demand was met by a supply of housing that expanded significantly thanks to brisk construction activity, driving down excess demand in the markets in major cities to some extent. In view of what are already high housing costs for households and with rent restrictions having been imposed in many cities, rental growth remained moderate in general, but there were also significant increases in first-time occupancy. As a crisis-resistant investment, residential property remained in demand in 2021, meaning that prices rose significantly.

The **German office property markets** participated in the economic recovery and the resulting growth in the number of office employees. The resulting renewed increase in the demand for space, however, continued to lag significantly behind the strong growth in office completions. Although vacancy rates continued to rise as a result, especially in the country's major cities, they often remained at a relatively low level. This helped rents to increase moderately. The market values of office properties often rose moderately as investors' risk aversion tapered off over the course of the year, with some locations even seeing significant increases.

On the **European office property markets**, the negative effects of the previous year's recession continued to dominate the first half of 2021. The demand for space only started to increase again around the mid-point of the year. As a result, the average number of office employees in 2021 is only likely to have increased slightly. Office completions, on the other hand, increased significantly, meaning that vacancy rates continued to rise almost everywhere. This slammed the brakes on rental growth in most cases, with rents even declining in Paris. Rent increases only exceeded a moderate level in central London

locations thanks to significantly fewer office completions. Market values also showed a more pronounced increase here than on the other European markets. Many locations saw at least slight increases in value thanks to increasing investor confidence.

On the **retail property markets**, the divide into those market segments that have been hit hard by the structural change towards online retail and those areas that were hardly affected or were not affected at all, especially in the local supply segment, continued in 2021 due to the ongoing impact of the pandemic. Properties facing a crisis include shopping centres, department stores and retail outlets in central city locations. Once again, their rents dropped noticeably, in some places even significantly so. This is because the retail segments in these types of property, especially clothing retailers, once again suffered significant sales losses due to temporary access restrictions and the change in consumer shopping behaviour in favour of online retail, which continues to boom. In the food retail sector, sales growth declined noticeably during the year, but remained in positive territory, while it declined in DIY and furniture stores. As a result, rents largely remained stable for these businesses, which are often located in retail parks in suburban locations. The market values of specialist retail parks, particularly those with anchor tenants in the food retail sector, increased in 2021. The retail properties affected by the crisis, on the other hand, continued to lose significant value.

The German economy made a strong recovery in the summer half-year of 2021 before the fourth wave of the pandemic caused a setback in the winter half-year of 2021/2022. The recovery in the summer would have been even stronger if industry in particular had not been held back by supply bottlenecks for intermediate products and sharp price increases for raw materials. This also put a damper on German exports and corporate capital expenditure. In the German **manufacturing sector**, production output in the first eleven months was up by almost 5 %, well above the level of the previous year, which saw a decline of around 8 % in the same period, driven by the coronavirus pandemic and lockdown measures of varying intensity, as well as weaker demand. All of the main sectors showed positive development in 2021 – with the exception of the automotive sector, which is very important for Germany and struggled with supply bottlenecks for semiconductors in particular.

Wholesale companies also recorded significantly higher revenue in 2021 compared to the same period of the previous year as part of the recovery, after growth in 2020 had been very modest. The **retail** sector, on the other hand, which had already reaped considerable benefits from consumption-driven economic growth in Germany in previous years and had also still shown increased growth momentum in 2020, the first year of the COVID-19 crisis, recorded only a third of the previous year's growth in the first ten months and is estimated to have grown by only 0.9 % in real terms for the year as a whole.

Whereas online retail (e-commerce) sales continued to shine with double-digit growth rates, sales in bricks-and-mortar retail trading in textiles, clothing, shoes and leather goods in particular were still down considerably.

The recovery process, coupled with supply chain and transportation bottlenecks, have led to a strong increase in revenue in the **logistics sector**: While revenue in 2020 declined by around 9 % in the first three quarters, revenue in 2021 increased by almost 23 % over the same period. The fourth quarter, which brought the fourth wave of the pandemic, however, is likely to put a damper on things: the assessment of the situation and the expectations component of the logistics indicator were pointing downwards at the end of the year and, while the business situation was still often assessed favourably of late, the business outlook continued to cloud over and hardly any of the companies surveyed were still confident about the next six months.

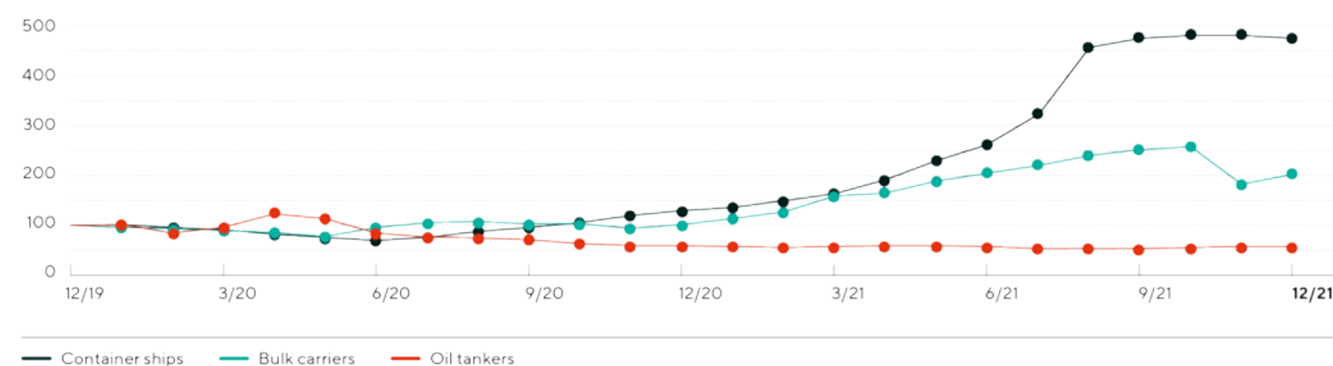
Global **project financing** volumes have recovered – after a slump in 2020 – and were up 11 % year-on-year in the first three quarters of 2021, recording a volume of USD 208 billion. The energy sector accounted for the largest share, making up around two-fifths of the volume and investing predominantly in renewable energy generation. While the project financing volume in the "Europe, Middle East and Africa" (EMEA) region was up considerably, rising by 37 % year-on-year, the volume in Asia increased only slightly by 1 %. In North America, on the other hand, the financing volume decreased by 26 %. 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 both Europe as a whole and Germany in the course of 2021. The significant slowdown in wind energy projects seen in Germany since 2018 did not continue in 2021, although levels remain relatively weak in certain segments. Although around 17 % more onshore wind power capacity had already been commissioned by November 2021 than in the whole of 2020, commissioning still remains around 40 % below the overall annual average for the period from 2014 to 2018. This means that 2021 also represents one of the weakest phases seen since the introduction of the German Renewable Energies Act (EEG) back in 2000. Expansion in the solar segment showed very strong development in Europe in 2021, resulting in the strongest year to date: new photovoltaic capacity increased by 34 % compared to the previous year and it is expected that almost 26 gigawatts of new solar capacity was connected to the grid in the EU. In Germany, the country with the largest increase in capacity in the EU, new photovoltaic capacity in 2021 is expected to come to 5.3 gigawatts, around 10 % above the previous year's figure. The amendment of the German Renewable Energies Act (EEG) with effect from 1 January 2021 had a positive effect on new construction activity. The requirements brought in to reflect more ambitious political climate targets set by the new government coalition at the federal level and a stronger awareness of climate protection among the population at large, following the floods of 2021, are also to have a fundamentally positive effect in this area in the short and medium term.

In the **shipping markets**, various implications of the coronavirus pandemic resulted in developments in the three main segments that varied considerably in the reporting period. Container vessels in particular, but also bulkers, benefited from increasing transport demand, as well as increasingly from waiting times to enter ports, as this significantly reduced the fleet productivity and, as a result, the supply of transport services. Oil tankers, on the other hand, suffered throughout the year due to oil production that was still dramatically lower than the pre-crisis levels. Production was increased only very hesitantly despite the renewed increase in demand. Second-hand prices reflect the developments in charter rates in the individual segments in a subdued manner.

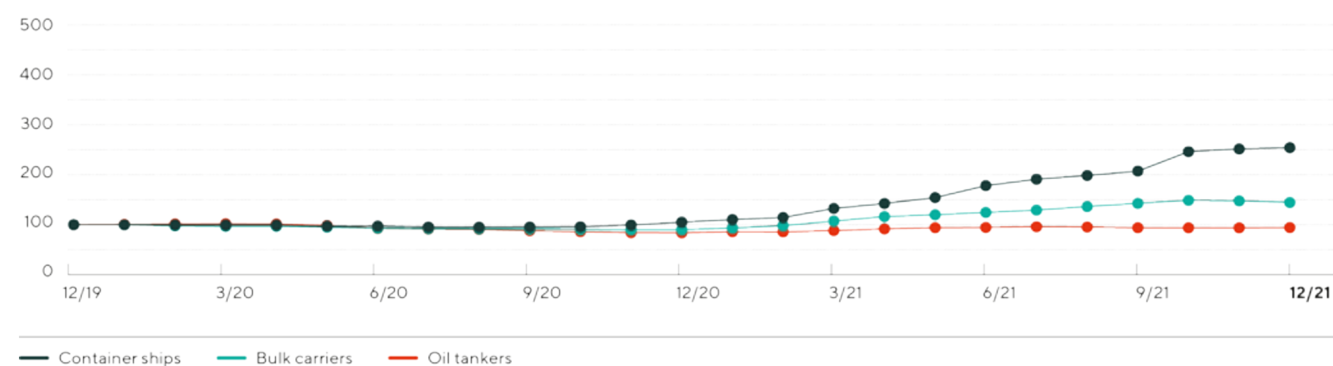
Time charter rates

(Indexed market average, 12/2019 = 100)



Secondhand prices

(Indexed market average, 12/2019 = 100)



The ongoing special effects associated with the pandemic have resulted in an unprecedented boom for **container vessels**. Transport demand benefited from the increased consumption of goods, partly due to shifts in private spending as travel and many services were curtailed. Second, stimulus programmes launched by number of countries increased consumer purchasing power. The demand for transport capacity was also fuelled by inefficient supply chains. Waiting times outside ports until berths become available for handling increased dramatically. This was due, among other things, to a rapid increase in the volume of ships, reduced port crew capacities due to illness and quarantine, or terminals that were closed completely, sluggish hinterland traffic and utilised storage capacity for boxes. The worst affected ports were those on the west coast of the US, where ships had to wait an average of more than two weeks off Long Beach/Los Angeles in November. Due to the shortage of capacity, freight rates for container transport continued to rise, with charter rates and prices for ships following suit. The enormous revenues generated by

shipping lines and ship owners brought an end to the reluctance to place new orders. The volume of tonnage ordered in 2021 was as much as in the five previous years combined.

After a difficult previous year, market development in the **bulker** segment was characterised by a strong upward trend for almost the entire year 2021. The drop in world trade triggered by the COVID-19 crisis was more than offset by this development. In addition, the constant recurrence of local outbreaks led to repeated delays in handling at ports, tying up transport capacity to a considerable extent. As demand increased at the same time, this led to a rally in charter rates, which repeatedly soared to new highs. Demand for coal increased during the year as natural gas prices rose due to an energy shortage in Europe and Asia, leading to a search for alternatives. Seasonal effects in steel production also acted as a driver for additional capacity requirements. As was already the case in previous years, on the other hand, grain proved to be extremely stable, both in boom and crisis periods. Towards the end of the year, some effects reversed, leading to a consolidation of charter rates. Whereas ports around the globe have been working at full tilt to bring port delays back to normal levels, Chinese government-imposed cuts in local steel production had a dampening effect as iron ore imports slowed noticeably. Second-hand prices for bulker tonnage recorded a robust upward trend lasting into the fourth quarter, in tandem with charter rates.

The charter rates for **oil tankers**, on the other hand, showed a completely different trend than the other segments in 2021. The improved demand for oil - after the enormous slump witnessed in the previous year - resulted in what were previously enormous stocks being tapped into. This allowed tankers used as floating oil storage facilities to be freed up. They were pushed back into the transport market seeking opportunities to be used. Due to the reduction in inventories, the production of crude oil and, as a result, its transport requirements increased only slightly. The OPEC+ cartel took these measures with a close link to the pick-up in demand to ensure price stability. The combined effect of these factors meant that there was still significant overcapacity in the tanker market, keeping charter rates close to their all-time lows. While scrapping increased significantly in the second half of the year, it did not lead to any significant reduction in the fleet, meaning that fleet utilisation remains at a very low level. Nevertheless, second-hand prices increased moderately in the reporting period. This is because new-build prices became more expensive due to high raw material costs and market participants are betting on a recovery in the medium to long term.

Banking sector stable during COVID-19 crisis – structural challenge of low profitability remains

The significant economic recovery witnessed in the course of 2021 was also reflected in positive share prices for banks on both sides of the Atlantic, even if valuations weakened significantly again from early December onwards in response to the spread of the Omicron variant of the coronavirus and the prospect of continued low interest rates, especially in Europe. Bank loan losses have so far remained very moderate, despite the sometimes significant slumps in economic activity in some sectors, and most institutions' capital and liquidity resources have remained very solid. Combined with what remains an expansionary monetary policy pursued by the central banks, this means that banks continue to play a central role in the implementation of monetary and fiscal policy measures to overcome the crisis.

Nevertheless, long-standing problems in the banking sector remain, first and foremost the weak profitability of the European and, in particular, German institutions – an aspect that has been clearly pointed out not least by rating agencies. This is because the ongoing crisis is resulting in the challenging low interest rate environment – in spite of rising inflation – lasting even longer and putting further pressure on margins. Lower loan loss provisions and in some cases noticeable earnings contributions made by the use of the ECB's TLTRO are likely to have provided only temporary relief for some institutions. In view of considerable need for investment in IT infrastructure, bank profitability levels remain under pressure as a result.

Against this backdrop, rating agencies remain sceptical about the German banking market in particular. German banks are known to have very solid capital and liquidity resources, as well as high asset quality. When it comes to profitability, however, the agencies continue to take a critical view of the German banking market. Hamburg Commercial Bank was able to largely escape this assessment of large parts of the market thanks to the progress it has made in transforming itself into a profitable specialist finance provider, bucking the trend to improve its rating position on the market as a whole and in absolute terms. Further details are provided in the chapter "Business development" in the section "HCOB's rating position improved in absolute terms (Moody's) and relative to the market as a whole (S&P)". An overview of Hamburg Commercial Bank AG's current ratings awarded by Moody's and S&P is provided in the chapter "Earnings, net assets and financial position" in the section "Rating".

Looking ahead, the question as to how individual banks will deal with these challenges will play a decisive role with regard to their long-term market opportunities and ratings. A solid starting position in terms of capital, stringent cost management (taking into account the need to invest in IT and digitalisation), further business model development, 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' risk management, capital management, business model sustainability and governance a priority in addition to its close monitoring with regard to COVID-19. Other core topics addressed by the ECB as part of the SREP process included IT and cybersecurity and, increasingly, sustainability. In addition, the ECB and EBA published the results of the EU-wide stress test for 38 systemically important major institutions at the end of July. As part of the SREP process, 51 other banks subject to supervision by the ECB participated in the stress test, including Hamburg Commercial Bank. As expected, the Bank maintained a solid capital position even in the very adverse scenario.

Overall conditions impacting Hamburg Commercial Bank's business

The overall macroeconomic and industry-specific conditions described in the sections above also had an impact on the business performance of Hamburg Commercial Bank in the 2021 financial year.

In Shipping, the Bank benefited from the marked increase in demand for transport services in the container and bulker segment. Overall, the volume of new business concluded was in line with expectations. New business conditions were above what was already a high level in the previous year.

The German real estate market continued to prove robust overall in the 2021 financial year, even taking into account the segments that have been hit hard by the crisis (shopping centres, retail properties in city centre locations, hotels). In line with what is still moderate investment activity in the market as a whole, the volume of new business concluded by the Bank was slightly lower than planned. On the other hand, new business profitability, as well as the conditions for prolongations, continued to show positive development.

On the risk side, the Bank benefited from the economic recovery and the improved outlook for the macroeconomic environment compared to the end of the previous year, bolstered by the improved risk profile of its credit portfolio as a result of the de-risking process. Rating migrations have developed much more positively than expected overall, which has had a positive effect overall on the amount of RWA for credit risks, the NPE ratio and the amount of loan loss provisions.

The situation on the capital markets was significantly more encouraging in 2021 than it was in the previous year. In particular, the narrowing of credit spreads, but also developments on the interest rate and equity markets, had a positive impact on the result from financial instruments categorised as FVPL. Higher interest rates as against 31 December 2020 have led to a reduction in the present value of pension liabilities, which has been reflected in an increase in equity not recognised through profit or loss. The low interest rate environment in Europe, which is expected to stick around for longer as a result of the COVID-19 crisis, is exerting pressure on margins in banks' lending business. Hamburg Commercial Bank has been able to escape this trend to a large extent, further increasing its profitability. This is thanks primarily to the further drop in funding costs and the gradual increase in margins in the lending business due to the optimisation of asset allocation.

The Bank's business performance and position are explained in detail in the following sections.

Business development – significant developments and events in the 2021 reporting year

Hamburg Commercial Bank moves to voluntary BdB Deposit Protection Fund

Since 1 January 2022, HCOB has voluntarily participated in the Deposit Protection Fund of the Association of German Banks (ESF). The admission decision of the BdB Management Board was announced on 8 November 2021. The Bank's membership of the institutional protection system of the Savings Banks Group (SFG) ended as planned on 31 December 2021. This means that Hamburg Commercial Bank's seamless transition from the SFG guarantee scheme to the Deposit Protection Fund of private banks was successfully completed as planned on the target date. Since 1 January 2022, HCOB has also been assigned to the Compensation Scheme of German Banks (*Entschädigungseinrichtung deutscher Banken GmbH*, EdB).

The move to the BdB's voluntary Deposit Protection Fund, which is also testimony to Hamburg Commercial Bank's successful pioneering work in the German banking landscape, also formally ends the Bank's successful three-year, far-reaching transformation programme, which was launched at the time of the change of ownership at the end of 2018. The transformation process, which received strong support from the Bank's owners, the Supervisory Board and other stakeholders, was based on the objective of creating an efficient private commercial bank with a solid position, strong capital resources and a client-centric business model. It was designed to ensure transition to the Deposit Protection Fund of private banks by the target date. For information on the main developments within the Bank during the transformation phase, we refer to the comments in the previous chapter ("Transformation programme" section).

Strong set of financial ratios as the foundation for BdB admission

The main foundation that allowed the Bank to meet the BdB's stringent requirements for admission to the voluntary Deposit Protection Fund in full was the Bank's strong set of financial ratios, which improved again compared to the 2020 year-end. This yet again underlined the Bank's progress in achieving its targets for balance sheet volume/structure, margin level, cost efficiency, asset quality and capital resources.

The clearest progress in the reporting year was made in terms of sustainable **profitability**, where the Bank was able to continue the positive trend in the development of the operating net interest margin and achieve further cost reductions. This is reflected in the Group net result (net income after taxes), which increased to a very good level of € 351 million (previous year: € 102 million), also supported by a moderate net reversal of loan loss provisions and deferred tax income. This result means that the Bank very clearly exceeded its original forecast and also outstripped its expectations, which had already been raised at the end of the first half of 2021, by far.

Capital resources also improved again at a very high level, as is reflected in a 1.9 % year-on-year increase in the CET1 ratio to 28.9 % as at 31 December 2021, as well as a strong leverage ratio of 12.7 % (31 December 2020: 12.2 %).

The good **asset quality**, following significant structural improvements resulting from the de-risking process in 2020, was improved again in an environment that remains challenging, which is reflected in an NPE ratio of 1.4 % on the reporting date (31 December 2020: 1.8 %). With a reduction of around 25 %, the NPE volume was reduced to a significantly greater extent than the planned reduction in total EaD.

The individual drivers of the Group's development are presented in greater detail in the chapter "Earnings, net assets and financial position".

Target for consolidated total assets achieved, uptick in new business in the second half of the year, year-on-year improvement in new business profitability

The Group's total assets were once again managed proactively in 2021, the aim being to optimise asset allocation. As at 31 December 2021, the balance sheet volume was down further as planned, namely by 10 % to € 30,271 million, also thanks to the implementation of a portfolio sale already contracted in the previous year in the Project Finance segment. This means that the target for consolidated total assets set for the end of 2021 of around € 30 billion was achieved as planned.

At € 5.4 billion, the gross new business volume in the 2021 financial year was slightly lower than planned, but significantly higher than the previous year's level (€ 2.9 billion), with contracted volumes increasing significantly in the second half of the year in particular. In the Shipping segment, the Bank benefited from the strong increase in demand for transport services. In the Corporates segment, international activities in particular made a significant contribution to new business.

New business profitability improved further in all segments compared to the previous year. In the 2021 financial year, prolongations with a total volume of € 3.2 billion were agreed, with the absolute focus on the Real Estate segment. Overall, the level of conditions for prolongations was slightly higher than in the previous year.

Successful funding activities on the capital market

In March 2021, the Bank successfully placed a senior preferred bond rated "Baa2" by Moody's on the capital market. The bond, with a nominal volume of € 500 million, has a term of five years and a coupon of 0.375 %. A senior non-preferred bond was placed in September 2021. This bond was also rated "Baa2" by Moody's, has a nominal volume of € 500 million and a term of five years. Following the issuance of two senior benchmark bonds with three-year terms in the two previous years, HCOB has significantly extended the maturity range for its outstanding bonds with these two new five-year bonds, which forms an important part of the implementation of the funding strategy via the capital market.

The Bank also issued a mortgage Pfandbrief in November 2021. It was assigned an "Aa1" rating by Moody's. The Pfandbrief, with a nominal volume of € 500 million, has a term of seven years and a coupon of 0.1 %. This allows the Bank to refinance its activities in one of its core business areas in a cost-efficient manner, broadening its national and international investor base in the process.

The issues referred to above once again allow HCOB to demonstrate that it has become a reliable and regular issuer. In the Bank's view, the high demand and very good pricing reflect the further increase in investor confidence.

HCOB's rating position improved in absolute terms (Moody's) and relative to the market as a whole (S&P)

Even though the banking sector has proved stable so far during the COVID-19 crisis, rating agencies remain sceptical about the German banking market, in particular due to ongoing weak profitability, the high density of competition and the insufficient speed of digitalisation. Hamburg Commercial Bank was able to largely escape this critical assessment of the market as a whole thanks to the progress it has made in transforming itself into a profitable specialist finance provider. Due to its excellent capital resources, good portfolio quality and the prospect of its successful change in guarantee fund, Moody's upgraded Hamburg Commercial Bank's long-term issuer rating from Baa2 to Baa1 in July. The outlook remains "positive", signalling continued upside potential for the rating in the medium term. Despite a deterioration in the rating for the German banking market as a whole, S&P had already raised the outlook for the issuer rating, which remains at BBB, from "negative" to "developing", in June. This has further improved the Bank's rating position in absolute terms (Moody's) and relative to the market as a whole (S&P), also reflecting the significant improvement in financial ratios.

Making sustainability an established component of all business processes

Given the considerable importance attached to the topic of sustainability, the Bank continued to forge ahead with its environmental, social and governance (ESG) initiatives in the reporting year. The ambitious objectives set for 2021 were achieved, as is also reported back to the banking supervisory authority as part of the ECB C&E Thematic Review. In line with the Bank's endeavours to become a sustainability best practice champion in the German banking market, ESG is an integral component of all of its business processes and also serves as a key foundation for its future viability at the same time. As a logical consequence, HCOB has been a signatory of the Principles of Responsible Banking (PRB) and a member of the United Nations Environment Programme Finance Initiative (UNEP FI) since as early as September 2020. In addition to establishing the comprehensive Sustainability Framework at the very highest level of the Bank's strategic architecture, the Sustainability Committee, as a steering body, and the Sustainability Office, which has been assigned responsibility for the operational management of sustainability processes, were established successfully in 2021. At operational level, ESG scoring was carried out for the entire loan portfolio on an individual loan basis for new business and existing loans.

Other milestones on the comprehensive ESG roadmap that the Bank achieved in 2021 include: laying the foundation for issuing green bonds, expanding and operationalising the blacklist for investment projects, expanding the Investment Policy to include ESG guidelines, integrating ESG into the disclosure policy, signing the Partnership for Carbon Accounting Financials (PCAF) initiative and the integration of ESG reporting requirements in the Bank's IT infrastructure.

The transparent success stories written as part of Hamburg Commercial Bank's sustainability work were reflected in an improvement in the ratings awarded by the ESG rating agencies imug, sustainalytics, ISS ESG and MSCI in 2021.

IT transformation reaches milestone of successful switch to new international payment transactions provider/system; cost reduction measures continued successfully

Another focus in the 2021 financial year was the changeover in international payment transactions, which was successfully completed in July when the new IT solution went live successfully with a new provider. As part of the IT transformation process, the focus was also on the Bank-wide roll-out of the new workplaces, including the migration of e-mail clients and cloud applications.

By achieving these milestones, HCOB has achieved further objectives set as part of its comprehensive transformation agenda. The continuation of project activities relating to the introduction of the SAP S/4HANA modules was another focal point.

Despite continued heavy investment in IT for the Bank's digital transformation/cloud architecture, the Bank was able to reduce its administrative costs further, namely by 10 %, compared to the previous year. The implementation of the staff reduction measures adopted at the beginning of the transformation process continued according to plan in 2021 and is already at a very advanced stage, with an FTE count of 919. Personnel costs were reduced by a significant 21 % compared to the previous year.

Restructuring of reported equity

In the course of its ongoing transformation, Hamburg Commercial Bank AG has restructured the composition of its reported equity by implementing the capital measure described below, without changing the total amount of its equity.

The first step involved a share split based on a ratio of one to ten in accordance with the resolution passed by the annual general meeting of Hamburg Commercial Bank AG held on 19 May 2021. This redivided the Bank's share capital into 3,018,224,530 shares with a notional par value of € 1.00 per share (previously: 301,822,453 shares with a notional par value of € 10.00 per share).

The second step involved reducing the Bank's share capital by € 2,716,402,077.00 from € 3,018,224,530.00 to € 301,822,453.00 in accordance with the resolution passed by the annual general meeting held on 18 November 2021. The reduction was implemented using the simplified cancellation procedure by cancelling shares in accordance with Section 237 (3) no. 1 of the German Stock Corporation Act (AktG). In the course of this procedure, 2,716,402,077 no-par value shares, which the Bank's shareholders made available to the Bank free of charge, were cancelled.

The amounts freed up by the reduction in the share capital were initially used to fully offset the loss carried forward under commercial law in the annual financial statements of Hamburg Commercial Bank AG (in the IFRS Group financial statements, a corresponding increase in retained earnings was recognised due to the lack of any loss carried forward). The remaining amounts were transferred to the appropriated capital reserves in both the HGB annual financial statements and the IFRS Group financial statements.

Following the implementation of the capital measure, the composition of Hamburg Commercial Bank AG's reported equity features a marketable and future-proof structure. The capital measure has also allowed the Bank to create Available Distributable Items (ADIs), meeting an operational prerequisite for potential issues of Additional Tier 1 (AT1) capital instruments. The elimination of the loss carry-forward under commercial law also represents a first step towards meeting the legal requirements for future dividend payments.

Earnings, net assets and financial position

Group key management indicators	Actual figures 2020	2021 forecast	Actual figures 2021
RoE after taxes (%)[1]	4.3	Moderate increase compared to 2020 with significantly lower income tax rate	18.4
CIR (%)	42	Just below 60%, as the earnings base will be reduced to a greater extent than the planned reduction in the cost base due to the loss of the one-off effects realised in the other operating result in 2020	50
NPE ratio (%)	1.8	Slightly above 2%	1.4
CET1 capital ratio (%)	27.0	Still well above the 20% mark	28.9[2]
LCR (%)	171	The ratio is expected to continue to be comfortably above the regulatory requirements	164

[1] The RoE after taxes shown is based on standardised regulatory capital backing (average RWA and CET1 ratio of 13%).
[2] Actual figure for 2021 on a not in-period basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.

Group development considerably exceeds expectations overall

The following aspects made a particular contribution to overall business development in the 2021 financial year, which significantly outstripped expectations:

- Hamburg Commercial Bank was able to implement its transformation process faster than originally planned, which is also reflected in the very good figures for the 2021 financial year. The Group net result (net income after taxes) for the 2021 financial year amounted to a very good € 351 million (previous year: € 102 million). Based on standardised regulatory capital backing, the return on equity after taxes (RoE after taxes) came to 18.4 % (31 December 2020: 4.3 %). This means that the Bank has exceeded its forecast published in the combined management report for the 2020 financial year by a very wide margin. The Bank had already made a significant upward adjustment to its expectations for net income after taxes after the end of the first six months of 2021. Thanks to the continuation of the Bank's positive business development in the second half of the reporting year, these expectations were also clearly exceeded. The following significant developments occurred compared to the previous year: Total income, which was significantly higher than expected, was kept almost constant with a decrease of € 14 million to € 642 million. Significant developments within total income were recorded in the items Net interest income and Result from financial instruments categorised as FVPL. Net interest income, which is characterised by operational progress, fell by € 103 million year-on-year due to the significant reduction in total assets, as well as the absence of a significant one-off effect in the previous year resulting from the revaluation of hybrid financial instruments (€ 72 million). In contrast, the FVPL result, which was a significant negative factor in the previous year, increased by € 130 million. Total income after loan loss provisions increased very significantly by € 206 million and amounted to € 674 million. Supported by an improved macroeconomic environment and in line with general developments in the banking sector, loan loss provisions made a positive contribution, and one that was higher than expected, of € 32 million to the net result in the reporting year, whereas in the previous year it had put significant pressure on the net result with net additions of € -188 million. In the reconciliation to net income before taxes, which rose by € 42 million to € 299 million, a significantly lower other operating result was reported in addition to lower costs, in both cases as expected. The other operating result was € 191 million lower than in the previous year, in particular because one-off effects from property sales amounting to around € 150 million were not repeated. Increased earnings expectations meant that income tax expense was dominated by deferred tax income resulting from the capitalisation of deferred taxes on loss carry-forwards. It made a positive contribution, and one that was much higher than expected, of € 52 million to the Group net result, whereas in the previous year it had put significant pressure on the Group net result at € -155 million.
- The cost-income ratio **(CIR)** has decreased by a wider margin than that assumed in the forecast, by almost 10 percentage points, and amounts to 50 % as at the reporting date (31 December 2020: 42 %). With administrative costs continuing to fall as planned, this is due in particular to developments in the earnings base that exceeded expectations, to which special effects only made a very limited contribution as expected. The CIR of 42 % reported as at 31 December 2020, on the other hand, was significantly influenced by one-off effects, in particular the aforementioned gains from the disposal of properties. Taking this aspect into account, actual cost efficiency improved further.

- The **NPE ratio** came to 1.4 % as at the reporting date, lower than the forecast value. The drop compared to 31 December 2020 (1.8 %) can be attributed to the fact that the NPE volume has fallen more sharply than the total exposure (EaD). Despite the an environment that is still fundamentally challenging due to the pandemic, the NPE volume was reduced significantly, by around 25 %, to € 467 million (31 December 2020: € 624 million). The decisive factor here was that – especially in the Shipping segment – further high-risk holdings were wound down successfully. As the re-ratings developed much more positively than expected in line with the improved macroeconomic environment, there were no significant new defaults in the reporting period, with the exception of a major individual case from the real estate sector (shopping centre) that had already been classified as a default at the mid-year point.
- The **CET1 ratio** performed better than assumed in the forecast and increased even further from what was already the very high level seen on 31 December 2020 (27.0 %) to 28.9 %. The drop in aggregated RWA was the main factor behind this development. Aggregated RWA were down by € 1.5 billion compared to 31 December 2020 to € 14.0 billion. The decline is due in particular to lower RWA for credit risks, but also for operational risks, whereas the RWA for market risks increased slightly. The decrease in RWA for credit risks is mainly due to the continued portfolio reduction, which more than compensated for the increase resulting from the start of measures to change the Bank's internal rating models. CET1 capital fell slightly from € 4.2 billion to € 4.1 billion due to higher regulatory deductions than in the previous year and due to the non-inclusion of the profit generated in the reporting period (see the comments in the section "Capital ratios show substantial surplus capital position").
- At 164 % (31 December 2020: 171 %), the liquidity ratio LCR is almost on a par with the end of the previous year's reporting period and is consistent with the Bank's forecast. The LCR remains comfortably 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)	2021	2020	Change in %
Interest income from financial assets categorised as AC and FVOCI	586	725	-19
Interest income from other financial instruments	303	626	-52
Negative interest on investments categorised as AC and FVOCI	-16	-19	-16
Negative interest on other cash investments and derivatives	-79	-79	–
Interest expenses	-365	-791	-54
Positive interest on borrowings and derivatives	97	95	2
Net income/loss from hybrid financial instruments	–	72	-100
Net interest income	**526**	**629**	**-16**
Net commission income	38	48	-21
Result from hedging	1	5	-80
Result from financial instruments categorised as FVPL	37	-93	>100
Net income from financial investments	3	7	-57
Result from the disposal of financial assets classified as AC	37	60	-38
Total income	**642**	**656**	**-2**
Loan loss provisions	32	-188	>-100
Total income after loan loss provisions	**674**	**468**	**44**
Administrative expenses	-328	-365	-10
Other operating result	14	205	-93
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-32	-32	–
Net income before restructuring and transformation	**328**	**276**	**19**
Result from restructuring and transformation	-29	-19	-53
Net income before taxes	**299**	**257**	**16**
Income tax expense	52	-155	>-100
Group net result	**351**	**102**	**>100**
Group net result attributable to Hamburg Commercial Bank shareholders	351	102	>100

Developments in total income exceed plan
Hamburg Commercial Bank generated total income of € 642 million in the year under review. With considerably lower average total assets and despite the absence of the one-off effects in net interest income seen in the previous year (resulting from the revaluation of hybrid financial instruments), this figure is only down slightly on the level seen in the previous year (€ 656 million). Total income also significantly outstripped the forecast from the previous year, which, in addition to continued encouraging development in operating net interest income, is due in particular to results from financial instruments categorised as FVPL and from the disposal of financial instruments classified as AC that were higher than planned. Developments in the individual items making up total income and their causes are presented below:

In the 2021 financial year, **net interest income** amounted to € 526 million, down on the previous year's figure of € 629 million, as expected. The decrease of € 103 million is due primarily to the absence of the positive one-off effect from the positive valuation result from hybrid financial instruments in the previous year (€ 72 million). The development in net interest income shows that the balance sheet of the Hamburg Commercial Bank Group has become significantly more productive. The increased productivity is reflected in the further increase in the operating net interest margin, the ratio of operating net interest income to average total assets. Operating net interest income is net interest income adjusted to reflect irregular or non-recurring effects and certain valuation effects. While average total assets have decreased significantly compared to the previous year, operating net interest income in 2021 only decreased slightly compared to 2020. The increase in the operating net interest margin is primarily due to the further drop in funding costs. The effects of repositioning the balance sheet are also having an increasingly positive impact. Core aspects of this strategy include increasing the share of

total assets attributable to interest-bearing assets, systematically reducing the level of insufficiently profitable assets and allocating free resources to transactions with higher yield levels, as well as maintaining stringent price discipline in new business transactions and prolongations.

Refinancing via the ECB's TLTRO programmes had a positive impact of € 14 million (previous year: € 8 million) on net interest income in the year under review.

Net commission income came to € 38 million (previous year: € 48 million). In line with the planned drop in business volume, the decrease is mainly attributable to net commission income in the lending business and in the business with guarantees. In addition, our active issuer activity increased other commission expenses as against the previous year. Net commission income from payment and account transactions, as well as the documentary business, on the other hand, was stable.

Compared to the previous year, the **result from financial instruments categorised as FVPL** had a positive impact on total income. It amounted to € 37 million in the reporting year, whereas substantial negative effects were recorded in the previous year (€ -93 million). The drivers behind the result included operating net trading income, which was above the previous year's level, and positive valuation effects for FVPL assets, with the latter being reduced further as part of the de-risking process. The planned ongoing reduction in the derivatives portfolio also resulted in declining expenses from the pull-to-par effect overall. The FX valuation result was largely balanced on an annual basis.

The positive valuation result from FVPL assets, which was clearly in negative territory in the previous year and outstripped expectations considerably, benefited not only from de-risking, but in particular from the significant narrowing of credit spreads and also from favourable developments on the interest rate and equity markets.

The **result from the disposal of financial assets classified as AC** contributed € 37 million (previous year: € 60 million) to total income, putting it up considerably as against the forecast from the previous year, which predicted a slightly negative disposal result. This item includes, in particular, income from prepayment penalties for premature repayments/redemptions by clients (€ 28 million). Income from the sale of receivables contributed € 9 million to the net result.

Loan loss provisions moderately positive: Net additions at Stage 3 more than offset by net reversals at Stages 1 and 2

Loan loss provisions (income statement) made a moderately positive contribution to the Group net result in the reporting year at € 32 million, whereas in the previous year they had still been a significant burden at € -188 million. This development, which is characterised by the course of the coronavirus pandemic, is in line with the general development in the banking environment, which generally shows a marked recovery in institutions' loan loss provisioning results in 2021, after risk costs had been at an exceptionally high level in 2020 due to the outbreak of the coronavirus pandemic.

The positive net result was supported by changes in loan loss provisions on loans and advances to customers/provisions for the off-balance-sheet business totalling € 17 million, as well as recoveries on loans and advances previously written off in the amount of € 26 million. By contrast, there were negative effects totalling € -11 million from the other components of loan loss provisioning results (net income from foreign currency, direct write-downs and the result of non-substantial modifications).

The changes in (loan loss) provisions resulted from net reversals at Stages 1 and 2 totalling € 73 million, which more than compensated for the net additions at Stages 3 and 4 (POCI) totalling € -56 million. The net additions at Stages 3 and 4 were attributable primarily to the Real Estate segment, with Shipping reporting a slight net reversal.

The driver behind the net reversals at Stages 1 and 2 was the fact that the model overlays decreased considerably overall compared to the end of the previous year. The biggest decrease is accounted for by the model overlays for bank borrowers analysed at a case-by-case level (criterion: medium to high exposure to the COVID-19 pandemic). The reduction here reflects, among other things, the lower exposure compared to the previous year, as well as an improvement in the ratings awarded to major clients. In addition, the model overlays resulting from the inclusion of macroeconomic forecasts, in particular, have been reduced. This is due to the slightly improved expectations - compared to the previous year - in individual sectors of the economy, as well as a reduced portfolio with significantly improved risk parameters. For further details, particularly on the composition and development of the model overlays, we refer to Note 4 (Section "II. Changes in loan loss provisions as at 31 December 2021") of the notes to the Group financial statements.

Recoveries on loans and advances previously written off in the amount of € 26 million relate primarily to payments received from clients in the Shipping segment.

Administrative expenses: 21 % drop in personnel costs and continued investment in digital transformation

Administrative expenses amounted to € -328 million in the 2020 financial year (previous year: € -365 million). With the significant drop of € 37 million (corresponds to 10 %), the Bank was able to further reduce its costs despite continued substantial investments in digital transformation, allowing it to meet its cost targets for 2021 as a whole.

The main driver behind the decline in administrative expenses was the further 21 % decrease in personnel expenses from € -178 million in the previous year to € -141 million. As part of the staff reduction programme, which went according to plan on the whole, the number of employees within the Group has been reduced by a further 203 full-time employees (FTEs) year-on-year to 919 FTEs.

Operating expenses (including depreciation of property, plant and equipment and amortisation of intangible assets) amounted to € -187 million, on a par with the previous year's level. The development in operating expenses is also characterised by declining costs in ongoing operations (known as "run the bank" costs). These were down by € 144 million year-on-year to € 134 million. The largest drop here relates to building costs and payment transaction provider costs. At the same time, operating expenses (including depreciation and amortisation) in the 2021 financial year still include "change the bank" costs of € 53 million (previous year: € 43 million). These include future-oriented (non-capitalisable) expenses, especially for the IT environment, which are expected to be amortised through a sustainable reduction in running costs.

Other operating result slightly positive, prior-year period characterised by considerable positive one-off effects from building sales

The other operating result amounted to € 14 million (previous year: € 205 million), meaning that it made a slightly positive contribution to the Group net result, with a limited contribution made by one-off effects that were positive overall. In particular, net income from the reversal of/additions to provisions (mainly in connection with the change in the Deposit Protection Fund in the amount of € 34 million in total) and special effects relating to interest income from taxes (€ 14 million) had a positive effect. An old lease receivable (finance lease), on the other hand, had a negative impact. This financing arrangement, which is reported under Loans and advances to customers, required the recognition of value adjustments of € -13 million on the residual value of the leased assets. In addition, losses of € -16 million were incurred due to exchange rate fluctuations in connection with the deconsolidation of a company.

The very high positive net result in the previous year was influenced to a significant degree by positive one-off effects of around € 150 million resulting from the building transactions completed as part of the transformation process. Further details on the composition of the other operating result can be found in Note 18 of the notes to the Group financial statements.

Regulatory expenses on a par with prior year

Expenses for regulatory affairs, deposit guarantee fund and banking associations amounted to € -32 million, exactly the same level as in the previous year. The main component of this item is the bank levy at € -25 million (previous year: € -23 million). The slight increase in the bank levy, mainly due to an increase in the target amount for the Single Resolution Fund, was offset by lower expenses for banking supervision.

Moderate negative impact of transformation expenses

Net income from restructuring and transformation in the amount of € -29 million in total put moderate pressure on earnings (previous year: € -19 million).

As in the previous year, the net result from restructuring was balanced, as moderate operating expenses from restructuring were offset by income from the reversal of restructuring provisions.

Transformation expenses in the amount of € -29 million (previous year: € -18 million) relate to operating expenses that are directly connected to the Bank's transformation and restructuring. In the reporting year, these included, in particular, project expenses to realise cost efficiencies, e.g. through outsourcing.

In the reporting year, the Bank no longer incurred any follow-up expenses relating to privatisation (previous year: € -1 million).

Net income before taxes tax significantly higher than expected and above prior-year level despite absence of significant one-off effects from the previous year

Based on the above-mentioned developments in the individual line items, net income before taxes amounted to € 299 million in the reporting year (previous year: € 257 million). With this level of earnings, Hamburg Commercial Bank's pre-tax result was above the level seen in the previous financial year and significantly higher than expected, without any significant contribution made by one-off effects, as was the case in 2020.

Income tax expense made marked positive contribution to Group net result due to income from deferred taxes

Whereas income tax expense had still put significant pressure on the Group net result at € -155 million in the previous year, it made a marked positive contribution of € 52 million to the Group net result in the reporting year due to deferred taxes developing in the opposite direction. Income tax expense in the reporting period includes an expense from current taxes of € -33 million and, on the other hand, income from deferred taxes of € 85 million. The expense for current taxes relates to

past assessment periods and amounts to € -9 million. Deferred tax income comprises expenses from the reversal of deferred tax assets on temporary differences (€ -79 million) and from consolidation (€ -11 million) which were more than offset by income from the recognition of deferred tax assets on loss carry-forwards (€ 175 million). The income from the capitalisation of deferred taxes is based on the reflection of increased earnings expectations based on the Bank's current corporate planning in accordance with IAS 12.

Net income after taxes very clearly ahead of expectations
After income tax expense, Hamburg Commercial Bank reported a Group net result of € 351 million for the 2021 financial year (previous year: € 102 million). This very good net result meant that Hamburg Commercial Bank very clearly exceeded its original earnings forecast for the year as a whole. This can be traced back primarily to developments in total income that were better than planned, a net reversal of loan loss provisions and, as a result of the increased income expectations, higher income from the capitalisation of deferred tax assets on loss carry-forwards. The earnings forecast of a Group net result in excess of € 250 million, which had been raised to reflect the encouraging business performance seen in the first half of the year, was also exceeded by a wide margin.

In addition to increased profitability and a further drop in costs, the earnings situation was also characterised by a clear normalisation of earnings compared to the previous year, as expected. The prior-year period was characterised, for example, by significant positive one-off effects (revaluation of hybrid instruments, building sales). These were more than offset by a significant negative impact from financial instruments categorised as FVPL, loan loss provisions and income tax expense. In the reporting year, however, these items all made a positive contribution to the Group net result. One-off effects were only recorded to a limited extent in the other operating result.

Net assets and financial position

Material items on the statement of financial position

(€ m)	2021	2020	Change in %
Assets			
Cash reserve	3,261	1,741	87
Loans and advances to banks	1,236	1,558	-21
Loans and advances to customers	20,198	22,478	-10
Loan loss provisions	-446	-569	-22
Trading assets	689	1,544	-55
Financial investments	4,524	5,459	-17
Non-current assets held for sale and disposal groups	10	634	-98
Other assets	799	970	-18
Total assets	**30,271**	**33,815**	**-10**
Liabilities			
Liabilities to banks	5,504	7,478	-26
Liabilities to customers	11,141	13,104	-15
Securitised liabilities	6,704	5,670	18
Trading liabilities	289	686	-58
Provisions	454	634	-28
Subordinated capital	921	940	-2
Equity	4,717	4,344	9
Other liabilities	541	959	-44
Total liabilities	**30,271**	**33,815**	**-10**

Further reduction in total assets in the course of the continued optimisation of the balance sheet structure
Since the start of the transformation phase at the end of 2018, the Bank has substantially reduced its consolidated total assets, most recently by around 29 % in 2020 as part of the de-risking process. In 2021, the focus was on the continued optimisation of the balance sheet structure to further increase the Bank's profitability. Within this context, consolidated total assets fell by a further 10 % to total € 30,271 million (31 December 2020: € 33,815 million), meaning that the target value for total assets of € 30 billion was achieved at the end of the year.

On the assets side, the renewed planned decline in total assets is attributable in particular to loans and advances to customers (including disposals of holdings classified as held for sale in accordance with IFRS 5 as at 31 December 2020), although trading assets and financial investments were also reduced considerably. On the liabilities side, the decline is particularly evident in liabilities to customers and banks. In detail, the developments were as follows:

The cash reserve increased as against the end of the previous year to € 3,261 million due to reporting date factors (31 December 2020: € 1,741 million).

Loans and advances to banks fell slightly compared to the end of the previous year. They amounted to € 1,236 million (31 December 2020: € 1,558 million). The decrease is due to investments that are payable on demand.

Following the very significant reduction in the 2020 financial year, the balance sheet item loans and advances to customers showed a further marked decline of 10 %. As at 31 December 2021, their carrying amount was € 20,198 million (31 December 2020: € 22,478 million), which is in line with the plan. In terms of portfolio composition, the loan book was reduced as planned in the conventional corporates business, in project financing and in Real Estate, while the financing volume in the high-margin International Corporates & Specialty Lending segment and gradually also in Shipping was expanded.

Total loan loss provisions (for balance sheet items) were down as at 31 December 2021 and amounted to € -446 million (31 December 2020: € -569 million). In view of the further reduction in the portfolio, the Bank still had comfortable coverage ratios for its portfolio as at the reporting date. By way of example, the NPE coverage ratio AC based on Stage 3 loan loss provisions amounted to a very solid 55.8 % (31 December 2020: 47.9 %). The coverage ratio of the total volume of receivables AC came to 2.2 % as at the reporting date (31 December 2020: 2.5 %).

Trading assets continued to decline and were down very significantly, namely by more than half, compared to the end of the previous year, to € 689 million (31 December 2020: € 1,544 million). The decrease relates to the carrying amount of positive fair values from derivative financial instruments (in particular from interest-related transactions). This is because the Bank has further reduced its risk positions in customer and banking book derivatives in the course of its ongoing de-risking activities.

As far as financial investments are concerned, the total amount of disposals and redemptions due to maturities exceeded the new investments made in the reporting period. Consequently, their carrying amount as at 31 December 2021 had fallen to € 4,524 million (31 December 2020: € 5,459 million). The decrease in this balance sheet line item of 17 % in total relates largely to securities in the cover pool and the liquidity buffer.

The carrying amount of non-current assets held for sale and disposal groups decreased very significantly from € 634 million as at 31 December 2020 to € 10 million. The drop is due almost exclusively to the completion of the sale of an energy loan portfolio (performing loans) in the reporting year, for which the contract had already been signed in December 2020.

The 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 in the form of a corresponding decline in liabilities to banks and liabilities to customers.

Liabilities to banks, for example, decreased very significantly by 26 % to € 5,504 million (31 December 2020: € 7,478 million). This item also includes borrowings from the ECB under the TLTRO III programmes. Following early voluntary repayments in the second half of the year totalling a nominal amount of € 1.25 billion, the utilisation of TLTRO III still amounted to € 1.75 billion as at the balance sheet date (31 December 2020: € 3.0 billion).

Liabilities to customers also fell significantly by 15 % from € 13,104 million to € 11,141 million. The decline is mainly due to the scheduled reduction in deposits from € 9.1 billion to € 7.7 billion.

The carrying amount of securitised liabilities, which has increased to € 6,704 million (31 December 2020: € 5,670 million), reflects the Bank's active issuing activity in the report year (in particular, refinancing via benchmark bonds), as well as the year-on-year decline in own issues bought back, which are deducted in this item.

Trading liabilities fell in line with trading assets and came to € 289 million (31 December 2020: € 686 million). The decline, triggered by the continued reduction in the portfolio, is attributable in particular to the negative market values of interest-related derivative financial instruments.

Provisions came to € 454 million on the reporting date (31 December 2020: € 634 million). The decrease is mainly due to lower provisions for pensions and similar obligations, as well as utilisation of restructuring provisions. The decrease in provisions for pensions and similar obligations is due primarily to an increase in the actuarial interest rate.

As at 31 December 2021, subordinated capital amounted to € 921 million, almost on a par with the prior-year level (31 December 2020: € 940 million).

The Bank's reported equity increased relatively significantly as against the end of the previous year and amounted to € 4,717 million (31 December 2020: € 4,344 million). The increase is based primarily on the very good Group net result for the 2021 financial year, although positive other comprehensive income for the period also contributed to the increase. The drivers behind the other comprehensive income for the period included the effects from the revaluation of the net liabilities from pension obligations.

Off-balance-sheet business also down
The business volume decreased in line with total assets by 11 % to € 34,823 million (31 December 2020: € 38,992 million), as off-balance-sheet business also declined. Sureties and guarantees, for example, decreased by 22 % to € 752 million (31 December 2020: € 968 million), while irrevocable loan commitments fell by 10 % to € 3,800 million (31 December 2020: € 4,209 million).

Structure of liabilities by financial instruments

(€ m)	2021		2020	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Pfandbriefe and asset-based funding	**7,398**	**5,010**	**7,842**	**7,108**
Covered bonds (Pfandbriefe)	4,144	2,510	4,229	3,528
Other secured funding	3,254	2,500	3,613	3,580
Unsecured liabilities (senior preferred)	**13,152**	**5,352**	**15,196**	**5,092**
Unsecured liabilities (senior non-preferred)	**2,799**	**2,436**	**3,212**	**2,613**
Profit participation certificates and other subordinated liabilities	**920**	**920**	**938**	**910**
Hybrid instruments	**-**	**-**	**4**	**-**
Total	**24,269**	**13,718**	**27,192**	**15,723**

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 € 7,398 million as at 31 December 2021 (31 December 2020: € 7,842 million). The unsecured liabilities that can be classified as senior preferred and senior non-preferred include the call and time deposits mainly comprising client deposits, as well as other unsecured financing instruments. They totalled € 15,951 million as at the reporting date (31 December 2020: € 18,409 million). The call and time deposits are shown together with structured unsecured financial instruments in the "senior preferred" category and total € 13,152 million (31 December 2020: € 15,196 million). The "Senior Non-Preferred" category mainly consists of bearer and registered bonds that do not have any structured elements and amounts to € 2,799 million as at 31 December 2021 (31 December 2020: € 3,212 million).

The two line items profit participation certificates and other subordinated liabilities (€ 920 million, 31 December 2020: € 938 million) as well as hybrid instruments (€ 0 million, 31 December 2020: € 4 million) in total represent subordinated capital.

Capital and funding

RWA, regulatory capital and capital ratios[1]

	31.12.2021	31.12.2020
Risk-weighted assets (RWA) (€ bn)	14.0	15.5
Regulatory capital (€ bn)	5.0	5.2
thereof: CET1 capital (€ bn)	4.1	4.2
Overall capital ratio (%)	35.7	33.3
Tier 1 capital ratio (%)	28.9	27.0
CET1 capital ratio (%)	28.9	27.0
Leverage ratio (%)	12.7	12.2

[1] Capital ratios for 2021 calculated on a not-in-period basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.

Capital ratios show substantial surplus capital position
The CET1 ratio increased significantly as against 31 December 2020 (27.0 %) to 28.9 %. The main reason for this development is a decrease in RWA for credit risks, which is mainly the result of lower total assets in the context of the Bank's continued de-risking and de-leveraging activities. It is important to emphasise in this context that an increase in RWA for credit risks resulting from the measures initiated to simplify the rating model landscape from Advanced-IRB to Foundation-IRB and the Credit Risk Standardised Approach was more than compensated for during the reporting period. Common Equity Tier 1 capital is down slightly on the previous year due to higher regulatory deductions (31 December 2020: € 4.2 billion) as the capital ratios are reported without taking the profit for the year into account. The Tier 1 capital ratio and the overall capital ratio increased in line with the Common Equity Tier 1 ratio compared with 31 December 2020.

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

Hamburg Commercial Bank's leverage ratio came to a very solid 12.7 % as at 31 December 2021 (31 December 2020: 12.2 %). This development is attributable to a drop in leverage exposure in the reporting period (€ 31.8 billion, 31 December 2020: € 34.3 billion). The leverage ratio is still significantly higher than the regulatory requirement of 3 % and, together with the very high capital ratios, pays testimony to the Bank's exceptionally robust capital position.

Refinancing strengthened significantly and benchmark issues expanded
The refinancing situation in the reporting year remained dominated by the coronavirus pandemic. The situation on the capital markets, however, has improved visibly in recent months with the continued support of the central banks.

Fundraising is in line with the Bank's budgeted figures. In total, the Bank raised around € 4.3 billion in long-term funds in the 2021 financial year. Further benchmark issues were placed very successfully on the capital market, first in March in the senior preferred format and then in September in the senior non-preferred format, each with a volume of € 500 million. This was followed in the fourth quarter by the Bank's first Pfandbrief benchmark, also with a volume of € 500 million. The bonds strengthen the Bank's funding base in the long term and expand its investor base. For further details on these issues, please refer to the comments above in the chapter entitled "Business development - significant developments and events in the 2021 reporting year". The Bank aims to establish itself as a regular issuer on the capital market and is planning further unsecured benchmark issues and Pfandbrief issues for the coming years.

In addition, the Bank continues to make use of the long-term funds provided by the European Central Bank (TLTRO). During the course of the 2021 financial year, however, parts of the Bank's TLTRO holdings were replaced by the successful issuing activity, meaning that the holdings had been reduced from € 3 billion to € 1.75 billion by the year-end.

In addition to long-term refinancing, the planned reduction in deposits also contributed to the implementation of the funding strategy. The further reduction in total assets and the expected change in the depositor structure as part of the change in the Deposit Protection Fund meant that the Bank reduced its deposit position.

Key liquidity ratios

	31.12.2021	31.12.2020
Total deposits (€ bn)	7.7	9.1
LCR (%)	164	171
NSFR (%)	114	111

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 December 2021

	Moody's	S&P
Issuer rating (long-term)	Baa1, positive	BBB, developing
Current liabilities	P-2	A-2
Stand-alone rating (financial strength)	ba1	bbb-
"Preferred" Senior Unsecured Debt	Baa1	-
"Non-Preferred" Senior Unsecured Debt	Baa2	-
Mortgage Pfandbrief	Aa1	-
Ship Pfandbrief	A2	-

The table above provides an overview of Hamburg Commercial Bank AG's current ratings awarded by Moody's and S&P. With regard to the changes that occurred in the reporting period, which were in line with expectations overall, and their causes, we refer to the explanatory information in the previous chapter "Business development" (section "HCOB's rating position improved in absolute terms (Moody's) and relative to the market as a whole (S&P)").

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

Segment results

Segment overview

(€ m)		Real Estate	Shipping	Project Finance	Corporates	Lending Units	Treasury & Group Functions	Reconciliation	Group
Total income	**2021**	**203**	**142**	**74**	**104**	**523**	**137**	**-18**	**642**
	2020	230	101	78	104	513	31	112	656
Loan loss provisions (expected loss)	**2021**	**-13**	**-12**	**-5**	**-23**	**-53**	**-2**	**87**	**32**[1]
	2020	-18	-25	-6	-24	-73	-4	-111	-188[1]
Administrative expenses & regulatory costs	**2021**	**-93**	**-59**	**-38**	**-57**	**-247**	**-113**	**-**	**-360**
	2020	-110	-57	-40	-56	-263	-134	-	-397
Earnings after taxes	**2021**	**85**	**62**	**27**	**21**	**195**	**6**	**150**	**351**
	2020	89	17	28	21	155	69	-122	102
RoE after taxes (%)	**2021**	**20.3**	**24.5**	**9.7**	**5.3**	**14.5**	**1.2**		**18.4**
	2020	15.1	4.3	8.8	4.3	8.7	11.9		4.3
Segment assets (€ bn)	**31.12.2021**	**8.0**	**3.7**	**3.9**	**3.7**	**19.3**	**10.9**	**0.1**	**30.3**
	31.12.2020	9.5	3.3	5.1	3.7	21.6	12.1	0.1	33.8
Loan loss provisions (income statement)	**2021**	**-43**	**72**	**-7**	**6**	**28**	**3**	**1**	**32**
	2020	-151	124	-15	-151	-193	4	1	-188

[1] Loan loss provisions in accordance with IFRS at Group level.

Adjustments to segment reporting

As part of the Bank's transformation process, there were changes in the responsibilities of the Management Board and the business areas in 2021, resulting in corresponding changes in the organisational structure. In addition, methodological adjustments were made to segment reporting and the information supplemented in order to boost the transparency of internal business area management, in particular resource allocation and performance measurement. Both aspects have led to adjustments in segment reporting in accordance with the requirements of IFRS 8 (Management Approach). The prior-year figures have been adjusted for the purposes of comparability.

The management of the Group comprises four market-related segments ("Real Estate", "Shipping", "Project Finance" and "Corporates"), which are also summarised as "Lending Units" and the segment "Treasury & Group Functions". The "Reconciliation" column is used to express all of the management indicators in line with the IFRS perspective. In the course of the change in the organisational structure, the former "Corporates & Structured Finance" segment was split into two new segments, "Project Finance" and "Corporates", and the Corporates International & Speciality Lending unit (formerly known as: Diversified Lending) was incorporated into the new Corporates segment, with the Markets area being included in the new Treasury & Group Functions segment. For further, more detailed information on the adjustments in segment reporting, in particular the methodological changes, please refer to note 49 "Segment reporting" in the notes to the Group financial statements.

Business development in the segments

The significant increase in profitability across all segments compared to the previous year, as measured by the increase in RoE of the Lending Units from 8.7 % to 14.5 %, reflects the Bank's progress in realigning its portfolio. A comprehensive de-risking and de-leveraging strategy, aimed at systematically removing exposures with a poor risk/return profile from the portfolio, a more selective approach to new business and an overall change in asset allocation, in which higher-margin business in new areas contributes to diversifying the Bank's portfolio, have made a key contribution in this regard.

The **Real Estate segment** reported net income after taxes of € 85 million (previous year: € 89 million). The operating business remained characterised by the risk-conscious further development of the portfolio, the aim being to optimise earnings. In view of the decline in segment assets to € 8.0 billion due to the de-risking strategy, net interest income and net commission income from the operating business decreased, with a corresponding reduction in risk costs and administrative expenses. Gross new business bounced back slightly after the lower demand for credit due to the economic environment last year and increased to a total of € 1.6 billion despite the risk-conscious business approach (previous year: € 0.8 billion). The positive trend in margins reflected both the more selective approach and the lower funding costs, which increased the segment's operating profitability to 20.3 % (RoE for last year: 15.1 %).

In the **Shipping segment**, net income after taxes amounted to € 62 million (previous year: € 17 million). This meant that operating profitability, measured in terms of RoE, increased very significantly to 24.5 % (previous year: 4.3 %). The driver behind the encouraging development in earnings was the significant increase in total income, which also benefited from positive valuation effects on loans and advances to customers categorised at fair value in the context of strong operational development. Lower risk costs also contributed to the improved result. In view of the encouraging development on the shipping markets overall due to the sharp increase in demand for transport services, the Bank's focused gross new business with national and international shipping companies with good credit ratings increased to € 1.9 billion (previous year: € 0.9 billion).

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 financing infrastructure projects, on the area of renewable energy and on projects 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, for example the fast-growing digital infrastructure market.

The Project Finance segment reported net income before taxes of € 27 million (previous year: € 28 million). Total income in this segment fell slightly to € 74 million (previous year: € 78 million), with risk costs that remained virtually constant at € -5 million (previous year: € -6 million). The main reason for the lower net result is the sale of legacy investments (primarily in the Energy portfolio), which was completed at the end of the year and reduced segment assets to € 3.9 billion (previous year: € 5.1 billion). Nevertheless, new business increased compared to the previous year. Overall, gross new business in the Project Finance segment came to € 0.7 billion (previous year: € 0.3 billion). At 9.7 %, the segment's profitability was up slightly on the good level seen in the previous year.

The **Corporates segment** combines the Corporates Germany and Corporates International business areas as at the reporting date. In the Bank's domestic market, the Germany-wide sales strategy will continue to be pursued with a specific focus on the northern German core market. International activities focus on the markets in Europe and North America, as well as on the asset-backed lending business, which focuses on the refinancing of granular assets. The segment's national and international focus makes an key contribution to income and risk diversification in the Bank's overall portfolio.

Net income after taxes in the Corporate segments amounted to € 21 million (previous year: € 21 million) and includes positive earnings development in the Germany and International core business. By contrast, earnings were down in the national legacy portfolio, which was reduced by € 0.7 billion in 2021 without putting any pressure on loan loss provisions. In the Bank's core business, the new business volume was expanded in the international segment, in particular, by focusing on business with a strong risk/return ratio. Overall, gross new business in the Corporates segment came to € 1.2 billion (previous year: € 1.0 billion). Segment assets amounted

to € 3.7 billion (previous year: € 3.7 billion). Margin development was positive in view of the realignment, not least also thanks to the new business in the Corporates International unit, which contributed to the further diversification of the Bank's portfolio, meaning that the segment's operating profitability, measured in terms of RoE, rose to 5.3 % in total (previous year: 4.3 %).

The **Treasury & Group Functions segment** generated net income after taxes of € 6 million (previous year: € 69 million). In the previous year, the result reported by this newly formed segment benefited in particular from the one-off effects from the sale of buildings, which, in contrast to the previous year's reporting, are now shown under Group Functions. Operating income from the strategic investment portfolio to diversify the overall bank portfolio is on target and made a stable contribution to the positive net result. The management of pension liabilities assigned to this segment also made a significant contribution to the result through positive valuation effects. This also reflects the results of the Bank-wide syndication activities, including the OtD (Originate to Distribute) approach.

"**Reconciliation**" also comprises valuation and reporting differences that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. Differences in total income arise, among other things, due to the use of the Fund Transfer Pricing (FTP) method (internal) instead of gross interest in the lending business, as well as due to the reporting of effects within OCI in the total income of the segments. Further reconciliation effects result from different presentation of amortisation and hedge accounting effects in internal reporting and IFRS accounting. In addition, loan loss provisions reflect the difference between the expected loss on transactions in the segments and loan loss provisions based on the Group statement of income in accordance with the IFRS. The difference between the minimum taxation recognised in the segments and actual income taxes at Group level is also shown in the Reconciliation item.

Detailed information on the methodology and included effects can be found in note 49 "Segment reporting" in the notes to the Group financial statements.

Final assessment of the situation of Hamburg Commercial Bank

Overall, Hamburg Commercial Bank's performance in the 2021 financial year was well above expectations. The Bank has made faster progress in achieving its transformation than originally planned. This was reflected first and foremost in the further improvement in key performance indicators. In particular, the key performance indicators for profitability and capital outstripped expectations very clearly. Asset quality also improved as against the previous year, despite an environment that remained challenging. The continued solid liquidity position rounds off the positive overall picture.

Operational business development was also characterised by marked progress in profitability, which was reflected in a further increase in the operating net interest margin. The drivers behind this development were the renewed reduction in funding costs, as well as the ongoing and increasingly effective realignment of the Bank's portfolio. This is characterised by a selective approach to new business and prolongations, as well as the ongoing optimisation of asset allocation, with exposures with a weak risk/return profile being gradually replaced by higher-margin business.

Based on developments in the financial year, the Bank also believes that it is on track when it comes to achieving an appropriate cost base. Based on earnings development that was better than expected, the cost-income ratio was almost 10 percentage points lower than forecast in the previous year, with administrative expenses falling as planned.

Hamburg Commercial Bank's capital ratios have risen further from what was already a very good level at the end of the previous year, making it one of the banks with the strongest capital resources in the European banking market. The high surplus capital position, which was one of the cornerstones of the transformation process, is to be reduced going forward.

In terms of asset quality, the Bank continues to benefit from the implementation of its de-risking strategy, which was initiated back at the end of 2019, as well as the prudent management of new business. In conjunction with a macroeconomic environment that started to look more positive in 2021, there were significantly fewer negative rating migrations in the reporting year than expected at the end of 2020, meaning that, apart from one major individual case in the Real Estate segment, there were no significant new defaults.

The Bank was able to take this as a basis for reducing its NPE volume significantly, and to a more pronounced extent than the decline in total EaD, by continuing to reduce its risk assets. The Bank still has comfortable balance sheet coverage ratios (Stage 3 impairment losses for the NPE volume and Stage 1/2 impairment losses for portfolio risks).

The substantial progress made by the Bank throughout the transformation process was also recognised by the rating agencies, as is reflected in an improved rating position overall shortly before and after the end of the half-year.

The encouraging developments described above led to the Bank's seamless transition to the Deposit Protection Fund of private banks with effect from 1 January 2022 as planned.

In view of the developments outlined above, the Bank considers itself well positioned overall as at the reporting date to continue the further development of its business model as a profitable and focused specialist finance provider.

Details regarding predicted business developments, the ongoing challenges facing the Bank, as well as the opportunities and risks associated with 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 2021 were characterised by the active support for the Bank's transformation process, as well as what was again a comprehensive response to the challenges associated with the global COVID-19 pandemic, including offering (booster) vaccinations for staff members and their relatives.

The Bank had set itself ambitious HR strategy goals as part of its multi-year transformation programme with regard to both content and costs. Achieving these goals was central to the Bank's successful transformation. All business units were 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. Despite the challenging environment, the Bank was able to implement the staff reduction measures as planned. As at 31 December 2021, the number of staff employed by the Hamburg Commercial Bank Group had fallen to 919 FTEs (31 December 2020: 1,122).

The Bank's new performance management system and the new compensation system were also implemented. This was supported by the introduction of cloud-based software that maps and consolidates all of the Bank's HR processes.

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 in light of the ongoing pandemic. The Bank continued to operate in split mode during the reporting period, with the majority of employees working from home. This has been the Bank's way of responding to the pandemic, also implementing the corresponding Occupational Health and Safety Regulation. The Bank has ensured that information is passed on to its employees in regular communications.

Employees in the Group

	31.12.2021	31.12.2020
Full-time employees (FTE) in the Group[1]	**919**	**1,122**
thereof: Women	325	408
thereof: Men	594	714
thereof: Employees in Germany	877	1,095
thereof: Employees abroad	42	27
Total number of employees in the Group (headcount)	**1,052**	**1,343**
Key employee figures		
Part-time employees (%)[2]	17.6	23.5
Average age in years	46.5	46.9
Average period of employment in years[2]	14.9	15.1

[1] Total number of employees excluding trainees, temporary staff and interns.
[2] Adjusted comparative figure.

Dealing with COVID-19 at Hamburg Commercial Bank

HCOB had already set up the "coronavirus working group", which addresses COVID-19-related developments on a daily basis and then defines corresponding measures for the Bank, back in February 2020 – also from a business continuity management perspective. The working group is responsible for preparing strategic and operational decisions for the Management Board and also making these decisions itself for sub-areas 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 in the form of updated FAQs, and also provides information to managers on a regular basis. In the subject areas listed below, the "coronavirus working group" both sets the framework for the employees and makes concrete decisions: business trips, return to the office after private travel, IT and technology, mobile working, 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 decisions on split mode, as well as the arrangement of (booster) vaccination appointments for employees and their relatives, are particularly worthy of mention within this context. This is the Bank's way of underscoring its fast response time and the importance of protecting the health of its employees once again.

HR development

In 2021, the focus of HR development was on corporate culture and cooperation in the future. To support this, an employee survey was conducted in the second quarter with external support, achieving a very good participation rate of over 75 %. The focal areas include "celebrating success" and a "new kind of leadership culture", which builds on the competence model that was introduced in the previous year, as well as on the target vision for collaboration and leadership. The Bank is developing various Bank-wide measures for the focal areas. In the second half of 2021, the business units (BUs) were presented with the individual BU results and individual measures for improvement were elaborated.

Established instruments such as the regular leadership meetings and the meetings of the result agents (employees from all areas of the Bank who support the Bank's change process) were continued in 2021. These events helped to consistently ensure communicative dialogue within the Bank despite the arrangements on working from home, which were extended further due to the pandemic. The employee survey also confirmed the very good sense of cohesion within the individual teams.

The focus of the internal seminar programme in 2021 was on further supporting employees in the changing work environment. It included topics such as "Remote Work - Effective Collaboration from a Distance" or "Digital Rhetoric - Successful Video Communication". All seminars and also language courses were held as virtual events. All front and back-office employees also took part in a comprehensive further training concept. The topics of "cash flow analysis", "legal training" and asset-specific training were covered by external experts.

Employee remuneration

The specific design of the remuneration systems that apply at Hamburg Commercial Bank aims to harmonise the interests of the Management Board, employees and shareholders and to motivate the Management Board and employees to act in the interests of Hamburg Commercial Bank and make full use of their individual potential.

The remuneration system for employees 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 2021, new components of the remuneration system for employees were finalised with the co-determination bodies and agreed in a central works agreement, with many components already being applied to employees in 2021. Elements of the "position paper" negotiated in the previous year were elaborated in greater detail as part of this process and supplemented in the interests of both sides (employees and the Bank). The requirements set out in the Remuneration Ordinance for Institutions (InstitutsVergV) agreed with the co-determination bodies in 2020 were also applied in 2021.

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 the

variable remuneration due to risk takers are paid on a deferred basis and are dependent, among other things, on the Bank's sustained performance.

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. Requirements of the InstitutsVergV 4.0 published in 2021 have been prepared for implementation and communicated to the co-determination bodies and will be negotiated with them in 2022.

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 combined management report.

Management Declaration pursuant to Section 289f (4) of the German Commercial Code (HGB) (information on the ratio of women)

Equal opportunities, women in management positions and diversity concept

Hamburg Commercial Bank is continuing to actively address the issue of equal opportunities with the assistance of its equal opportunities officer. As a member of the "Diversity Charter", the Bank is committed to a working environment that is free of prejudice and undertakes to create a suitable organisational culture and to review and further develop its human resources work in line with the charter's objectives.

In addition, the first few measures to promote equal opportunities and diversity adopted by the Management Board in November 2020 have been implemented, for example a mentoring programme for women, involving members of the Management Board, as well as tying bonuses to target quotas for the underrepresented gender in management and senior positions. In addition to these internal instruments, the Bank is also active in other areas. It continues to promote the use of gender-sensitive language and uses it increasingly in internal and external communications. Following another successful auditing process conducted by the Hertie Foundation, the Bank received "audit berufundfamilie" (audit of work and family) certification for the fifth time.

In the above-mentioned Management Board resolution, Hamburg Commercial Bank also set itself an average target quota of 33 % for the underrepresented gender (predominantly women) in management and/or senior expert functions. This is to be achieved by 31 December 2025. At BU head level, at least 33 % of positions are to be filled by the underrepresented gender (currently women) by 31 December 2025.

Statistics on equal opportunities as at 31 December 2021[1]

	Number			Ratio	
	Women	Men	Total	Women	Men
BU heads	3	13	16	19%	81%
Heads of department	10	35	45	22%	78%
Senior positions[2]	94	257	351	27%	73%
Total	**107**	**305**	**412**	**26%**	**74%**

[1] Only active employees, in Germany.
[2] Not including department heads.

In July 2017, the Supervisory Board approved a target of 25 % for the proportion of women on Hamburg Commercial Bank's Management Board, which is to be achieved preferably by 30 June 2022 by acquiring a female member of the Management Board the next time a position is filled for the first time.

Under the requirements of Section 111 (5) AktG, which were 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. The current ratio is 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 risk 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. This explicitly does not apply to potential effects resulting from the Russia-Ukraine war. As this event – which is a non-adjusting event for accounting purposes – only occurred with the invasion of Russia on 24 February 2022, it is not included in the Bank's current corporate planning, meaning that it is not taken into account in the forecasts presented below, including those on the development of the key performance indicators. Hamburg Commercial Bank is currently sticking to its targets for these key figures, but will be keeping a very close and careful eye on further developments in order to be able to make corresponding adjustments if necessary. The Russia-Ukraine conflict is nevertheless addressed in the following remarks, especially in the context of the information on the expected development of the economy as a whole, the financial markets and the shipping markets. For more detailed information, please also refer to Note 2 (Events after the balance sheet date) to the Group financial statements.

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: HOPES THAT THE PANDEMIC WILL END

The year 2022 has been dominated by the war between Russia and Ukraine since February at the latest, a development that has brought suffering, considerable uncertainty, higher energy prices, further supply chain problems and higher inflation. The COVID-19 crisis also had a negative impact on the beginning of the year, mainly due to higher sickness levels and absences caused by quarantine measures. All in all, this is likely to make for a weak start to 2022. At this point in time, it is becoming apparent that the Omicron variant leads to significantly less severe illness than the previously dominant Delta variant. As a result, transition from a pandemic to an endemic situation would appear to be within the realms of possibility, especially if the extensive vaccination and booster campaigns continue.

We can therefore expect the global economy to be on a robust recovery path from the third quarter at the latest. The significant supply chain bottlenecks that played a key role in slowing industry down in 2021 are expected to gradually dissipate over the course of the year, subject to the risks associated with the Russia-Ukraine conflict. In 2022, the global economy could expand at a rate of 4.9 % (IMF, WEO October 2021). In the short term, the Omicron variant and the armed Russia-Ukraine conflict are putting a damper on the economic outlook in the major economic regions, especially in Europe, but also in the US and China.

After the US ended 2021 with a significant increase in GDP overall, a slight slowdown in economic growth is expected in the first quarter of 2022 due to the Omicron variant. The robust growth path should then continue, although higher energy prices due to the conflict in eastern Europe may have a negative impact on private households and the corporate sector. Another risk is the low vaccination rate of only 62 % (booster: 23 %). Looking ahead to 2022 as a whole, we estimate GDP growth of 4.0 %.

In China, growth momentum has slowed considerably. China's economy is forecast by the IMF to grow by 5.6 % in 2022, which is not only slower than in 2021 but is also slower than in the pre-COVID year of 2019. The government's strict zero-COVID strategy will be a decisive factor in this development. The growth slump is, however, also partly of a structural nature. A return to the old growth path characterised by double-digit growth rates seems increasingly unlikely.

The eurozone is likely to have made a weak start to the new year given the dampening effects of the COVID-19 situation as well as Russia's invasion of Ukraine. On the positive side, the introduction of general mandatory vaccination, or at least for certain occupational groups, has already been implemented in some countries and is in progress in others, with most restrictions expected to be lifted from the spring. On the negative side, there is a risk of energy shortages and the prospect of continued high or even rising energy prices due to the Russia-Ukraine conflict. We believe that GDP growth of 4.4 % is realistic for 2022 as a whole.

Given the above, the German economy, which returned comparatively poor performance at the end of 2021, is only likely to expand slightly in the first half of 2022. The supply chain problems, which are also mounting for the time being due to the war in eastern Europe, are likely to continue to pose particular challenges for German industry. One example is the automotive industry, where there is no sign of the shortage of semiconductors ending any time soon. We expect to see GDP growth of 4.1 % for 2022 as a whole. This would see Germany continue to lag behind the eurozone average in the coming year.

The economic recovery is also to be supported by fiscal policy measures in 2022. At the EU level, the Coronavirus Stimulus Package should help cushion the economic blow dealt by the crisis in 2022. The EU Recovery Fund is worth € 750 billion, raised on the capital market using joint European bonds. A large part of the payments are expected to be made in 2022. In the US, the € 1.75 trillion “Build back better” economic stimulus package, which has already been priced in by the markets, is on shaky foundations at the beginning of the year. The Democrats have only a slim majority in the Senate, meaning that every single vote counts. Were the package of measures aimed at infrastructure, social justice and climate protection – Biden's central election promises – to fail, this would likely slow economic growth down in the coming year.

END OF EXPANSIVE MONETARY POLICY ON THE HORIZON, INFLATION ONLY SET TO FALL SLOWLY

At the beginning of the year, inflation is at a high level. Inflation in the eurozone climbed to 5.0 % (y/y) in December 2021, which is unlikely to mark its peak, due in particular to higher energy prices. According to the ECB's forecast, inflation will average 3.2 % in 2022. The upside risks to this forecast, however, outweigh the downside risks, as significant upward price adjustments are possible for many companies, especially at the turn of the year. Meanwhile, inflation in the US reached 7.0 % (y/y, December 2021), also starting the new year at a very high level. Here, too, a downward trend is to be expected (Fed forecast for average inflation: 3.5 %). In the US, there is a risk that wages will develop much more dynamically and that general price inflation will be higher as a result.

The major central banks, the Fed and the ECB, have started to rethink their position: higher inflation is no longer classified as a temporary phenomenon. This heralds the end of their expansionary monetary policy. The ECB has confirmed that the PEPP asset purchase programme will expire in March 2022 and has announced the gradual tapering of total bond purchases (including the complementary APP purchase programme). Despite the uncertainty caused by the war in eastern Europe, the ECB is likely to start raising interest rates in 2023, as inflation is well above the 2 % inflation target. The Fed already started tapering its bond purchases in November 2021 and aims to have completed this process by March 2022. There are indications that the first interest rate hike could come as early as this spring. Four interest rate hikes seem likely for 2022. The Fed is likely to refrain from a more aggressive approach given the current geopolitical tension. The decline in bond purchases, together with high inflation and robust economic growth, should ensure higher long-term yields. The futures markets, however, are only anticipating a relatively moderate increase.

The euro has lost considerable value in recent months. Only slight appreciation is expected for the current year, with the geopolitical situation creating downside risks. Measured against its long-term average, the euro currently appears undervalued.

Outlook for relevant markets/sectors

REAL ESTATE MARKETS

In 2022, the German real estate markets are likely to be affected by the indirect after-effects of the coronavirus pandemic for even longer than they are affected by the direct negative impact of restrictive measures to contain Omicron infections at the beginning of the year. As infections have started to subside by the spring, the precarious situation faced by bricks-and-mortar non-food retail stores and hotels, for example, should improve as customers and guests return. On the other hand, the price jumps triggered by pandemic-related supply difficulties for building materials, prolonged high inflation and the resulting move towards higher interest rates are likely to be challenging for project developers and investors. While the significant increase in construction costs should lead to higher prices for new builds, the slow but gradual decline in the relative appeal of real estate compared to interest-bearing investments will likely put a damper on price development. This is, however, likely to be countered by the economic recovery gaining strength over the course of the year, combined with a further recovery in the labour market and an uptick in private consumption characterised by strong catch-up effects. This economic impetus should stimulate the demand for real estate, even though the shortage of skilled workers is becoming more acute in demographic terms and the catch-up effects in consumption are likely to focus on services in particular.

On the **housing markets** in most major cities, demand is likely to grow considerably thanks to the increasing influx of people as a result of the positive labour market situation. In many cases, however, this may not be sufficient to cover the increasing supply of homes driven by the ongoing brisk new-build activity. Vacant apartments, which had already reached an all-time low in 2019, are likely to increase marginally, but nevertheless 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 likely to result in only moderate rental growth. Given the price level reached after the very strong increases in previous years and based on gradually rising interest rates, house prices are only expected to show a moderate increase in 2022.

The **office property markets in Germany** are expected to see an increase in hiring and, as a result, noticeable growth in the demand for space, especially in the country’s metropolitan areas. Trends towards more employees working from home, on the other hand, are only likely to put a damper on demand in the medium term. On the supply side, the number of office completions in 2022 is set to remain so high that the space coming onto the market should exceed the burgeoning demand by far. This means that, while vacancy rates are likely to continue to rise, they will often remain at a relatively low level. Office rents are expected to remain relatively stable on average. They are likely to develop better not least in sought-after central locations in major cities than in smaller cities, where rents are likely to fall, especially in peripheral locations. In view of the mounting demand risks in the medium term in terms of demographic labour potential and the use of flexible forms of employment, as well as the gradual rise in interest rates, slight losses in market values cannot be ruled out. This applies in particular to properties that do not meet the corresponding criteria due to the increasing focus of institutional investors on sustainability, meaning that they are viewed more critically by investors.

The **European office property markets** are likely to follow a similar course in terms of rents and market values due to similar developments in the underlying conditions as those that apply in Germany. The markets in London should perform slightly better thanks to higher demand, with the Paris markets showing slightly worse performance due to an excessive level of completions.

Retail property markets are likely to benefit from lower access restrictions and barriers to shopping in the non-food retail sector as the coronavirus pandemic becomes much less virulent over the course of the year. Although sales growth can be expected thanks to catch-up effects in those sectors that were previously hit particularly hard, pre-crisis volumes are not likely to be reached again for the time being if the consumption habits of some customers have already shifted permanently in favour of online retail. This structural change is likely to continue, meaning that rents in shopping centres and retail outlets in less attractive locations will remain under pressure and investors will retain their risk aversion. Further losses in value are to be expected here as a result. Since food retail is unlikely to be affected by the structural change, the rents and market values of retail parks focusing on this segment should at least remain stable following the growth seen in previous years.

INDUSTRY, TRADE AND LOGISTICS, PROJECT FINANCE AND RENEWABLE ENERGY

The underlying conditions for German growth remain challenging at the beginning of 2022, also due to the uncertainty surrounding the further course of the coronavirus pandemic given the new and highly contagious Omicron variant and the possibility of more stringent measures being required to contain it, as well as due to geopolitical and foreign trade risks (including the Russia-Ukraine conflict or a renewed escalation of the trade conflict between the US and China, which is impossible to rule out). Supply bottlenecks for intermediate products, e.g. semiconductors, high raw material prices and the general price trend are also giving rise to uncertainty. Exports and investment could weaken significantly again in an unfavourable scenario. The continuation of a higher growth path from the spring quarter of 2022 onwards, following the easing or even full lifting of the restrictions imposed in response to the pandemic, is supported by the expected pick-up in private consumption, which is likely to be fuelled by savings involuntarily accumulated during the pandemic. In particular, rising private consumer demand should support the **retail** sector, with not only bricks-and-mortar retail poised to recover, but the e-commerce segment also set to continue to show positive development and benefit from what could potentially be permanent changes in shopping habits. At the start of 2022, supply chain problems, in particular, continue to pose special challenges for German industry. Provided that the shortage of materials and supply bottlenecks gradually ease in the course of the year and there is no need to return to extensive lockdown measures also affecting industry – if the pandemic situation deteriorates due to the Omicron variant – the industrial sector should bounce back in the course of the year, meaning that significant growth also appears possible in all sectors of the **manufacturing** industry and for companies involved in **wholesale and foreign trade** in the course of the year. German exports are likely to receive a temporary boost from catch-up and backlog effects. The strong development of the **logistics sector** is likely to lose momentum in 2022 as the economy returns to normal, especially as the risk of a renewed slump in macroeconomic development and world trade remains if the measures to contain the coronavirus pandemic develop very unevenly across the globe and further waves of infection – due to new virus mutations – have to be averted by imposing more lockdown measures. **Construction output** is likely to remain close to capacity, meaning that no substantial expansion would no longer appear to be on the cards, especially as bottlenecks affecting construction materials and rising prices are

likely to have an additional dampening effect for the time being.

In global **project finance**, both the growing demand for transport in the course of the ongoing global economic recovery expected for 2022 – albeit at a somewhat weaker pace than in 2021 – and the continued high demand for climate-friendly energy generation capacities as part of the global transformation towards a climate-neutral economy are providing positive investment impetus on the one hand, while on the other, the increase in the price of construction materials and other raw materials is likely to have a negative impact, at least temporarily. Institutional investors will likely continue to play an important role in the ongoing environment of low interest rates from a historical perspective.

The prospects for the expansion of **renewable energies** are likely to gradually improve in 2022. The German (onshore) wind energy segment should begin to pick up speed again in 2022 thanks to the political support of the new German government as declared in the coalition agreement, even if significantly higher performance in terms of new construction is not to be expected right away. New installations are likely to increase further in the rest of Europe. In the solar energy sector, the absolute expansion of generation capacity in Germany – and also in Europe as a whole – should continue to pick up considerable speed in 2022 against the backdrop of the European climate protection targets ("EU Green Deal", which aims to achieve climate neutrality by 2050), cost degression and the ambitious political goals set by the new German government.

SHIPPING MARKETS

The varying effects of the coronavirus pandemic remain the determining factors for the shipping markets for the time being. This will continue until the pandemic is brought under control and the global economy has settled down again. At present, the armed conflict between Russia and Ukraine is causing much greater uncertainty. The fact that maritime traffic in the Sea of Azov has been blocked for the time being, the impact of the sanctions on Russian exports, the resulting shifts in global trade, the higher prices for oil, gas and numerous commodities and their negative effects on the global economy could have a huge impact on the shipping markets – particularly for bulkers and oil tankers.

The special effects that allowed the market for **container vessels** to soar from one high to the next last year as a result of the pandemic should gradually subside. As goods consumption returns to normal and as soon as warehouses are sufficiently stocked again, transport demand should taper off. In tandem with the efforts made to make supply chains more efficient and the diminishing impact of waves of the pandemic, fleet productivity should also improve considerably. Tonnage demand will drop as a result. Fleet growth should still be moderate over the course of the year. The wave of deliveries of the large orders placed since the fourth quarter of 2020 is not set to roll in until the second half of 2023. It is therefore to be expected that charter rates will gradually slide this year, but that the earnings situation for ship owners and shipping lines will remain exceptionally positive. Ship values are likely to follow this trend.

As far as **bulkers** are concerned, the consolidation process that began in the previous year is likely to continue in 2022. Although a further moderate increase in global trade is expected overall, both the future of coal as an energy source and the short-term development of Chinese steel production, which is currently curbed by government measures, remain uncertain. In particular, the impact of the Russian invasion of Ukraine could upset trade flows for grain and coal. Although scrapping is picking up considerable speed, it cannot keep pace with deliveries, making steady fleet growth a likely prospect. This means that no supporting effects are to be expected from this side either. Second-hand prices are also expected to fall in the course of the year due to consolidation.

The **oil tanker market** is still faced with a difficult situation. Despite a recovery in the global economy and an accompanying increase in oil demand, OPEC+ is only stepping up its production gradually and cautiously. Consequently, the high level of excess transport capacity available in the market means that charter rates are only likely to recover slowly in the medium term. Effective sanctions against Russia could result in the country's oil exports being slashed drastically. If other producing countries can compensate for this, however, a positive demand effect would also be possible if the average transport distances were extended accordingly as a result. On the supply side, scrapping is tipped to increase significantly due to the weak ship earnings situation. A downward trend in deliveries would bring the growth of the tanker fleet to a halt in 2022, paving the way for a market recovery.

Banking environment

Against the backdrop of the coronavirus crisis, which is still ongoing and is likely to continue to shape economic development, at least in the first half of 2022, as well as the sustained low interest rate environment in Europe, the banking environment will also remain challenging. Nevertheless, from today's perspective, and in view of the ongoing economic recovery – although admittedly a bumpy ride in some cases due to supply bottlenecks – it appears that the need for loan loss provisions should normalise in view of the buffers that have been built up, even if the number of problem cases and insolvencies in the corporate sector is likely to increase again somewhat in some sectors.

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 adjustments to their cost structures to reflect the sustained challenging 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, in particular, sustained profitability will be of central importance.

Expected business development of Hamburg Commercial Bank

Financial key management indicators			
	Actual figures 2021	2022 forecast	Objective for 2024
RoE after taxes (%)[1]	18.4	~11	~11
CIR (%)	50	46	40-42
CET1 ratio (%)[2][3]	28.9	>20	>20
LCR (%)	164	>140	~140
NPE ratio (%)	1.4	1.8	1.6
Non-financial key management indicators			
	Actual figures 2021	2022 forecast	Expectation for 2024
Rating	Baa1, positive/ BBB, developing	In general, the Bank expects that the faster than expected progress made in the transformation process, as well as its successful admission to the BdB Deposit Protection Fund at the beginning of 2022, will continue to have a positive effect on the rating agencies' assessment, meaning that the positive rating development looks set to continue.	A3/BBB+

[1] The RoE after taxes shown is based on standardised regulatory capital backing (average RWA and CET1 ratio of 13 %).
[2] Actual figure for 2021 on a not in-period basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.
[3] Forecast for 2022 and target for 2024 do not take into account potential dividends and are subject to the definition of a dividend strategy by year-end 2022.

Key basis for the forecast

In its corporate planning for the 2022-2024 period, the Bank generally assumes that:

- the current interest rate and monetary policy pursued by the ECB will be continued for the time being, with interest rates in the eurozone unlikely to increase before 2023 at the earliest, whereas a gradual moderate increase in interest rates is already expected for the USD area in 2022,
- there is an overwhelming probability (base case) that the global economy will be on a recovery path from the third quarter of 2022 at the latest, and that growth will continue, with low momentum, in 2023 and 2024,
- total assets reached their turning point as planned at the end of the reporting period and will be increased to around € 35 billion by the end of the planning period in line with a moderate and risk-conscious growth plan, with the share of asset financing in relation to total assets set to remain stable and the shares attributable to those business areas that contribute to the diversification of the Bank's portfolio, in particular the international corporates activities, to be expanded further,
- the gross new business volume will remain at the encouraging level seen in the second half of 2021, with the Real Estate and Corporates segments making the biggest contribution, and the Bank will apply the conservative assumption that margins will be slightly lower than the good level witnessed in the reporting year,
- total income will continue to increase, 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,
- the development involving a gradual increase in the operating net interest margin in the portfolio since the beginning of the transformation phase will continue in net interest income,
- the negative impact of loan loss provisions on the income statement will be moderate in the first planning year and will normalise from 2023 onwards in line with the planned increase in business volume. the Bank will remain cautious in its loan loss provisions planning, as it has applied average risk costs (through-the-cycle) to the planning period, which tends to be classified as a conservative approach now that the macroeconomic environment is starting to look brighter, subject to the risks associated with the current geopolitical tension created by the Russia-Ukraine conflict,
- administrative costs will continue to fall despite considerable investments for strategic initiatives to accompany the Bank's moderate growth course, and a CIR of around 40-42 % will be achieved in the medium term,

- negative impacts from restructuring and transformation expenses, which will be moderate in terms of their amount, will be incurred for the last time in the 2022 financial year,
- the amount of deferred tax assets on loss carry-forwards will peak at the end of 2022 and will gradually fall from the 2023 financial year onwards in line with the utilisation of tax loss carry-forwards, which should lead to a normalisation of the income tax rate from 2023 onwards, and
- the seamless transition to the Deposit Protection Fund of private banks, which took place as planned on 1 January 2022, will have a fundamentally positive effect on the Bank's business development.

Following the successful transition to the Deposit Protection Fund of private banks, the management's focus for the period from 2022 onwards is to maintain and expand Hamburg Commercial Bank's good market position in a banking environment that remains dynamic, competitive and challenging, in order to keep all strategic options open in the medium term. In these endeavours, the Bank is acting from a position of strength thanks to the progress achieved in the course of its far-reaching transformation programme. The Bank's strategic initiatives for 2022 and beyond build on its successfully refined business model as a competent and efficient specialist finance provider. This fundamental focus is to remain unchanged and be gradually developed further as part of a moderate and risk-conscious growth plan. The key strategic priorities of the Bank reflected in the current planning include the aspects presented below in particular:

Expansion of client franchise in specialist financing and further diversification of income sources

After focusing on cutting costs, reducing risks and optimising portfolios over the past three years, the Bank is now cautiously transitioning to a moderate growth course. As set out above in the key basis for the forecast, total assets are to be increased to around € 35 billion by the end of the planning period. In order to achieve this goal, the Bank will continue to strengthen its sales and cautiously expand its new business again. Looking ahead to the 2022 financial year, the Bank is aiming to achieve a higher gross new business volume than in the reporting year (2021: € 5.4 billion). It remains the case that all business decisions will be systematically focused on meeting internal ambition levels and complying with stringent risk requirements.

In the core business areas, Real Estate and Shipping, the Bank considers itself well positioned fundamentally to achieve its sales targets. In Real Estate, the share of new business attributable to international financing is to be expanded to around 20 % with a focus on mature markets in which the Bank has the necessary expertise and a track record (Benelux, UK and US). The Bank also plans to seize business opportunities in counter-cyclical sub-segments of the real estate market, provided there are corresponding opportunities and adequate risk/return profiles. The Bank remains prudent in the Shipping segment, which benefited from exceptionally favourable market conditions in 2021. As part of the selective new business strategy, the aim is to adjust the composition of the portfolio moderately based on ship types. One special focal area in 2022 will be project financing, which is to be strengthened as a third pillar of asset financing. The Bank's strategic initiatives here are targeted at the growth markets in the areas of renewable energies and (digital) infrastructure. In the Corporates segment, the Bank will continue to refine its profile in the national environment and, in particular, continue to reduce the lower-margin portion of its portfolio. In order to further diversify the portfolio, international activities in the Corporates segment, in particular, are to be expanded significantly. These include the expansion of the activities launched in 2019 in the International Corporates & Specialty Lending segment, as well as further investments in asset-backed lending structures and the expansion of the Loan Funds set up for the first time in the reporting year. In its quest to diversify its income sources, the Bank will also develop initiatives to strengthen net commission income. The Payment Services business area, in which the Bank offers state-of-the-art digital solutions for national and international payment transactions, is to be expanded further, which will also benefit the Bank because deposits from corporate clients in this business area represent a key element for the Bank's funding.

Further optimisation of liability management

In 2022, the optimisation of liability management, the success of which to date (in particular the significant reduction in funding costs) has been a key driver behind the increase in the operating net interest margin, is to be continued. In line with the planned increase in total assets, refinancing requirements will also increase gradually over the course of the planning period.

Within this context, Hamburg Commercial Bank will make moderate adjustments to the structure of its liabilities. For example, the Bank plans to further reduce refinancing via the ECB's TLTRO programme in 2022 by making more early repayments. The additional refinancing needs are to be covered in particular by increasing the deposit portfolio, as well as the portfolio of covered bonds and long-term time deposits. To further diversify its refinancing instruments, the Bank is also planning to launch a commercial paper programme.

In principle, the Bank is pursuing the strategic goal of further increasing the relative share of organic funding, which has already increased in recent years. In this context, the aim is to further strengthen refinancing via deposits from corporate clients, which the Bank believes is increasingly proving to be a competitive advantage over retail funding. In general, the Bank's deposit management initiatives focus on quality rather than quantity, and are specifically aimed at broadening the depositor base, increasing average maturities and achieving appropriate pricing conditions.

Investments in strategic projects while maintaining stringent cost management

The Bank's will continue systematically with the stringent cost management implemented and established at the beginning of the transformation process. The Bank continues to stick to the target of a sustainable cost-income ratio of 40-42 %, which is to be achieved in the 2023 financial year while keeping costs stable. For 2022, the Bank expects to see a further decline in administrative expenses in the mid-single-digit percentage range. The Bank has adjusted its cost planning to reflect the moderate growth course that has been initiated and the associated earnings expectations and, compared to the cost planning prepared a year ago, has planned for additional investments. The focus of these additional investments in 2022 will be on new market and risk hires and further change-the-bank projects (e.g. for sustainability initiatives and projects in the context of the IBOR transition). In addition, the Bank has reflected the fact that work on the IT transformation process will continue intensively in 2022 in its cost planning for 2022.

The staff reduction measures initiated at the end of 2018 are to be completed in 2022. Taking into account the staff members still to leave the Bank and the planned new hires to support the moderate growth course, the Bank is raising its strategic target for the number of employees at the end of 2024 to around 850 FTEs. New hires will focus on the client-related areas, but also on positions along the credit value chain.

The following focal points are on the agenda for the ground-breaking IT transformation programme in 2022:

- Introduction of a state-of-the-art cloud-based software as-a-service (SaaS) application (nCino) that provides uniform, efficient and digital support to the Bank's front office and credit office processes.
- Completion of the changeover to the new payment transaction system through the go-live of the new SEPA solution,
- Go-live of SAP S4/HANA Banking for Complex Loans (mapping of complex financing structures) and SAP S4/HANA Finance (general ledger).

All measures are aimed at further increasing operational efficiency.

Sustainability

The topic of ESG will remain a very dynamic issue, both externally and internally, in the 2022 financial year. Particular attention has to be paid to regulatory activities with the ECB's extensive auditing activities (e.g. the announced climate stress test) and the adaptation of the EU taxonomy. The Bank considers itself to be well positioned in these areas with its ESG-related targets and the corresponding catalogue of measures. ESG reporting is to be optimised by expanding it to include additional key figures and qualitative information. Among other things, the focus of the Bank's sustainability work in the 2022 financial year will be on further developing the ESG scoring methodology, mapping the Sustainable Development Goals (SDGs) in new business, providing active support with the ECB climate stress test and the move to start collecting CO_2 data for the biggest asset classes.

Due to the high strategic and commercial importance that the Management Board attaches to the topic of sustainability, the development of strategic options for action to support our clients as they move towards the "green transformation" of their business models is also increasingly moving into the spotlight.

Forecast for development in key performance indicators in the 2022 financial year

Taking the fundamental aspects set out above into account and based on a further increase in the operating net interest margin, the Bank's forecast expects to see total income in excess of € 600 million in the 2022 financial year. With loan loss provisions expected to be moderate, net income before taxes of more than € 280 million is being targeted. As deferred taxes are expected to have a negative impact in the 2022 financial year, leading to moderate tax expense overall, the Bank is predicting net income after taxes (Group net result) in excess of € 250 million in the current financial year and, on this basis, an **RoE after taxes** of around 11% (calculated on the basis of standardised regulatory capital backing).

The **CIR** is expected decrease slightly (to around 46 %) in 2022, gradually bringing it closer to the strategic target value of 40 % to 42 %. The forecast assumes that administrative expenses will decrease slightly despite continued strategic investments, while the earnings base (total income + other operating result) should increase slightly.

The **CET1 ratio** at the end of the reporting period shows a substantial surplus capital position above the regulatory requirements which is to be reduced now that the transformation process has been completed successfully. With its capital restructuring measures in 2021, the Bank has laid the foundation for issuing AT1 instruments and paved the way for future dividend payments. As a result, a dividend strategy will be developed in 2022. The current forecast/target value for the CET1 ratio for the 2022 financial year (>20 %) does not yet include any dividend payments. The Bank will update the forecast/target based on the dividend strategy adopted. The Bank expects to see a marked increase in risk-weighted assets in 2022 to up to € 19 billion, mainly driven by the second phase of the switch in RWA models, in particular from the Advanced Approach (A-IRB) to the Foundation Approach (F-IRB), and to a lesser extent by the planned expansion in business volume. Based on the provisions set out in the draft CRR III from October 2021 (Basel IV in the EU), the Bank would expect RWA to decrease by around € 2 billion, resulting in pro forma RWA of around € 17 billion at the end of 2022. As a result, the Bank expects that the increase in risk-weighted assets resulting from

the aforementioned switch in RWA models will be largely temporary, and that the future regulatory framework (Basel IV) will provide corresponding relief. The draft CRR III provides for mandatory first-time application on 1 January 2025.

The Bank expects the **LCR** to remain comfortably above the regulatory requirements at the end of 2022, with a ratio in excess of 140 %.

As far as the **NPE ratio** is concerned, and given that new default cases were much lower than expected in the reporting year, the Bank expects the NPE volume to show a moderate increase in 2022 and, in connection with a moderately higher overall exposure (the Bank is aiming for total assets of around € 32 billion at the end of 2022), result in an NPE ratio of 1.8 %.

In general, the Bank expects that the faster than expected progress made in the transformation process, as well as its successful admission to the BdB Deposit Protection Fund at the beginning of 2022, will continue to have a positive effect on the **rating** agencies' assessment, meaning that the positive rating development looks set to continue.

2024 targets for key performance indicators

The target for 2024 is for total income, based on a further increase in the operating net interest margin, to increase to more than € 800 million and for the Bank to report net income before taxes in excess of € 400 million. Taking a standardised tax rate as a basis, this would translate into a Group net result of more than € 300 million, or **RoE after taxes** of around 11%. Based on the expected earnings development, the aim is to report a **CIR** in the range of 40-42 %. For the **CET1 ratio**, a value above the 20 % mark has been calculated on the basis of the planning for the 2024 financial year. As stated with regard to the forecast for this key figure for the 2022 financial year, this is subject to the dividend strategy that is still to be defined. The strategic target for 2024 includes an **LCR** that remains comfortably above the regulatory requirements at around 140 %. As far as the **NPE ratio** is concerned, the Bank is aiming to achieve a ratio of around 1.6 % at the end of 2024, slightly below the forecast value for the end of 2022. With regard to its **rating**, the Bank expects to achieve a long-term issuer rating of A3/BBB+ in 2024.

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.

Opportunities and risks

A) ECONOMIC FACTORS (BUSINESS CYCLE)

There are numerous risks that could potentially put pressure on the global economy. In geopolitical terms, the focus is on the war between Russia and Ukraine. Depending on how the conflict develops and how far the spiral of sanctions between Russia on the one hand and the G7 countries on the other goes, the global economy could be hit hard. In particular, the risk of a negative supply shock due to a further increase in energy prices could weigh on global growth.

The relationship between China and Taiwan is also relatively tense and could, in principle, result in an open conflict. If COVID-19 variants that potentially cause more severe illness were to spread again, this would trigger renewed lockdown measures. 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 the geopolitical tension and/or a sharp rise in long-term government bond yields, due for example to an unexpectedly marked increase in inflation or by the tightening of monetary policy to a more pronounced extent than expected. Another risk is that the French presidential elections in April will result in the incumbent President Emmanuel Macron being replaced by a populist opponent. It remains to be seen to what extent the political divide will intensify in the course of the upcoming mid-term elections in the US and leave the country with its hands more tied politically.

If the above risks do not materialise, on the other hand, higher economic growth can be expected. In particular, a timely end to the geopolitical tension and scenario in which the pandemic subsides more quickly than expected would deliver a boost to economic momentum.

Should global economic development turn out to be worse than assumed in the Bank's planning, this would generally be reflected in unplanned loan loss provision expenses, putting pressure on the earnings situation. Conversely, a scenario in which the global economy develops better than expected would have a positive impact on the future level of loan loss provisions.

B) SECTOR-SPECIFIC FACTORS (MARKETS)

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 – at least in the eurozone – 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) CLIENT BUSINESS

On the income side, the fundamental challenge lies in successfully embarking on the moderate growth course initiated with the transition to the BdB and, at the same time, maintaining or further expanding the risk/return profile of the loan portfolio, which has improved in the course of the transformation process. In particular depending on the market and competitive conditions in the sectors relevant to the Bank, there is a fundamental risk that the targets for new business volumes and margins applied in the forecast will not be achieved, which would have a negative impact on the Bank's profitability targets. On the other hand, there is a chance that the further development of the client portfolio, e.g. the expansion of international activities in the Corporates segment or the strategic initiatives to strengthen project financing, will progress at a faster pace than expected, which could, in turn, have a positive impact on profitability overall.

D) HUMAN RESOURCES

In order to implement the moderate growth course, the Bank is planning new hires as outlined above. Given what is currently a challenging situation for employers on the labour market, among other factors, there is a fundamental risk that the Bank will fall short of its recruitment targets in terms of both quality and quantity. There is also the fundamental operational risk of a loss of key skills due to employees leaving the Bank unplanned. The Bank has put mitigating measures and HR instruments in place to address the above-mentioned risks. On the other hand, the successful course of the transformation process and the Bank's clear strategic orientation provide an opportunity to further position the Bank as an attractive employer on the labour market, with the chance that new hires will successfully contribute to further strengthening the Bank's corporate culture, especially by expanding the skillset.

E) OPERATING EXPENSES

With regard to operating expenses, there is a risk that the Bank will fall short of its targets, particularly with regard to the outstanding project activities in the context of the IT transformation process and the changes affecting payment transactions. The challenge here essentially remains to complete these projects on time and in line with high quality standards while maintaining stringent cost discipline. On the opportunities side, if these projects are completed successfully, there will be an opportunity to continue to adapt the current cost-reduction structures and realise additional cost and income potential (keyword: data as an asset).

F) TRANSITION FROM SUPPORT FUND TO EDB/ESF AS WELL AS REFORM OF DEPOSIT PROTECTION FUND

As explained in this combined management report in the section "Deposit Protection Fund" section of the chapter "Basis of the Group", Hamburg Commercial Bank AG has been a member of the Compensation Scheme of German Banks (EdB)/Deposit Protection Fund of the Association of German Banks (ESF) since 1 January 2022. The Bank's membership in the security reserve of the Landesbanken and Girozentralen (*Sicherungsreserve*) ended at the same time. Against the background of the different scope of protection of the security reserve on the one hand and EdB/ESF on the other hand, it cannot be ruled out that depositors who do not benefit from the protection of EdB or ESF will withdraw their deposits due to HCOB ceasing to be a member of the security reserve, which generally represents a risk to the Bank's liquidity situation. However, Hamburg Commercial Bank assumes that the respective depositors have already withdrawn their funds before the reporting date; since the reporting date, there have only been very minor outflows of funds.

In a communication dated 8 December 2021, the BdB announced a reform of the protection of the Deposit Protection Fund, which is to apply from 2023 (including transitional periods) and which will affect all members of the ESF equally. The Bank will analyse the proposed changes and assess the resulting impact in its funding strategy.

G) REGULATORY AND LEGAL ENVIRONMENT

New regulatory initiatives, in particular resulting from the implementation of Basel IV, will impact the amount of RWA in general. As outlined above in the context of the comments on the forecast for the CET1 ratio, Hamburg Commercial Bank expects the implementation of Basel IV (mandatory first-time application on 1 January 2025 expected) to generally reduce the RWA for credit risks. Against this backdrop, the opportunities tend to outweigh the risks 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 on financing arrangements in two EU member states due to government intervention. The Bank had already taken legal action against this intervention in previous years. If future rulings confirm the Bank's legal opinion, inflows of funds in an amount running into the low treble-digit millions (of euros) can be expected for the Bank. No risks, however, arise to the Bank's earnings situation as a result of these circumstances, as the Bank has covered the risks in the balance sheet in full.

Overall appraisal and net income forecast

Admission to the BdB's Deposit Protection Fund, the ESF, which was completed with effect from 1 January 2022, marks the successful conclusion of several years of far-reaching transformation at Hamburg Commercial Bank, testimony to the fact that comprehensive restructuring can be successful in the German banking landscape.

By making faster progress in its transformation than expected, the Bank has laid a solid foundation for its future development. This solid foundation is based, in particular, on the extensive balance sheet reduction and restructuring measures and, as a result, on a structural improvement in profitability in the core business, as well as on a marked risk reduction, but also on a renewed improvement in cost and income ratios. The Bank's excellent capital position provides it with the opportunity to implement its strategic initiatives, which are aimed at continuing to increase sustainable profitability across the board, from a position of strength and also opens up a considerable degree of strategic flexibility for the Bank in terms of its positioning in the banking market. The strategic initiatives focus on initiating and implementing a moderate growth course, within the context of which the cautious expansion of the client franchise in specialist financing, as well as the further diversification of the sources of income, will be pursued. Other focal points are the optimisation of liability management and the cost-effective implementation of strategic projects, first and foremost the completion of the extensive and far-reaching IT transformation process.

On the basis of the generally very encouraging results reported in the IFRS Group financial statements for the 2021 financial year, the Bank is confident, from today's perspective, that it will be able to achieve the targets set for 2022 as a whole. On the basis of the information currently available to it, the Bank expects to be able to achieve IFRS net income after taxes (Group net result) for the 2022 financial year in the amount of more than € 250 million. The earnings forecast is subject to any negative developments that cannot yet be predicted, in particular as a result of the COVID-19 pandemic and the geopolitical risks described above.

The earnings forecast and future development of Hamburg Commercial Bank are associated with major challenges which are described in detail in both the forecast and the Risk Report.

Risk Report

Risk management system

Principles of risk management

Active risk management represents a core component of the Overall Bank management at Hamburg Commercial Bank. The risk management system is developed on an ongoing basis in line with the Bank's business strategy and risk positions. The Minimum Requirements for Risk Management (MaRisk) and the relevant European Banking Authority (EBA) guidelines serve as the regulatory framework for the design of the risk management system.

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.

In order to identify material risks as defined by MaRisk, Hamburg Commercial Bank conducts a risk inventory at least once per year, as well as on an ad hoc basis where necessary. 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). The term financial risk refers to the risk of a change in the value of an asset, with an impact on the financial ratios. 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 that can be quantified at Hamburg Commercial Bank are default risk, market risk and liquidity risk for the financial risks, whereas the non-financial risks are operational risk, which also includes legal and compliance risks, as well as reputation risk and 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 new lending business as well as integration in the scenario calculations. Further information on how the Bank deals with the topic of sustainability and the associated risks can be found in the report on corporate social responsibility (CSR Report) of Hamburg Commercial Bank. The CSR Report does not form part of the Combined Management Report.

Setting risk appetite and risk guidelines

As the strategic guideline for the Overall Bank, the Strategic Risk Framework (SRF) 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, as well as the 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.

Through its guidelines, the SRF supports implementation of the business strategy objectives and meeting the requirements of the stakeholders, particularly the banking supervisory authorities and the owners.

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. In addition, the SRF provides the framework for the business strategy and the Bank's planning.

The RAS is broken down into a financial and non-financial RAS on the basis of the risk inventory and is aimed at achieving efficient use of the scarce resources of economic capital and liquidity. The Financial RAS consists of a catalogue of key financial ratios, while the non-financial RAS includes qualitative requirements relating to risk culture. Operationalisation is achieved via the risk strategy and the limit system, with the risk strategy describing how risks are managed based on the risk inventory in accordance with the business strategy and the 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 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 functional limit system requires a strict derivation of the risk appetite. 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 identify potential developments that could jeopardise its continued existence at an early stage, to avert such risks with appropriate countermeasures, and to achieve the risk strategy objectives.

Key risk indicators of the Group

	31.12.2021		Limit		Guideline
ICAAP utilisation from an economic perspective/RBC	41%	<	90%		–
Economic capital required (€ bn)	1.6	<	2.8		–
of which: for default risks	0.8	<	1.3		–
for market risks	0.6	<	1.0		–
for liquidity risks	0.1	<	0.3		–
NPE ratio	1.4%		–	<	3.5%
CET1 ratio[1]	28.9%	>	14.0%		–
T1 ratio[1]	28.9%	>	15.5%		–
Overall capital ratio[1]	35.7%	>	17.5%		–
MREL[2]	33.5%	>	7.7%		–
Leverage ratio	12.7%	>	4.2%		–
Liquidity coverage ratio (LCR)	164%	>	115%		–
Net stable funding ratio (NSFR)	114%	>	102%		–
NLP2 in the stress case until 1st month (€ bn)	4.1	>	0.5		–

[1] Capital ratios 2021 calculated on a not-in-period basis, i. e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.
[2] As the MREL quota (TLOF) 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 risk 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. In meetings, the Risk Committee is regularly informed by the Management Board about the Bank's risk situation and risk management.

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 in accordance with 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. It 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. In addition – together with the Risk Control business unit – it is responsible for determination of the Stage 3 loan loss provision amounts (IFRS 9).

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. Its primary task is a holistic overall consideration of all risks on a case-by-case basis as well as at portfolio level. The Risk Control business unit thereby acts as a specialised second line of defence. The overall second line of defence is fundamentally responsible for monitoring and controlling as well for determining the procedures for setting the limits for the relevant 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 helps 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. The objectives, tasks and procedures of Internal Audit are defined in the Audit Charter, which is approved by the Management Board. Internal Audit informs the Overall Management Board and the Audit Committee of the Supervisory Board regularly and on an ad hoc basis about the results of its audits, which are based on a risk-oriented audit plan. The audit plan is approved annually by the Management Board. If there are any material changes to the audit plan or adjustments to the Audit Charter during the course of the audit year, these changes are approved by the Management Board on an ad hoc 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 commencing business activities with new products or in 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 existing products or product approvals is reviewed on a regular basis.

For the Group-wide risk management, Hamburg Commercial Bank considers 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 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 aspects is regularly exchanged. Insofar as internal or external regulations do not permit delegation of decisions to the committees, such decisions are prepared by these committees for approval by the Overall Management Board.

The 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 or risk guidelines 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 as well as sustainability criteria into account.

The Credit Committee is tasked with making lending decisions on major exposures. For loan applications at the competence level of the Overall Management Board, the Credit Committee makes a unanimous decision recommendation in advance. 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.

The IT Transformation Committee (ITC) is the central steering committee below the Overall Management Board for the programmes and projects related to the IT transformation at Hamburg Commercial Bank. As such, the ITC is the decision-making and escalation body for major changes required to the content or scope of the projects, budgets or timetables. In addition, the ITC manages the IT architecture through decisions and prioritisation of resources.

In 2021, the Sustainability Committee was established as a new body to ensure compliance with the Bank's ESG targets and the requirements of ESG-related legal, regulatory and other external frameworks, to which Hamburg Commercial Bank has voluntarily committed itself. Among other things, the Sustainability Committee is responsible for the development and management of the Bank's sustainability strategy.

Risk reporting and measurement systems

Hamburg Commercial Bank has central data storage systems and risk measurement systems, which take into account internal and regulatory 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 Supervisory Board's Risk Committee for the purposes of its regular meetings.

Other overall risk reports include the Disclosure Report under Part 8 of the Capital Requirements Regulation (CRR) as well as this Risk Report as part of 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 risk of illiquidity 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 member of staff responsible for the process is nominated 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 department. This also includes proper reporting to the committee responsible for NFR, the Management Board and the Supervisory Board.

At the end of 2020, an independent function was established in the Information Security & Sourcing Management department in the form of the central ICS office, which checks the appropriateness and effectiveness of the Bank-wide process controls through spot checks, based on a risk-oriented process evaluation (ICS testing). Overall, clear roles and responsibilities are defined within the ICS cycle to ensure that the tasks are performed in a proper manner.

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 process serves to ensure compliance with the rules to be applied and generally accepted accounting principles. This maintains a quality standard that ensures the reliable and correct presentation of the earnings, net assets and financial position. 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. The so-called IRB approach is used for default risks, for which the Bank's supervisory authorities have granted the appropriate authorisation. The Credit Risk Standardised Approach (CRSA) is used for part of the portfolio. The Bank thus takes into account consistent parameters for the 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. The contents of the document go beyond the disclosure on the basis of the accounting standards applied in this Annual Report, by providing a comprehensive insight into the regulatory framework and the current risk situation of the Bank on the basis of regulatory figures. The Disclosure Report as at 31 December 2021 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 used to determine specific and general credit risk adjustments in accordance with 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 2022, the following SREP requirements apply to the Bank: The total capital requirement (P2R), excluding the combined capital buffer requirements, is 10.07 %, including a Pillar 2 surcharge of 2.07 %. The Pillar 2 surcharge must be covered by at least 56.25 % Common Equity Tier 1 capital (CET1) and 75.0 % Tier 1 capital (T1). In addition, there is a Pillar 2 Guidance (P2G) for CET1 capital of 2.0 %. The capital requirements including the combined capital buffer requirements (P2R) are approximately 8.3 % for CET1 (around 10.3 % including P2G), around 10.2 % for T1 and approximately 12.7 % for total capital. In addition to the existing capital buffer requirements, there are new requirements which must be met from 2023 onwards, including a countercyclical capital buffer (CCyB) of 0.75 % of risk-weighted assets (RWA) on domestic risk positions and a sectoral systemic risk buffer (SyRB) of 2.0 % of RWA on domestic loans secured with residential property.

Hamburg Commercial Bank participated in the ECB's 2021 EU-wide stress test. In an adverse stress scenario, the Bank has a CET1 ratio of 15.8 %, which is well above the regulatory requirements in the normal case, even though the rigid methodology used for the stress test does not reflect the transformation successes achieved, and therefore understates the Bank's resilience.

In addition, compliance with the minimum regulatory capital ratios is tested under the normative perspective in the ICAAP over a multi-year time horizon in base and stress scenarios.

Regulatory capital ratios[1) 2)]

(%)	31.12.2021	31.12.2020
Overall capital ratio	35.7%	33.3%
Tier 1 capital ratio	28.9%	27.0%
CET1 capital ratio	28.9%	27.0%

1) Regulatory Group according to CRR.
2) Capital ratios 2021 calculated on a not-in-period basis, i. e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.

Regulatory capital[1) 2) 3)]

(€ bn)	31.12.2021	31.12.2020
Regulatory capital	5.0	5.2
thereof: Tier 1 capital	4.1	4.2
thereof: CET1 capital	4.1	4.2
thereof: Additional Tier 1 capital	–	–
thereof: Tier 2 capital	1.0	1.0

1) Regulatory Group according to CRR.
2) Regulatory capital 2021 calculated on a not-in-period basis, i. e. without including the income after taxes in 2021 in Common Equity Tier 1 capital reported as not in period, thus without FY 2021 net income in CET1 capital.
3) Total differences are rounding differences.

Risk-weighted assets (RWA)[1)]

(€ bn)	31.12.2021	31.12.2020
Credit risks	10.6	11.9
Market risks	0.6	–
Operational risks	0.9	1.4
Other RWA	1.9	2.2
Total RWA	**14.0**	**15.5**

1) Regulatory Group according to CRR.

The CET1 ratio increased significantly as against 31 December 2020 (27.0 %) to 28.9 %. The main reason for this development is a decrease in RWA for credit risks, which is mainly the result of lower total assets in the context of the Bank's continued de-risking and de-leveraging activities. It is important to emphasise in this context that an increase in RWA for credit risks resulting from the first step towards simplifying the rating model landscape from the Advanced (A-IRB) to the Foundation Approach (F-IRB) along with the Credit Risk Standardised Approach (CRSA) was more than compensated for during the reporting period. As at 31 December 2021, CET1 capital amounted to € 4.1 billion and decreased slightly compared to the previous year (€ 4.2 billion) due to higher regulatory deductions, since the capital ratios are reported without taking the annual profit for 2021 into account.

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 25.2 % as at 31 December 2021 (previous year: 21.6 %). The corresponding Tier 1 ratio reached 25.2 % (previous year: 21.6 %), the corresponding overall capital ratio amounted to 32.1 % (previous year: 27.3 %). The single entity (HGB) regulatory requirements for capital ratios were adhered to at all times during the reporting period. The capital ratios for the single entity are also reported before taking the annual profit for 2021 into account.

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, institution-specific MREL (Minimum Requirement for Own Funds and Eligible Liabilities) requirements for Hamburg Commercial Bank have been defined by the European Single Resolution Board (SRB), the resolution authority responsible for the Bank. Following the introduction of new statutory regulations in connection with corresponding transitional provisions, Hamburg Commercial Bank will have to comply with requirements of 8 % of the total risk exposure amount (TREA) and 3 % of the leverage ratio exposure (LRE) measure from 2022 onwards. The Bank already orientated itself towards this level in 2021, and has complied with the requirements at all times during the reporting period.

Risks for the capital ratio trend

Risks may arise from the regulatory environment, for instance from interpretation decisions or audits, in addition to the 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 PD estimates in the internal models.

Hamburg Commercial Bank successfully implemented the first step towards simplification of its model landscape in the first half of 2021. The goal is to simplify the models for mapping counterparty risk 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 given default (LGD) estimates. This incorporates transforming the core procedures, in the areas of project finance, shipping, corporates and national real estate as well as the country and transfer risk model, for F-IRB. The majority of the rating modules in use were migrated during the first half of 2021. Implementation of the remaining models is planned in a second step in 2022. The Bank has taken this simplification of its rating model landscape into account in the projections of RWA 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 due to the COVID-19 crisis. Under Basel IV, there are plans to significantly restrict the advantages of internal models. Through the simplification of its model landscape for the risk classification procedures, the Bank expects that the implementation of Basel IV will tend to reduce the RWA for credit risks.

ICAAP/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 the Bank's internal 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 risks (overall risk) to the available economic risk coverage potential.

Hamburg Commercial Bank analyses its risk-bearing capacity comprehensively on a quarterly basis as well as within the framework of its annual planning process.

In addition to the regulatory Common Equity 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 reported at amortised cost (AC), less the net present value of the operating costs associated with these transactions. Positive balances and positive effects associated with the Bank's own credit rating are not taken into account, in accordance with the requirements of the ICAAP Guide.

As at 31 December 2021, the risk coverage potential amounted to € 4.0 billion (previous year: € 3.7 billion).

The overall risk takes into account default risk, market risk, split into interest rate risks in the banking book (IRRBB) and other market risks, operational risk as well as the liquidity maturity transformation risk as an element of liquidity risk. Economic capital required as an expression of unexpected losses is determined monthly for default, liquidity and market risks in a methodologically consistent manner with a confidence level of 99.9 % and a risk horizon of one year. The operational risks are determined on the basis of the most relevant scenarios from the risk scenario assessments using a Monte Carlo simulation and compared with the level of the risk from a modified standardised approach. The higher value of the two determination methods is used for the economic perspective.

The economic capital requirements of the individual risk types are aggregated into the overall economic risk. No risk-reducing correlations are utilised in the process.

The overall economic risk as at the reporting date was € 1.6 billion (previous year: € 1.9 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 € 0.8 billion (previous year: € 0.9 billion).

Market risk (Value at Risk, VaR) is scaled up on the basis of the confidence level chosen by the Bank and a one-day holding period to show the economic capital required for market risk positions for the purpose of managing risk-bearing capacity with a risk horizon of one year. The economic capital required for market risk amounted to € 0.6 billion as at 31 December 2021 (previous year: € 0.7 billion). € 0.3 billion of this amount is attributable to interest rate risks in the banking book (IRRBB).

Hamburg Commercial Bank also uses a VaR approach to quantify the liquidity maturity transformation risk. This long-term/structural liquidity risk is an expression of the risk of an increase in refinancing costs for the subsequent closure of open liquidity positions. As at 31 December 2021, the Liquidity Value at Risk (LVaR), as a measure of the economic capital required for liquidity risk, amounted to € 0.1 billion (previous year: € 0.2 billion). The risk of illiquidity, 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 the risk of illiquidity is included in the section entitled “Liquidity risk”.

The economic capital required for operational risks amounted to € 0.1 billion as at 31 December 2021 (previous year: € 0.2 billion).

Utilisation of risk coverage potential decreased compared to the end of the previous year, and amounted to 41 % as at the reporting date (previous year: 53 %). On the one hand, the improvement in utilisation is due to the increase in risk coverage potential arising from a methodological development introduced in the second half of the year, which overcompensates for the slightly reduced regulatory capital. On the other hand, the reduced risk potentials for all material risk types have a positive effect on the utilisation.

The risk-bearing capacity was ensured at all times during the reporting period.

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)	31.12.2021	31.12.2020
Economic risk coverage potential	**4.0**	**3.7**
Economic capital required	**1.6**	**1.9**
of which: for default risks	0.8	0.9
for market risks	0.6	0.7
Interest rate risks in the banking book (IRRBB)	0.3	0.3
Other market risks	0.3	0.3
for liquidity risks	0.1	0.2
for operational risks	0.1	0.2
Risk coverage potential buffer	**2.3**	**1.8**
Utilisation of risk coverage potential (%)	**41**	**53**

[1] Total differences are rounding differences.

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 economic effects on the key regulatory ratios through reciprocal relationships.

In addition to stress tests specific to risk types, the Bank also regularly conducts 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 Steering 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 scenarios that reflect potential transitional, reputational and physical risks associated with climate change, is calculated on the Pillar 1 and 2 capital ratios and the leverage ratio. 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 economic restrictions triggered by COVID-19, a significant deterioration in the risk parameters is possible. 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 for action. 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. In doing so, scenarios that could endanger the continuity of the Bank are identified. 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 has 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, NPE strategy, 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 increase due to a loss in value of the collateral provided, or that the collateral value cannot be realised upon liquidation of the collateral.

The NPE strategy risk is the risk of a complete or partial loss due to the choice of a restructuring or workout strategy that is not appropriate for the situation, or of a strategy change that is too late in the event of an unsuccessful restructuring strategy.

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 creditworthiness of the debtor.

Equity holding risk is the risk of a financial loss due to impairments of the equity holding.

All of the above-mentioned components of default risk are taken into account in the framework of equity management. Additional management measures are in place for risk concentrations and equity holding risks.

Organisation of default risk management

The Credit Office unit is responsible for managing credit risk over the entire term of the loan. The Credit Risk Center unit is responsible for ensuring independent and appropriate control of the credit risk.

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, which performs quality assurance for key processes on the basis of a material plausibility check.

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.

The Credit Committee is responsible for lending decisions on major exposures (competence level 2). For loan applications at the competence level of the Overall Management Board (competence level 1), the Credit Committee makes a unanimous decision recommendation in advance.

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) together with the Risk Control business unit, 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 below the committee competence level 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. At competence level 2, as with normal and intensive exposures, decisions are made by the Credit Committee, and at competence level 1, decisions are made by the Overall Management Board. A positive lending decision against the back office recommendation is thereby excluded. 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.

The Risk Control business unit is also responsible for the independent analysis and monitoring of risks at the portfolio level, the independent reporting and management of country risks, and the calculation of loan loss provision amounts in accordance with IFRS 9. This also includes ensuring portfolio transparency and independent business area analysis (including scenario simulations), as well as the operation of an early warning system and maintenance of a credit watchlist at the individual transaction level, for identifying loan exposures and intensifying their monitoring on a timely basis, where they 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) 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. This is based on the fulfilment of the requirements under the CRR (for example, the existence of a market value, realisation possibilities, lack of correlation to the secured credit, legal enforceability, matching of maturity). 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.

Management of the default risk

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. For its measurement and management, the risk management uses procedures and methods that are continuously reviewed for appropriateness and developed further.

The main parameters for the default risk are the expected and the unexpected losses. The expected loss is equivalent to the amount 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. Based on the calculation of the regulatory capital backing in accordance with CRR, the economic capital required for internal management is determined, taking into account economically justified adjustments. In addition, institution-specific asset correlations and 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 (ratio of total loan loss provisions recognised on the non-performing exposure to the total non-performing exposure AC) is monitored at the Overall Bank level.

The 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. The volume of the underwriting book as well as the maximum holding period of a loan intended for sale are limited by corresponding risk guidelines in the SRF.

RATING PROCEDURE, 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. In addition to quantitative information, various qualitative characteristics are also part of each rating module. The result is a probability of 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 makes different portfolio segments comparable, but also enables mapping with external ratings.

In order to determine the expected utilisation of contingent liabilities and loan commitments in the event of a possible default, so-called credit conversion factors (CCF) are empirically determined and applied. The loan amount outstanding weighted by CCF is described as EaD.

Hamburg Commercial Bank uses a differentiated LGD methodology to forecast the loss given defaults. Based on historical loss information, collateral-specific realisation proceeds rates and borrower-specific recovery rates are estimated. 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 2021 were in the real estate portfolio, which accounted for 26.8 % of the overall portfolio, which is slightly below the level seen in the previous year (previous year: 29 %).

In order to reduce risk concentrations, Hamburg Commercial Bank is actively focusing on a gradual expansion into new products, to increase the granularity and diversification of the portfolio.

There is an internal process for monitoring the upper limits of large exposures in accordance with Article 395 CRR, which ensures compliance with the regulatory requirements. As a supplementary measure, the material counterparty concentrations in the portfolio are identified based on the economic capital commitment, which are reported to the Management Board monthly and to the Risk Committee on a quarterly basis. In order to avoid future counterparty concentrations, the Bank's lending standards define upper limits per borrower.

As part of the management of risk concentrations, the country risk limitation provides an additional management dimension. Country limits are set for country risk concentrations at the Hamburg Commercial Bank Group level. The utilisation of the corresponding risk guidelines is monitored continuously, and is also reported to the Management Board monthly and to the Risk Committee on a quarterly basis.

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. Opportunities and risks of a possible equity holding commitment are analysed in detail prior to the conclusion of the transaction.

A key tool for monitoring and management of equity holding risk is regular corporate assessment. Impairment tests are performed at least once a year on all equity holdings of Hamburg Commercial Bank. When doing so, significant equity holdings are subjected to a more detailed analysis.

Furthermore, the articles of association and Rules of Procedure 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 two 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 THE DEFAULT RISK IN THE PRICING AND RECALCULATION

Hamburg Commercial Bank applies a uniform method across the Bank for the pricing of lending transactions through calculating the present value of the expected losses and the regulatory capital required to cover the 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 the regulatory capital backing, which are calculated using the CRSA or F-IRB approach, depending on the transaction.

Similarly, a monthly recalculation (profit-centre calculation) of the transactions takes place, taking into account the above-mentioned cost components. Based on the current risk parameters of the individual transactions, the standard risk costs and the resulting contribution margins are determined. 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.

DEFAULT RISK STRUCTURE

The uncertainties due to the COVID-19 pandemic continue to have a significant impact on economic activities. The effects of the pandemic on the credit portfolio, as well as legal and banking supervisory changes, are monitored by the Bank on an ongoing basis. At the start of the COVID-19 crisis, Hamburg Commercial 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. During the reporting period, the main areas which suffered negative effects due to the coronavirus crisis 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. These clients continue to be closely managed and the need for measures to manage credit risk is continuously reviewed.

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. The information is reported on the basis of the exposure at default (EaD), and shows the whole EaD of clients 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 clients, 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 EaD.

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

(€ m)	31.12.2021	31.12.2020
Active forbearance measures in connection with COVID-19	253	186
Partially state guaranteed (new) loans (e.g. KfW programme)	160	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 € 33,116 million as at 31 December 2021. The EaD was moderately reduced again as planned compared to the end of the previous year.

The EaD broken down by internal rating categories is presented in the following table. EaD with an investment grade rating (rating category 1 to 5) remains high at 73 % of the total exposure at the Group level (previous year: 71 %).

The average negative rating migrations of the previous year due to the coronavirus crisis were largely revised during the course of 2021.

The non-performing exposure (NPE) was 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, and amounted to € 467 million as at the reporting date (previous year: € 624 million). With a simultaneous decline in the total exposure, the pronounced winding down of non-performing exposures means the NPE ratio is at a solid 1.4 %, which is below the previous year's level (previous year: 1.8 %).

Default risk structure by rating category[1] [2]

(€ m)	31.12.2021	31.12.2020
1 (AAAA) to 1 (AA+)	6,647	7,259
1 (AA) to 1 (A–)	6,903	6,589
2 to 5	10,548	11,039
6 to 9	7,219	7,871
10 to 12	565	1,392
13 to 15	353	541
16 to 18 (default categories)	467	624
Other[3]	414	85
Total	**33,116**	**35,400**

[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 "Reconciliation" segment 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 the Bank's consolidated equity holdings and G/L accounts.

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

Default risk structure by sector[1]

(€ m)	31.12.2021	31.12.2020
Industry	4,061	5,850
Shipping	3,355	3,229
Trade and transport	1,938	1,985
Banks	4,706	4,334
Other financial institutions	2,403	1,545
Land and buildings	6,363	7,830
Other services	3,955	4,164
Public sector	6,179	6,231
Private households	155	232
Other	–	–
Total	**33,116**	**35,400**

[1] No separate disclosure of the "Reconciliation" segment due to low materiality (< € 100 million).

The following table shows EaD broken down by residual maturities:

Default risk structure by residual maturity[1]

(€ m)	31.12.2021	31.12.2020
Up to 3 months	2,498	2,286
> 3 months to 6 months	868	1,488
> 6 months to 1 year	2,161	2,673
> 1 year to 5 years	13,403	12,818
> 5 years to 10 years	9,379	10,074
> 10 years	4,807	6,061
Other	–	–
Total	**33,116**	**35,400**

[1] No separate disclosure of the "Reconciliation" segment due to low materiality (< € 100 million).

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

Default risk structure by region[1]

(€ m)	31.12.2021	31.12.2020
Eurozone	25,563	29,014
of which Germany	17,253	20,049
Western Europe	2,965	2,678
Eastern Europe	135	166
African countries	501	443
North America	1,230	916
Latin America	833	542
Middle East	56	74
Asia Pacific region	1,766	1,417
International organisations	66	150
International stock exchanges	–	–
Total	**33,116**	**35,400**

[1] No separate disclosure of the "Reconciliation" segment due to low materiality (< € 100 million).

Exposure at default in selected countries

(€ m)	31.12.2021	31.12.2020
Greece	–	–
Italy	160	197
Portugal	219	224
Russia	–	–
Spain	253	324
Turkey	76	93
Hungary	–	–
Total	**708**	**838**

The above table shows the EaD of the exposures to selected countries. The allocation of business to the individual regions and for the presentation of selected 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.

Hamburg Commercial Bank has no gross exposure to Russia or Ukraine. In the internal view, which takes into account the net exposure subject to transfer risk (after the collateral relevant to country risk), there is a single exposure that is largely hedged by ECA cover, with the remaining transfer risk related to Russia in the low single-digit million euro range. As a result of the war between Russia and Ukraine, new business with both countries has been discontinued.

Similarly, new business with Turkey remains suspended in the current economic and geopolitical environment.

Due to their unfavourable fiscal and economic data, a number of countries have long been subject to increased monitoring, and in the course of the COVID-19 pandemic also predominantly to stricter limits. These include Greece and Italy in particular.

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 had sharpened monitoring of and limits on oil-producing countries in its portfolio. As a result of the global recovery, especially also in commodity prices, the Bank has lifted these stricter limits again at the end of the reporting period.

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. The first step is to check whether the loan might be impaired (impairment identification) on the basis of objective criteria (so-called trigger events). If this is the case, the second step is to investigate whether the loans identified actually require a loan loss provision, and then to determine the amount (impairment measurement). Loan loss provisions are recognised for transactions categorised as AC and FVOCI under IFRS 9.

Changes in loan loss provisions in the lending business

(€ m)	01.01. - 31.12.2021				
	Stage 3 loan loss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Currency translation income on loan loss provisions	Other[1]	Total
Corporates	- 4	10	- 1	1	6
Project Finance	3	- 9	–	- 1	- 7
Real Estate	- 73	30	- 1	1	- 43
Shipping	17	44	- 4	15	72
Treasury & Group Functions	–	- 1	1	3	3
Reconciliation	1	- 1	–	1	1
Group	**- 56**	**73**	**- 5**	**20**	**32**

[1] The "Other" item includes the result of other changes in loan loss provisions (direct write-downs, recoveries on loans and advances previously written off, result of non-substantial modifications).

Changes in loan loss provisions in the lending business

(€ m)	01.01. - 31.12.2020				
	Stage 3 loan loss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Currency translation income on loan loss provisions	Other[1]	Total
Corporates	- 86	- 63	–	- 2	- 151
Project Finance	12	- 28	–	1	- 15
Real Estate	- 50	- 109	4	4	- 151
Shipping	35	89	4	- 4	124
Treasury & Group Functions	1	1	–	2	4
Reconciliation	–	–	–	1	1
Group	**- 88**	**- 110**	**8**	**2**	**- 188**

[1] The "Other" item includes the result of other changes in loan loss provisions (direct write-downs, recoveries on loans and advances previously written off, result of non-substantial modifications). The disclosure is adapted accordingly compared to the disclosure as at the reporting date of 31 December 2020.

The change in loan loss provisions in the lending business amounted to a net reversal of € 32 million as at the reporting date, compared to the net addition of € -188 million recorded in the previous year. The positive change in loan loss provisions resulted from net reversals at Stages 1 and 2 of the loan loss provisions model totalling € 73 million, which more than compensated for the net additions at Stage 3 (including POCI) totalling € -56 million.

The net additions at Stage 3 (incl. POCI) were attributable primarily to the Real Estate segment. There was a slight net reversal in the Shipping segment.

The driver behind the net reversals at Stages 1 and 2 were noticeably decreased model overlays compared with the end of the previous year. The biggest decrease is accounted for by the model overlays for bank borrowers analysed at a case-by-case level (criterion: medium to high exposure to the COVID-19 pandemic). The reduction here reflects, among other things, the lower exposure compared to the previous year, as well as an improvement in the ratings awarded to major clients. In addition, the model overlays resulting from the inclusion of macroeconomic forecasts, in particular, have been reduced. This is due to the slightly improved expectations - compared to the previous year - in individual sectors of the economy, as well as a reduced portfolio with significantly improved risk parameters. For further details, particularly on the composition and development of the model overlays, we refer to Note 4 (Section "II. Changes in loan loss provisions as at 31 December 2021") of the notes to the Group financial statements.

Total loan loss provisions

(€ m)	31.12.2021	31.12.2020
Volume of receivables AC	**20,180**	**22,535**
Thereof: Volume of impaired loans (gross carrying amount Stage 3)[1]	441	560
Gross carrying amount (Stage 2)	2,163	2,717
Gross carrying amount (Stage 1)	17,576	19,258
Total loan loss provisions for balance sheet items	**- 446**	**- 569**
Thereof: Total loan loss provisions (Stage 3)[1]	- 209	- 262
Total loan loss provisions (Stage 2)	- 169	- 216
Total loan loss provisions (Stage 1)	- 68	- 91

[1] Stage 3 including POCI

Hamburg Commercial Bank's conservative loan loss provisions policy is reflected in the Bank's continued solid total loan loss provisions, despite significantly lower NPE and model overlays.

Total loan loss provisions for balance sheet items determined under IFRS 9 amounted to € -446 million as at 31 December 2021 (previous year: € -569 million). In addition, provisions for off-balance sheet items amounted to € 44 million as at the reporting date (previous year: € 39 million).

The high level of risk coverage of the NPE portfolio through the Stage 3 loan loss provisions is reflected in the NPE coverage ratio AC, which at 55.8 % as at the reporting date was significantly above the level of 31 December 2020 (47.9 %).

In addition, the substantial total loan loss provisions at Stages 1 and 2 provide a significant buffer for mitigating potential future negative influences.

The coverage ratio of the total volume of receivables AC was a solid 2.2 % as at 31 December 2021 (previous year: 2.5 %).

Details regarding the total loan loss provisions are presented in Notes 16, 27 and 41 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) and share prices, indices and fund prices (equity risk/funds risk), in each case including their volatilities (volatility risk).

This definition also includes pension risk as a potential loss resulting from an adverse net present value development of plan assets and/or pension liabilities, mainly due to changes in interest rates, credit spreads, fund prices and currency exchange rates as well as an unfavourable development of the inflation trend and the biometric assumptions.

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. Within the scope of this upper limit of losses, the risks of all transactions with market risk are limited by a system of loss and risk limits.

Market risk is actively managed in the Treasury & Markets division. 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 with market risks.

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.

Management of market risk

MEASURING AND LIMITING MARKET RISK

The economic daily result and a value-at-risk approach form the basis of the system for measuring and managing market risk. The economic result is determined from the change in net present value compared to the end of the previous year. The Value at Risk (VaR) 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 VaR is determined by Hamburg Commercial Bank using the historical simulation method. It is calculated for the entire Group based on a confidence level of 99.0 % and a holding period of one day for a historical observation period of 250 equally weighted trading days. The VaR model used and continuously enhanced by Hamburg Commercial Bank contains all of the Bank's significant market risks in an adequate form.

The material market risks at Hamburg Commercial Bank during the reporting period primarily include interest rate risk and equity/funds risk as well as credit spread 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 was 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. As of 2022, the Bank will extend the limits to the potential net present value losses from the interest rate shocks that are specified in the annex to the Basel Committee on Banking Supervision standards for interest rate risks in the banking book (BCBS 368). The reference parameter for this is no longer the regulatory capital, but instead the core capital of the Bank.

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. 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 most adverse plausible stress scenario.

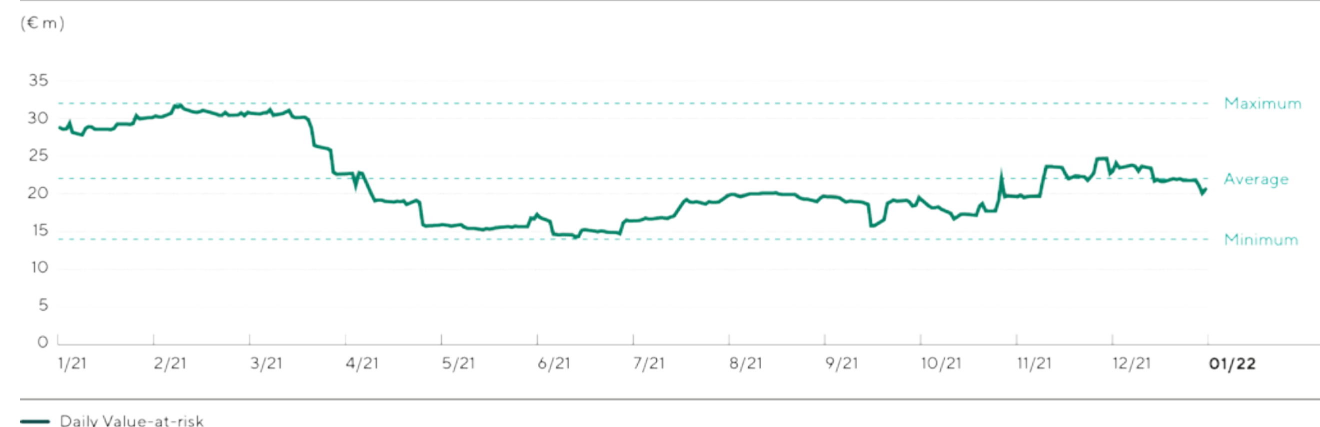
Where necessary, Hamburg Commercial Bank enters into hedging transactions to manage or reduce market risk in order to offset the impact of unfavourable market movements on its own positions. Derivative financial instruments, such as interest rate and cross currency interest rate swaps, are used as hedging instruments. The effects of the hedging transactions entered into are included in the VaR reported. 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. G) of Note 9 "Accounting policies", Note 12 "Result from hedging", Note 28 "Hedge accounting" and Note 59 "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 2021.

Daily Value at Risk in the course of 2021



As at 31 December 2021, the daily market risk of the trading book positions was € 1.4 million and that of the banking book positions was € 19.8 million. 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 € 20.6 million. The daily interest rate risk in the banking book (IRRBB) was € 13.1 million, the equity/funds risk was € 9.0 million and the credit spread risk was € 3.9 million.

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 during the course of the year under review.

Daily Value at Risk of the Group

(€ m)	Interest rate risk[1]		Credit spread risk[1]		Currency risk		Equity/ funds risk		Total[2]	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Average	13.5	21.8	5.9	10.2	1.1	1.5	7.7	3.8	21.5	26.4
Maximum	23.2	31.6	13.0	14.1	3.2	3.1	10.4	8.7	31.8	30.3
Minimum	9.2	16.6	3.4	6.9	0.3	0.6	4.0	0.5	14.3	19.7
Period end value	13.3	19.1	3.9	10.4	0.4	1.8	9.0	8.6	20.6	28.0

[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 clients and bond trading. Market risk also includes credit spread risk on securities held in the liquidity buffer, cover pool and investment management portfolios, which have good credit quality. In addition to the risk determined by the system, the VaR of Hamburg Commercial Bank as at 31 December 2021 includes a VaR add-on at Group level of € 0.1 million for residual risks for corporate bonds, Pfandbriefe, government bonds and collateralised loan obligations (CLO).

To enable diversified asset backing and to secure the long-term pension liabilities, the Bank has implemented a Contractual Trust Agreement (CTA). The assets consist primarily of long-term investments in liquid exchange-traded funds (ETFs) and alternative investment funds (AIFs). The resulting equity/funds risk is part of the market risk of Hamburg Commercial Bank. For the less liquid assets of the CTA, in addition to the risk determined by the system, the VaR includes a VaR add-on of € 5.0 million as at 31 December 2021.

Overall VaR decreased during the reporting period compared to the previous year end. The main reason for the decrease in the first half of 2021 was the lower volatility in the financial markets, which had risen significantly in 2020 as a result of the COVID-19 crisis. The moderate increase in VaR in the second half of the year is mainly influenced by the continuous portfolio expansion in CTA.

BACKTESTING
Hamburg Commercial Bank performs regular backtests to verify the appropriateness of its VaR forecasts. Assuming unchanged positions, the theoretical daily results achieved on the basis of the market development observed on the following day are compared with the VaR values forecast on the previous day by means of historical simulation. Based on the assumption of the confidence level of 99.0 % applied by Hamburg Commercial Bank, up to three outliers indicate that the forecasting quality for market risks is satisfactory. In order to ensure adequate forecasting quality at the level of the Hamburg Commercial Bank Group, the VaR calculated on the basis of the historical simulation is corrected by including an add-on, if more than three outliers are determined. Such an add-on is not required as at the reporting date.

STRESS TESTS
In addition to limit-based steering of the daily VaR and the Basel interest rate shock (+/-200 bp) as well as the additional BCBS interest rate shocks, 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 specifically according to risk types (for example, shifting or turning of the interest rate curve), the historical and hypothetical stress tests affect multiple market risk factors at the same time. As such, historical scenarios reflect historical correlations between the various risk factors that have actually occurred in the past, while hypothetical scenarios represent 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 ESG market risk stress test implemented in 2021 also falls into the category of hypothetical scenarios. The hypothetical scenarios are reviewed periodically and adjusted if necessary, depending on the change in the market environment.

INSTRUMENTS FOR MANAGING MARKET RISK IN THE CONTEXT OF ACCOUNTING FOR HEDGING RELATIONSHIPS
The Treasury & Markets division 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. The hedging of market risks can take place at micro, portfolio and macro level.

Changes in the value of derivatives are always recognised through profit or loss due to the FVPL classification. If underlying transactions classified as AC or FVOCI are hedged by derivatives, this gives rise to a distortion in the income statement that is not consistent with the economic facts. One way of avoiding these distortions is to use fair value hedge accounting. In fair value hedge accounting, the changes in value of hedged items which are attributable to the hedged risk are recognised through profit or loss. In doing so, the Bank only takes into account hedging of the fair value against interest rate risks. Fixed interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only third-party interest rate and cross currency interest rate 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 covers a multi-year assessment period, and thereby focusses on the ability to fulfil all regulatory, supervisory and in part internal liquidity requirements and guidelines at all times. 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 solvency 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.

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

The risk of illiquidity refers to the risk that present or future payment obligations cannot be met in part or in full. The key driver of this liquidity risk is the cash flow structure in the liquidity maturity profile, which is determined by the assets (maturity/currency structure) and liabilities (funding structure by maturity/currency/investor).

Liquidity maturity transformation risk refers to the risk that a 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 solvency of Hamburg Commercial Bank at all times, at all locations and in all currencies, to adhere to the regulatory liquidity ratios, to manage the marketability of the liquid assets of the liquidity buffer and to avoid concentration risks in the refinancing structure. The Treasury & Markets business unit has operational responsibility for funding and market management.

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. In addition, the emergency processes also take into account institute-specific, risk-oriented and capital market-oriented early warning indicators to avert a liquidity crisis. The liquidity contingency plan is closely linked to the recovery plan in accordance with the SAG.

Management of liquidity risk

MEASURING AND LIMITING LIQUIDITY RISK
The measurement of liquidity risk is broken down into the intra-day risk of illiquidity from payment transactions operations, the short-term risk of illiquidity and the long-term or 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 profiles) for the purposes of measuring the risk of illiquidity or the refinancing requirements. The difference between inflows and outflows represents a liquidity surplus or deficit (gap) in the relevant maturity bands.

The gaps are calculated from the first day up to the twelfth month – accumulated by maturity band – in order to quantify future liquidity requirements. The cumulative requirements are compared to the respective liquidity potentials that are available for liquidity coverage per maturity band. The net amount of cumulative requirements and liquidity potentials is referred to as the net liquidity position. In the maturity bands up to the third month, the minimum net liquidity position is prescribed by a limit or a risk guideline. The utilisation of these limits or risk guidelines therefore constitutes the measure of the risk of illiquidity.

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. For better mapping of the economic maturities, maturity scenarios are used for some positions. For example, possible deposit bases from deposits as well as realisation periods and amounts of assets are modelled conservatively as a matter of principle. A regular review of the modelling assumptions is carried out, which is also required in MaRisk.

The liquidity potential available to close gaps is composed of a securities portfolio held as a precaution in the event of a crisis (liquidity buffer portfolio), other securities according to how liquid they are and industrial loans eligible for refinancing with central banks. Most of the portfolio of securities is invested in liquid markets and can be liquidated via the refinancing channels, namely central banks, Eurex repo market, bilateral repo market or the cash market.

The components of the liquidity potential – such as the liquidity buffer required under MaRisk for example – are monitored continuously and validated in accordance with internal and external minimum requirements.

Hamburg Commercial Bank measures the liquidity maturity transformation risk using a value-at-risk approach, the Liquidity Value at Risk (LVaR). The LVaR is calculated on a monthly basis through historical simulation (confidence level of 99.9 %, 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. The limiting of LVaR takes place at the Group level and forms 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 to determine 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 risk of illiquidity over more than one year is managed by means of the portfolio/liquidity maturity profile. It represents the pure portfolio maturity in the base case scenario.

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) are assessed for the risk of illiquidity on a monthly basis in addition to the daily calculation of the stress case liquidity maturity profile. A stressed US dollar exchange rate (gradual increase) is taken into account in the market liquidity crisis and severe economic downturn scenarios.

As part of a stress test for the liquidity maturity transformation risk, it is investigated how the LVaR will change in the event of rising 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.

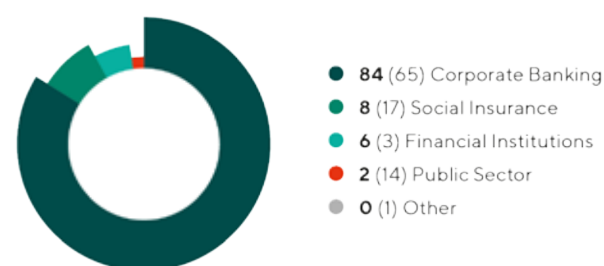
Hamburg Commercial Bank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors) and maturities (original and residual maturities).

In line with the reduction in total assets, the volume of deposits in 2021 declined significantly year-on-year. As at 31 December 2021, the total volume still amounted to € 7.7 billion (previous year: € 9.1 billion). The counterparty concentrations were also reduced year-on-year. The ten largest depositors account for around 16.9 % of total deposits (previous year: 21.6 %). Based on the maturity structure, the proportion of deposits payable on demand of 57.5 % is still high (previous year: 51.9 %).

The following chart shows the composition of deposits by sector:

Depositor structure as at 31 December 2021

(%, previous year figures in brackets)



In addition to the analysis of the depositor structure with regard to existing depositor concentrations, risk concentrations with regard to the US dollar asset/liability position are also examined. 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.

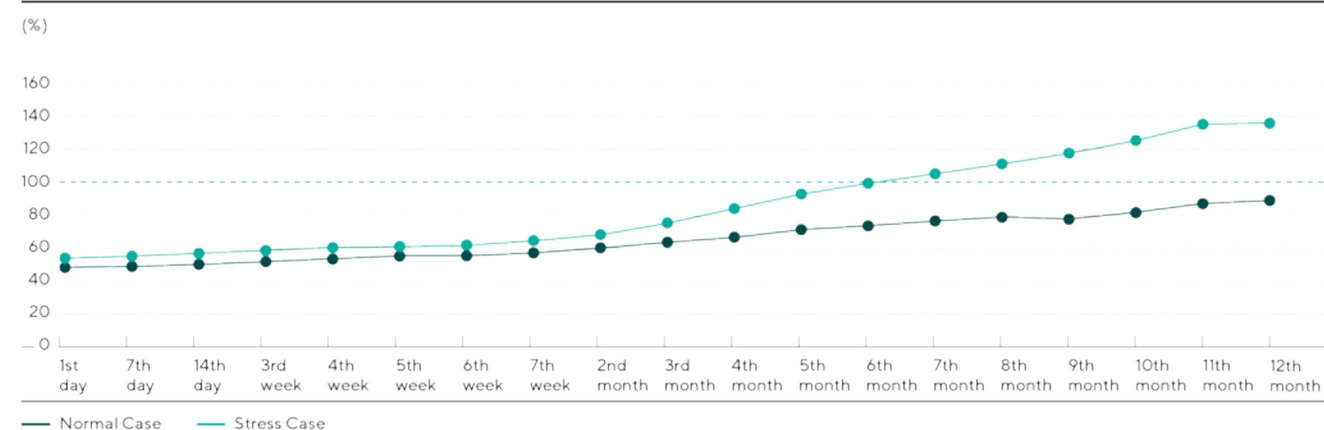
QUANTIFICATION OF LIQUIDITY RISK

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 risk of illiquidity.

The utilisation is 89 % 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 as at the end of 2021 stood at over six months. Compared to the 2020 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.

The following chart shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case liquidity maturity profiles as at 31 December 2021.

Utilisation of Liquidity Potential as at 31 December 2021



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. As at 31 December 2021, it amounted to 164 % (previous year: 171 %).

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 2021, the Bank's NSFR amounted to 114 % under the CRR (previous year: 111 % under the QIS (Basel framework)) 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 by 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 twelve months as at 31 December 2021.

REFINANCING SITUATION

Hamburg Commercial Bank successfully implemented its funding strategy in the 2021 financial year. Despite the continuing uncertainties caused by the coronavirus pandemic, the situation on the capital markets has improved further with the ongoing support of the central banks. Thus, Hamburg Commercial Bank has continued its successful issuing of benchmark bonds, and has also issued further unsecured issues as well as a first Pfandbrief issue in benchmark format. In addition to the issuing activities, deposits from corporates in particular contributed to the refinancing of the business.

The further diversification of the funding structure as well as the reduction of concentrations within deposits continue to pose challenges for future refinancing. The positive development of the Bank has led to a rating upgrade (Moody's) and thus to further improvements in the perception by investors. Execution of funding measures in the market could be made more difficult by potential tensions in the financial markets. A less supportive monetary policy adopted by the central banks could also limit the refinancing options and potentially increase funding costs.

The transition to the guarantee scheme of the Federal Association of German Banks (*Bundesverband deutscher Banken, BdB*) at the turn of the year gives Hamburg Commercial Bank further stability for the implementation of its short-term and long-term refinancing strategy. The Bank's membership in the security reserve of the Landesbanken and Girozentralen (*Sicherungsreserve*) ended at the same time. Given the different scope of protection provided by the guarantee schemes, there is a fundamental risk of increased liquidity outflows. However, Hamburg Commercial Bank assumes that the respective depositors have already withdrawn their funds before the reporting date; since the reporting date, there have only been very minor outflows of funds. In a communication dated 8 December 2021, the BdB announced a reform of the protection of the Deposit Protection Fund, which is to apply from 2023 (including transitional periods) and which will affect all members of the ESF equally. The Bank will analyse the proposed changes and assess the resulting impact in its funding strategy.

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 small 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 inadequate or failed 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 risks, information risks, HR risks, model risks, sourcing 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, errors 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 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 the improper provision 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.

Sourcing risk in the event of outsourcing 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. In the event of insourcing, there is a 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 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 risks by setting uniform rules and methods, and monitors their implementation. The role of the overarching 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, Risk Control 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, assessment and monitoring of non-financial risks are an important success factor for Hamburg Commercial Bank. Various 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 causes.

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

For the risk-bearing capacity calculation, the operational risk is determined on the basis of the most relevant scenarios from the risk scenario assessments using a Monte Carlo simulation and compared with the level of the risk from a modified standardised approach. The higher value of the two determination methods is used for the economic perspective.

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 that 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 risks. Detailed information on the ICS is set out in the “Risk management system” section.

Management of HR risks
HR risks are countered through active personnel 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 sourcing risks
Outsourcing is only carried out if the integration into all relevant banking processes is ensured, and if the service providers involved have an appropriate risk controlling, information security management and internal control system. For significant outsourced activities and processes, rights to give instructions and audit rights must be agreed in the contracts for Hamburg Commercial Bank. Insourcing is managed centrally. Insourcing only exists to a very limited extent, as this is not part of Hamburg Commercial Bank's business model.

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 employees are given regular training on compliance-related 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.

Through internal reporting channels and the so-called whistleblowing office, the Bank is informed of suspected cases of unlawful behaviour and passes them on to the appropriate authorities. 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 Strategic Risk Framework 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 quantitative strategy management is the responsibility of the Bank Steering business unit. The Strategy & Transformation business unit is responsible for monitoring the non-financial business strategy risk.

Non-financial risks in the reporting year
The reporting year was characterised by the multi-year transformation process and the accompanying measures such as the implementation of the IT transformation and the staff reduction programme.

The comprehensive restructuring of IT into a modern, cost-effective, cloud-based IT architecture is currently being implemented. The IT risks that may arise during this IT transformation process are reduced through 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.

The Bank implemented its targets for the staff reduction programme in the reporting year as planned. This process was actively supported by the Human Resources business unit and measures were taken to reduce HR risk. The staff reduction measures initiated at the end of 2018 are to be completed in 2022. Consistent with the moderate growth course, the Bank plans strategic new appointments in the coming years.

In addition to the transformation, 2021 was influenced 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. The impact of COVID-19 on loss events has so far been limited to additional costs, for example for increased hygiene measures, the provision of coronavirus tests, as well as IT measures for the increased use of digital services and teleworking.

As at the reporting date, Hamburg Commercial Bank recognised provisions for the legal risk category, which is a component of operational risk, in particular for litigation risks and costs, amounting to € 124 million (previous year: € 122 million). In addition, there are also contingent liabilities arising from legal disputes. A significant portion of the provisions is due to complaints and litigation that investors and former borrowers are pursuing against the Bank.

In its judgement of 27 April 2021, the Federal Court of Justice (BGH) declared the use of clauses in contracts between consumers and banks for the modification of general terms and conditions for consumer business to be invalid. On the basis of an analysis by Hamburg Commercial Bank and its legal advisers, the legal risks associated therewith are considered to be manageable, and a corresponding provision has been recognised.

The Cologne public prosecutor's office has been conducting an investigation into two former senior employees of HSH Nordbank since April 2018. As part of the investigation, the Bank was interviewed as a potential co-defendant in the case. In July 2021, the Cologne public prosecutor's office searched the premises of the Bank. In the course of thereof, the charges were extended to other (mostly former) employees. HSH Nordbank, as the predecessor institution of Hamburg Commercial Bank, had already proactively investigated the matter in 2013, long before the start of the investigation by the Cologne public prosecutor's office, disclosed all findings of its internal investigation at the time to the tax authorities responsible for large companies in Hamburg and the Hamburg public prosecutor's office, made provisions amounting to € 127 million in the 2013 financial statements, and repaid taxes totalling around € 112 million plus interest in January 2014. Hamburg Commercial Bank is cooperating with the Cologne public prosecutor's office. The case may potentially result in a fine for the Bank. The likelihood of this happening or the amount of the potential fine are currently not foreseeable.

As a component of legal risks, tax risks mainly result from the fact that the binding interpretation of rules that can be interpreted may sometimes only be known after several years. At present, the assessment periods from 2011 onwards can still be changed under procedural law. In connection with the tax audits that are currently being conducted, the new and/or amended publications by the tax authorities, as well as the case law on certain tax matters that has meanwhile come into effect, appropriate provisions have been recognised for the resulting tax risks. The related provisions (including interest) amount to a total of € 37 million.

Summary of risk assessment and outlook

The 2021 financial year was also significantly characterised by the ongoing uncertainties associated with the COVID-19 pandemic. Despite the difficult underlying conditions, Hamburg Commercial Bank has consistently continued its multi-year transformation programme and successfully completed its transition to the BdB's voluntary deposit protection fund (ESF) as of 1 January 2022.

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 risks report".

The risk management and bank management systems we have presented are designed to systematically take risks into account. This also applies to our expectations regarding the future market and business development. 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 reported a positive net result for the 2021 financial year, which was up significantly on the previous year (€ 8 million) at € 109 million. In the year under review, the earnings situation of Hamburg Commercial Bank AG was characterised by the following developments in particular: Net interest income was up very significantly year-on-year, which is also due to one-off effects from the successful continuation of de-risking activities in combination with encouraging development in the Bank's operating core business and significantly reduced total assets. The increase in net interest income more than compensated for the fact that the substantial income from profit transfers generated in the previous year was not repeated. The further decline in the cost base also had an impact on the increased operating result before loan loss provisions/valuation. Due to the negative result from loan loss provisions, which is due to global valuation allowances being set up to address macroeconomic and geopolitical risks, the operating result after loan loss provisions/valuation was negative, unlike in the previous period. Income tax expense developed in the opposite direction, considerably overcompensating for the negative operating result after loan loss provisions/valuation due to high deferred tax income, which led to the positive net result. The composition and year-on-year development of the statement of income can be seen in the following overview.

Statement of Income

(€ m)	2021	2020	Change in %
Net interest income	615	334	84
Income from profit transfers	–	210	>100
Net commission income	38	48	-21
Net income from the trading portfolio	13	-12	>100
Administrative expenses	-363	-393	-8
thereof: Personnel expenses	-140	-167	-16
thereof: Operating expenses	-223	-226	-1
Other operating result	-44	25	>-100
Operating result before loan loss provisions/valuation	**259**	**212**	**22**
Loan loss provisions/valuation	-390	-161	>100
Operating result after loan loss provisions/valuation	**-131**	**51**	**>-100**
Extraordinary result	-29	-67	57
Income tax expense	269	-53	>100
Income from the assumption of losses	–	77	-100
Net result	**109**	**8**	**>100**

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

Net interest income amounted to € 615 million compared to € 334 million in the previous year.

While average total assets have decreased significantly compared to the previous year, operating net interest income in 2021 only decreased slightly compared to 2020. This development shows that the balance sheet of Hamburg Commercial Bank AG has become significantly more productive. The increase in the operating net interest margin is primarily due to the further drop in funding costs. The effects of repositioning the balance sheet are also having an increasingly positive impact. Core aspects of this strategy include increasing the share of total assets attributable to interest-bearing assets, systematically reducing the level of insufficiently profitable products and allocating free resources to transactions with higher yield levels. Maintaining stringent price discipline in new business transactions and prolongations is also an essential component of the strategy.

The marked year-on-year increase in net interest income is due, on the one hand, to the effects of the continued measures to reduce complexity and compression of the derivatives book as part of the de-risking process. On the other, net interest income was also influenced positively by one-off effects resulting from the sale of insufficiently profitable risk-weighted assets, which was also achieved successfully as part of the de-risking process.

Income from profit transfers amounted to € 0 million (previous year: € 210 million). The substantial income in the previous year was due to the profit transfers by the Hamburg-based companies HCOB Private Equity GmbH and BINNENALSTER-Beteiligungsgesellschaft mbH.

Net commission income came to € 38 million (previous year: € 48 million). In line with the planned drop in business volume, the decrease is mainly attributable to net commission income in the lending business and in the business with guarantees. In addition, our active issuer activity increased other commission expenses as against the previous year. Net commission income from payment and account transactions, as well as the documentary business, on the other hand, was stable.

Net income from the trading portfolio was moderately positive and amounted to € 13 million (previous year: € -12 million). The decisive factor behind the increase in earnings was the very positive net result from interest rate transactions. Net income from the trading portfolio includes allocations to the fund for general banking risks in accordance with Section 340e HGB in the amount of € 1 million (previous year: € 0 million).

Administrative expenses amounted to € -363 million in the 2021 financial year (previous year: € -393 million). With the significant drop of € 30 million (corresponds to 8 %), the Bank was able to further reduce its costs despite continued substantial investments in digital transformation, allowing it to meet its cost targets for 2021 as a whole.

The main driver behind the decline in administrative expenses was the further 16 % decrease in personnel expenses from € -167 million in the previous year to € -140 million. As part of the staff reduction programme, which went according to plan on the whole, the number of employees had been reduced by a further 177 full-time employees (FTEs) to 903 FTEs by the end of the year.

At € -223 million, operating expenses were slightly below the previous year's figure (€ -226 million). The development in operating expenses is also characterised by declining costs in ongoing operations (known as "run the bank" costs). The largest drop here relates to building costs and payment transaction provider costs. There was an increase in the "change the bank" costs. These include future-oriented (non-capitalisable) expenses, especially for the IT environment, which are expected to be amortised through a sustainable reduction in running costs. Regulatory expenses, the main item of which is the bank levy, remained stable compared to the previous year (€ -32 million) at € -32 million.

The **other operating result** (including other taxes) amounted to € -44 million (previous year: € 25 million). The drop of € 69 million is due roughly equally to lower other operating income and higher other operating expenses compared to the previous year. The decline in income is due, in particular, to the absence of the income from the sale of buildings generated in the previous year, but also to lower cost allocations and expense reimbursements. The item was also characterised by the reversal of provisions. The main reasons behind the increase in expenses included higher expenses in connection with options trading, as well as higher compounding amounts/additions to provisions than in the previous year. As with the decline in income from cost allocations and reimbursements of expenses, the expenses incurred were down in comparison to the previous year.

Significantly increased operating result before loan loss provisions/valuation

The operating result before loan loss provisions increased significantly and amounted to € 259 million as against € 212 million in the previous year, despite the loss of income from profit transfers, which at € 210 million were almost solely responsible for net earnings in the previous year. This development is based primarily on the very significant increase in net interest income, which was also influenced by one-off effects. In addition, the improved net income from the trading portfolio and the further drop in administrative expenses as planned had a positive effect.

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

The result from loss provisions/valuation came to € -390 million (previous year: € -161 million), putting significant pressure on the net result. This was mainly due to high net additions to loan loss provisions (particularly to address portfolio risks),

which were offset by moderate results from securities and equity holdings. In detail, the individual sub-items showed the following significant developments:

Hamburg Commercial Bank AG recorded an expense of € -430 million for loan loss provisions in the lending business in the reporting period (previous year: € -211 million). The negative loan loss provisions in the reporting year were driven by the significant increase in provisions for portfolio risks in the loan book. This was to reflect the risks associated with the loan book at the end of the year in line with the principle of prudence. The main risks are associated, in particular, with the current geopolitical tension, the high inflation risks and an emerging trend towards widening credit spreads in conjunction with a sharp increase in volatility on the capital markets. In addition, loan loss provisions include additions to individual valuation allowances (mainly in the Real Estate segment), which were moderate in view of the low level of new defaults.

The result in the securities business was moderately positive at € 32 million (previous year: € -51 million). The result was driven by realisation gains from the sale of securities in the course of the continued de-risking activities. The previous year's result was characterised by negative effects resulting from the repayment of own issues in connection with the ongoing optimisation of the liabilities side to reduce funding costs in the long run.

In the year under review, the valuation result from equity holdings in non-affiliated companies was slightly positive at € 8 million (previous year: € 101 million). The item mainly included income in connection with a capital repatriation by an affiliated company, which more than compensated for minor expenses from loss transfers. The previous year's result was characterised by write-ups on interests in affiliated companies.

Negative extraordinary result

The extraordinary result amounted to € -29 million, meaning that it had a moderate, but noticeably less pronounced impact on the net result than in the previous year (€ -67 million), which was still hit by effects in connection with the repurchase of hybrid instruments (€ -48 million). As in the previous year, the net result from restructuring was balanced, as moderate operating expenses from restructuring were offset by income from the reversal of restructuring provisions.

The extraordinary result includes transformation expenses in connection with the Bank's realignment (€ -29 million, previous year: € -18 million). These relate to operating expenses that are directly connected to the Bank's transformation and restructuring. In the reporting year, these included, in particular, project expenses to realise cost efficiencies, e.g. through outsourcing.

Income taxes characterised by high deferred tax income lead to positive net result

Net income before taxes amounted to € -160 million (previous year: € -16 million).

Whereas income tax expense had still put pressure on the net result at € -53 million in the previous year, it made a very clear positive contribution of € 269 million to the net result in the reporting year due to deferred taxes developing in the opposite direction. Income tax expense in the reporting period includes an expense from current taxes of € -14 million and income from deferred taxes of € 283 million. The expense for current taxes relates to the current year at € -24 million. This is offset by tax income for previous years in the amount of € 10 million. The deferred tax income results from income from the recognition of deferred taxes on loss carry-forwards (€ 171 million) and from the change in deferred taxes for temporary differences (€ 112 million). The latter largely relates to loans and advances to customers.

After taking account of income taxes of € 269 million (previous year: € -53 million) and income from the assumption of losses of € 0 million (previous year: € 77 million), Hamburg Commercial Bank AG reports a significantly improved positive net result of € 109 million for the 2021 financial year (previous year: € 8 million). The net result in accordance with the German Commercial Code (HGB) is in line with the Bank's expectations overall.

Net assets and financial position

Balance sheet

(€ m)	2021	2020	Change in %
Assets			
Cash reserve, debt instruments issued by public-sector institutions, bills of exchange eligible for refinancing	3,261	1,718	90
Loans and advances to banks	772	1,184	-35
Loans and advances to customers	19,099	22,325	-14
Securities	6,595	8,131	-19
Trading portfolio	564	969	-42
Equity holdings in non-affiliated companies and interests in affiliated companies	6	725	-99
Remaining assets	1,644	1,883	-13
Total assets	**31,941**	**36,935**	**-14**
Liabilities			
Liabilities to banks	5,530	7,807	-29
Liabilities to customers	11,112	13,539	-18
Securitised liabilities	8,768	8,638	2
Trading portfolio	442	694	-36
Subordinated debt	913	930	-2
Fund for general banking risks	2,368	2,366	0
Equity	1,828	1,714	7
Remaining liabilities	980	1,247	-21
Total assets	**31,941**	**36,935**	**-14**
Contingent liabilities	750	976	-23
Other commitments	3,944	4,400	-10
Total off-balance sheet business	**4,694**	**5,376**	**-13**
Business volume	**36,635**	**42,311**	**-13**

Further reduction in total assets in the course of the continued optimisation of the balance sheet structure

Since the start of the transformation phase at the end of 2018, the Bank has substantially reduced its total assets, most recently by around 24 % in 2020 as part of the de-risking process. In 2021, the focus was on the continued optimisation of the balance sheet structure to further increase the Bank's profitability. Within this context, total assets fell by a further 14 % to total € 31,941 million (31 December 2020: € 36,935 million).

On the assets side, the renewed and planned drop in total assets is attributable, in particular, to loans and advances to customers, but also to securities as well as equity holdings in non-affiliated companies and interests in affiliated companies. On the liabilities side, the decline is particularly evident in liabilities to customers and banks. In detail, the developments were as follows:

The cash reserve increased as against the end of the previous year to € 3,261 million due to reporting date factors (31 December 2020: € 1,718 million).

Loans and advances to banks fell slightly compared to the end of the previous year. They amounted to € 772 million (31 December 2020: € 1,184 million). The decline is attributable to investments with a residual maturity of more than five year and a residual maturity of more than three months and up to one year.

Following what was already a very significant reduction in the 2020 financial year, the balance sheet item loans and advances to customers showed a further marked decline of 14 %. As at 31 December 2021, their carrying amount was € 19,099 million (31 December 2020: € 22,325 million), which is in line with the plan. In terms of portfolio composition, the loan book was reduced as planned in the conventional corporates business, in project financing (also due to the sale of a loan portfolio in the Energy segment) and in Real Estate, while the financing volume in the high-margin International Corporates &

Specialty Lending segment and gradually also in Shipping was expanded.

The securities position dropped considerably from € 8,131 million to € 6,595 million. The development of this item was characterised by a drop in debentures and other fixed-interest securities of public-sector issuers, as well as own debentures.

Trading assets continued to decline and were down significantly compared to the end of the previous year, to € 564 million (31 December 2020: € 969 million). This was mainly due to a lower carrying amount of derivative financial instruments. This is because the Bank has further reduced its risk positions in customer and banking book derivatives in the course of its ongoing de-risking activities. The debentures and other fixed-interest securities reported in the trading portfolio also decreased.

The drop in the carrying amount of equity holdings in non-affiliated companies/interests in affiliated companies is due to partial repayments of registered capital by Funding II, George Town (formerly: HCOB Funding II), and HCOB Securities S.A., Luxembourg.

Remaining assets dropped by 13 % to € 1,644 million (31 December 2020: € 1,883 million). This development is due primarily to a significant drop in other assets. Mirroring this development in the other direction, but to a lesser extent, deferred tax assets increased. The decrease in other assets is due, in particular, to lower initial margins and variation margins for OTC derivatives, as well as to the settlement of receivables from profit and loss transfer agreements in the reporting year.

The 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 in the form of a corresponding decline in liabilities to banks and liabilities to customers.

Liabilities to banks, for example, decreased very significantly by 29 % to € 5,530 million (31 December 2020: € 7,807 million). This item also includes borrowings from the ECB under the TLTRO III programmes. Following early voluntary repayments in the second half of the year totalling a nominal amount of € 1.25 billion, the utilisation of TLTRO III still amounted to € 1.75 billion as at the balance sheet date (31 December 2020: € 3.0 billion).

Liabilities to customers also fell very significantly by 18 % from € 13,539 million to € 11,112 million. The decrease is mainly due to the scheduled reduction in the deposit portfolio.

The carrying amount of securitised liabilities, which increased slightly to € 8,768 million (31 December 2020: € 8,638 million), reflects the Bank's active issuing activity in the reporting year (in particular refinancing via the benchmark bonds).

As at 31 December 2021, subordinated liabilities amounted to € 913 million, almost on a par with the prior-year level (31 December 2020: € 930 million).

The Bank’s reported equity increased as against the end of the previous year and amounted to € 1,828 million as at 31 December 2021 (31 December 2020: € 1,714 million). The increase is mainly based on the net income for the 2021 financial year. 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.

Remaining liabilities decreased from € 1,247 million to € 980 million. The drop is mainly due to lower provisions and other liabilities. In the case of provisions, the decrease is due in particular to the utilisation of restructuring provisions. The drop in other liabilities was driven by the settlement of outstanding interest payments for the silent participations, as well as lower obligations from margin payments received in connection with OTC derivatives and from security deposits for the assumption of debts as at the reporting date.

Off-balance-sheet business also down

The business volume decreased in line with total assets by 13 % to € 36,635 million (31 December 2020: € 42,311 million), as off-balance-sheet business also declined. Contingent liabilities, which essentially comprise guarantees and warranties, fell to € 750 million (31 December 2020: € 976 million). Other commitments, which largely consist of irrevocable loan commitments, decreased and amounted to € 3,944 million as at 31 December 2021 (31 December 2020: € 4,400 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 consistently exceeded during the reporting period. Further details can be found in the combined management report of Hamburg Commercial Bank.

Hamburg, 22 March 2022

Stefan Ermisch Ulrik Lackschewitz

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Group statement of income

for the period from 1 January to 31 December 2021

(€ m)	Note	2021	2020	Change in %
Interest income from financial assets categorised as AC and FVOCI		586	725	-19
Interest income from other financial instruments		303	626	-52
Negative interest on investments categorised as AC and FVOCI		-16	-19	-16
Negative interest on other cash investments and derivatives		-79	-79	-
Interest expenses		-365	-791	-54
Positive interest on borrowings and derivatives		97	95	2
Net income/loss from hybrid financial instruments		-	72	-100
Net interest income	(10)	**526**	**629**	**-16**
Net commission income	(11)	38	48	-21
Result from hedging	(12)	1	5	-80
Result from financial instruments categorised as FVPL	(13)	37	-93	>100
Net income from financial investments	(14)	3	7	-57
Result from the disposal of financial assets classified as AC	(15)	37	60	-38
Total income		**642**	**656**	**-2**
Loan loss provisions	(16)	32	-188	>-100
Total income after loan loss provisions		**674**	**468**	**44**
Administrative expenses	(17)	-328	-365	-10
Other operating result	(18)	14	205	-93
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(19)	-32	-32	-
Net income before restructuring and transformation		**328**	**276**	**19**
Result from restructuring and transformation	(20)	-29	-19	-53
Net income before taxes		**299**	**257**	**16**
Income tax expense	(21)	52	-155	>-100
Group net result		**351**	**102**	**>100**
Group net result attributable to Hamburg Commercial Bank shareholders		351	102	> 100

Earnings per share

(€)	Note	2021	2020
Undiluted	(23)	1.16	0.34
Diluted	(23)	1.16	0.34
Number of shares (millions)		**302**	**302**

Group statement of comprehensive income

for the period from 1 January to 31 December 2021

Reconciliation with total comprehensive income/loss

(€ m)	2021	2020
Group net result	**351**	**102**
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 loss (before taxes)	-54	-59
Gains and losses (before taxes) reclassified to the statement of income	-4	-19
Income tax recognised	18	24
	-40	**-54**
Differences resulting from currency translation	16	-49
Subtotal	**-24**	**-103**
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)	-7	8
Income tax recognised	2	-2
	-5	**6**
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	69	-28
Income taxes recognised	-22	9
	47	**-19**
Subtotal	**42**	**-13**
Other comprehensive income for the period	**18**	**-116**
Total comprehensive income	**369**	**-14**

Group statement of financial position

as at 31 December 2021

Assets

(€ m)	Note	2021	2020	Change in %
Cash reserve	(24)	3,261	1,741	87
Loans and advances to banks	(25)	1,236	1,558	-21
Loans and advances to customers	(26)	20,198	22,478	-10
Loan loss provisions	(27)	-446	-569	-22
Positive fair values of hedging derivatives	(28)	26	2	>100
Positive adjustment item from portfolio fair value hedges		32	108	-70
Trading assets	(29)	689	1,544	-55
Financial investments	(30)	4,524	5,459	-17
Intangible assets	(31)	34	15	>100
Property, plant and equipment	(32)	19	23	-17
Investment property	(32)	1	1	-
Non-current assets held for sale and disposal groups	(33)	10	634	-98
Current tax assets	(34)	10	25	-60
Deferred tax assets	(35)	616	532	16
Other assets	(36)	61	264	-77
Total assets		**30,271**	**33,815**	**-10**

Liabilities

(€ m)	Note	2021	2020	Change in %
Liabilities to banks	(37)	5,504	7,478	-26
Liabilities to customers	(38)	11,141	13,104	-15
Securitised liabilities	(39)	6,704	5,670	18
Negative fair value of hedging derivatives	(28)	149	371	-60
Negative adjustment item from portfolio fair value hedges		181	269	-33
Trading liabilities	(40)	289	686	-58
Provisions	(41)	454	634	-28
Current tax liabilities	(43)	39	7	>100
Other liabilities	(45)	172	312	-45
Subordinated capital	(46)	921	940	-2
Equity	(47)	4,717	4,344	9
Share capital		302	3,018	-90
Capital reserve		1,524	82	>100
Retained earnings		2,437	1,010	>100
Revaluation reserve		103	148	-30
Currency conversion reserve		-	-16	-100
Group net result		351	102	>100
Total before non-controlling interests		4,717	4,344	9
Total liabilities		**30,271**	**33,815**	**-10**

Group statement of changes in equity

(€ m)	Note	Treasury shares	Share capital	Capital reserve	Retained earnings	Currency conversion reserve	Revaluation reserve	Group net result	Total before non-controlling interests	Non-controlling interests	Total
As at 1 January 2020		**–**	**3,018**	**75**	**1,016**	**33**	**196**	**12**	**4,350**	**–**	**4,350**
Changes resulting from restatement		–	–	–	1	–	–	–	1	–	**1**
Adjusted amount as at 1 January 2020		**–**	**3,018**	**75**	**1,017**	**33**	**196**	**12**	**4,351**	**–**	**4,351**
Group net result		–	–	–	–	–	–	102	102	–	**102**
Changes resulting from the revaluation of net defined benefit liabilities		–	–	–	-19	–	–	–	-19	–	**-19**
Credit risk-induced changes in the value of liabilities designated at fair value		–	–	–	–	–	6	–	6	–	**6**
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		–	–	–	–	–	-54	–	-54	–	**-54**
Exchange rate changes		–	–	–	–	-49	–	–	-49	–	**-49**
Other comprehensive income		–	–	–	-19	-49	-48	–	-116	–	**-116**
Comprehensive income as at 31 December 2020		**–**	**–**	**–**	**-19**	**-49**	**-48**	**102**	**-14**	**–**	**-14**
Compensation for the Group net loss for the previous year		–	–	–	12	–	–	-12	–	–	**–**
Share-based remuneration		–	–	7	–	–	–	–	7	–	**7**
As at 31 December 2020		**–**	**3,018**	**82**	**1,010**	**-16**	**148**	**102**	**4,344**	**–**	**4,344**
As at 1 January 2021		**–**	**3,018**	**82**	**1,010**	**-16**	**148**	**102**	**4,344**	**–**	**4,344**
Group net result		–	–	–	–	–	–	351	351	–	**351**
Changes resulting from the revaluation of net defined benefit liabilities		–	–	–	47	–	–	–	47	–	**47**
Credit risk-induced changes in the value of liabilities designated at fair value		–	–	–	–	–	-5	–	-5	–	**-5**
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		–	–	–	–	–	– 40	–	– 40	–	**– 40**
Exchange rate changes[1]		–	–	–	–	16	–	–	16	–	**16**
Other comprehensive income		–	–	–	47	16	-45	–	18	–	**18**
Comprehensive income as at 31 December 2021		**–**	**–**	**–**	**47**	**16**	**-45**	**351**	**369**	**–**	**369**
Purchase of treasury shares		-2,716	–	2,716	–	–	–	–	–	–	**–**
Reduction in capital through cancellation of shares		2,716	-2,716	–	–	–	–	–	–	–	**–**
Compensation for the Group net loss for the previous year		–	–	–	102	–	–	-102	–	–	**–**
Changes in the capital reserve		–	–	-1,278	1,278	–	–	–	–	–	**–**
Changes in scope of consolidation		–	–	–	–	–	–	–	–	–	**–**
Share-based remuneration		–	–	4	–	–	–	–	4	–	**4**
As at 31 December 2021	(44)	**–**	**302**	**1,524**	**2,437**	**–**	**103**	**351**	**4,717**	**–**	**4,717**

[1] Including the hedge adjustment from hedging net investments in foreign operations in accordance with IFRS 9.6.5.13.

Group cash flow statement

Group cash flow statement

(€ m)		2021		2020
Net result for the period		351		102
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		-11		217
a) Loans and advances to customers and banks	-17		212	
b) Financial investments	1		-1	
c) Property, plant and equipment/intangible assets/investment property	5		6	
Changes in provisions		-61		4
Other non-cash expenses/income		412		155
Profit/loss from disposal of financial investments and property, plant and equipment/investment property		-1		-183
a) Financial investments	-3		-7	
b) Property, plant and equipment/investment property	2		-176	
Other adjustments		-493		-631
Subtotal		**197**		**-336**
Changes in loans and advances		3,086		8,440
a) to banks	321		964	
b) to customers	2,765		7,476	
Changes in trading assets		917		1,131
Changes in other assets from continuing operations		225		11
Changes in liabilities		-3,918		-8,393
a) to banks	-1,975		2,422	
b) to customers	-1,943		-10,815	
Changes in securitised liabilities		1,031		-2,112
Changes in trading liabilities		-679		-1,496
Changes in other liabilities from continuing operations		-290		-1,245
Interest and dividends received		845		1,372
Interest paid		-308		-878
Income tax payments		11		56
Cash flow from operating activities		**1,117**		**-3,450**
Receipts from disposals of		1,000		1,726
a) securities	994		1,557	
b) interests in affiliated companies and equity holdings	7		-11	
c) property, plant and equipment	-1		180	
Purchases of		-554		-1,022
a) securities	-532		-1,000	
b) interests in affiliated companies and equity holdings	-		-	
c) property, plant and equipment	-22		-22	
Cash flow from investing activities		**446**		**704**

Group cash flow statement

(€ m)	2021	2020
Payments made (-) from subordinated capital	-31	-113
Payments made (-) from silent participations	-12	-250
Cash flow from financing activities	**-43**	**-363**
Cash and cash equivalents at the beginning of the period	**1,741**	**4,850**
Cash flow from operating activities	1,117	-3,450
Cash flow from investing activities	446	704
Cash flow from financing activities	-43	-363
Cash and cash equivalents at the end of the period	**3,261**	**1,741**

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 the 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 62 and 65.

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 German Commercial Code (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 2021 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 Group 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 corporate 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 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 have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021
The amendments to IFRS 16 provide lessees with the option to apply the practical expedient on accounting for rent concession related to the COVID-19 pandemic. On issuance, the practical expedient was limited to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. Since the effects of the pandemic are ongoing, this time period is extended to 30 June 2022. These amendments apply to financial years beginning on or after 1 April 2021. Early application is permitted, including for financial statements that were not yet published on 31 March 2021.

The amendments have no 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 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 for the first time to business combinations for which the acquisition date falls on or after 1 January 2022. Earlier 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.

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. Earlier 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 amendments clarify 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.

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. Earlier 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 amendments extend 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.

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 IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies
The amendments to IAS 1 clarify that an entity is now required to disclose its material accounting policy information in the notes instead of its significant accounting policies. Whether or not the accounting policy information can be classed as material is determined based on whether a user of the entity's financial statements needs this information to make decisions. The accounting policy information must therefore be related to material transactions or other events, and there must be a reason for its disclosure. The amendments to IAS 1 were included in the IFRS Practice Statements 2 and examples were added.

The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted.

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

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
The amendments to IAS 8 clarify the difference between accounting policies and accounting estimates. Accounting estimates are now defined as monetary amounts in financial statements that are subject to measurement uncertainty.

The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier 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 reporting date to defer settlement of the liability for at least 12 months after the reporting 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 reporting 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. Earlier application is permitted.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
The amendments limit the initial recognition exemption of deferred taxes on assets or liabilities in accordance with IAS 12 to the extent that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This pertains in particular to deferred taxes on transactions such as leases and decommissioning obligations. In these cases, entities are now obliged to recognise deferred taxes upon initial recognition.

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

As far as it seems at present, these amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

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. Events after the reporting date

On 24 February 2022, the Russia-Ukraine conflict, which had been intensifying since the end of 2021, escalated. Russia advanced into Ukrainian territory with military measures and thus perpetrated an armed invasion of Ukraine. The ensuing war is a major humanitarian tragedy for the people of Ukraine and has already resulted in the first few days in many deaths and injuries and large movements of refugees from Ukraine. The European Union and the entire western world have reacted in an extremely united manner to Russia's aggression that violated international law, and have imposed very harsh sanctions on Russian companies, individuals and banks (including the Russian Central Bank) that also comprise the exclusion of relevant Russian banks from the SWIFT system. It became clear within the first few days after the invasion that the war will have grave humanitarian and political consequences and that it will also have a major impact on the global economy. World trade has been negatively affected, the already tense supply chain situation is further aggravated and energy prices soar to new record highs, further driving up inflation, which had already been very high to begin with.

As Hamburg Commercial Bank has no significant direct or indirect exposure to Russia or Ukraine, the Bank is currently not affected directly by the economic consequences of the war, albeit there is a general increase in the threat posed by cyber risks. However, the indirect macroeconomic consequences of the war may affect the achievement of Hamburg Commercial Bank's financial objectives. In principle, they may have an impact on earnings and risk costs as well as the NPE ratio, risk assets and capital ratios.

It is not currently possible to make a conclusive assessment of the indirect economic consequences of the armed conflict, as its duration, intensity and outcome as well as the ultimate effects of the sanctions that will be issued in response are fraught with high uncertainty.

Given its comfortable capital position and liquidity resources as well as high coverage ratios for credit risks, Hamburg Commercial Bank considers itself to be in a resilient position to counter further adverse developments and adheres to previous targets for its key management ratios. The Bank will analyse the further developments very thoroughly and cautiously in order to be able to adjust accordingly if needed.

3. Changes to prior-year figures

I. Adjustments of prior-year figures

A retrospective adjustment was made for the following:
In the "Disclosure of fair value in accordance with IFRS 7 and IFRS 13" section of the Group financial statements as at 31 December 2020, the fair value levels of call and fixed-term deposits as at 31 December 2020 were inadvertently misstated on both the asset and the liabilities side due to a processing error. Instead of assigning these transactions to Fair Value Level 2, they were stated under Fair Value Level 3. This pertains to call and fixed-term deposits in the IFRS categories AC HTC and AC LIA included in the balance sheet items Loans and advances to banks and Liabilities to customers. In the disclosures on transactions on the asset side, AC assets (thereof Loans and advances to banks) with a fair value of € 0.58 billion were incorrectly allocated to Fair Value Level 3 (instead of Fair Value Level 2). In the disclosures on transactions on the liabilities side, AC liabilities (thereof Liabilities to customers) with a fair value of € 4.46 billion were incorrectly allocated to Fair Value Level 3 (instead of Fair Value Level 2). Therefore, the corresponding allocations to fair value levels for the previous year were adjusted in the "Disclosure of fair value in accordance with IFRS 7 and IFRS 13" (cf. Note 52).

II. Changes to segment reporting

The segment structure of Hamburg Commercial Bank was changed during financial year 2021. The corresponding prior-year figures in the segment reporting have therefore been adjusted accordingly (cf. Note 49).

4. 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 2021

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 2022") 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 9 (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.

IFRS 9 loan loss provisions (for on- and off-balance-sheet transactions) amount to € 490 million as at 31 December 2021 (previous year: € 608 million). Of this amount, € 186 million (previous year: € 238 million) pertain to the adjustment of loan loss provisions because of model overlays. Of this amount, € 54 million is allocated to Stage 1 loan loss provisions and € 132 million to Stage 2 loan loss provisions. No model overlays have been formed for Stage 3 loan loss provisions.

Composition of model overlays

(€ m)	2021	2020
Effect of macroeconomic forecasts	52	71
Address and portfolio related adjustments		
Individual cases related to COVID-19 from the credit watch list	84	121
Hotels and retail sub-portfolio	4	12
Tankers sub-portfolio	19	3
Additions to ECL method	27	31
Total	**186**	**238**

A) EFFECT OF MACROECONOMIC FORECASTS

Given the crisis situation due to the COVID-19 pandemic, the determination of the resulting macroeconomic effects on loan loss provisioning was again calculated in separate scenarios in the past financial year. For this purpose, the Bank uses two different scenarios (the COVID-19 Base Scenario and the COVID-19 Stress Scenario). These scenarios are based on the following macroeconomic forecasts:

Macroeconomic forecasts for 2022 (as at 31 December 2021)

	Base Scenario	Stress Scenario
GDP USA (%)	4.0[4]	1.7
GDP eurozone (%)	4.2	1.5
Unemployment rate Germany (%)	4.2	1.5
Fed Funds rate (%)	0.875	0.125
ECB MRO rate (%)	0.00	0.00
3M EURIBOR (%)	-0.30	-0.65
10Y Bunds (%)	0.02	-0.65
EUR/USD exchange rate	1.14	1.05
Unemployment rate Germany (%)	5.2	5.9

Here, the COVID-19 Base 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. Depending on the macroeconomic scenarios for determining the overlays, the risk parameters (PD and LGD) are adjusted for the entire portfolio. The overall assessment includes as an overlay the delta between the calculation with adjusted risk parameters and the original loan loss provisions.

The additional loan loss provisions resulting from the two scenarios amount to € 52 million (previous year: € 71 million). This development year over year is due to the slightly improved outlook in individual economic sectors, as well as to a

reduced portfolio with a significantly improved quality with respect to risk parameters.

B) ADDRESS AND PORTFOLIO RELATED FORECASTS
In addition to the general macroeconomic forecasts, possible effects on individual counterparties in the bank portfolio are also taken into account. These concern not only customers who are significantly affected by the consequences of the COVID-19 pandemic, but also customers who can expect their business model to be negatively affected by current economic policy developments.

The risk parameters (PD and LGD) for those customers identified are adjusted for the calculation of the overlays, while the exposures are moved to Stage 2 if they were not yet in this stage already or have not already been migrated due to macroeconomic assumptions. The delta between this calculation and the original loan loss provisions is included in the overall assessment as the overlay.

The Bank has analysed its loan portfolio at the level of subportfolios as well as at a case-by-case level with respect to the impact of macroeconomic effects of the COVID-19 pandemic. In close collaboration between front office and back office, the Bank has used the credit watch list to identify customers with a medium to strong negative dependency on the current COVID-19 pandemic. This pertains to EAD of € 3,609 million (previous year: € 4,498 million) of which € 2,657 million are attributable to Stages 1 and 2 as at 31 December 2021 and were taken into account for the calculation of the overlay.

The Bank thus formed additional overlays of € 84 million (previous year: € 121 million). The reduction by € 36 million is due to the reduced exposure as well as a rating improvement for material clients and a reduction of LGD shifts by 10 % points within the scope of the calculation of the model overlay.

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 € 2,450 million (previous year: € 3,174 million). This is divided into the sub-portfolios hotels with EAD of € 979 million (previous year: € 1,111 million) and retail with EAD of € 1,471 million (previous year: € 2,063 million). The model overlays pertain to the exposures that are not on the credit watch list and amount to € 4 million (previous year: € 12 million).

The reduction by € 8 million in the reporting year results from the reduction of the LGD shifts by 10 % points within the scope of the calculation of the model overlay.

Additional overlays were formed in the shipping portfolio. The tankers segment in particular currently suffers a decline in demand related to the COVID-19 pandemic, which has a negative effect on charter rates and ship prices. As a result, adjustments to loan loss provisions in the form of overlays of € 19 million (previous year: € 3 million) were made for the tankers segment with EAD of € 764 million (previous year: € 823 million). The increase of € 16 million is due to the adjusted calculation method, according to which the transactions were assigned to Stage 2 and the rating was downgraded by 2 notches, as in the previous portfolios.

C) ADDITIONS TO ECL METHOD
Independently of COVID-19-related adjustments to loan loss provisions, the Bank determines mark-ups for pending adjustments to internal models. In the financial year, these amount to € 27 million (previous year: € 31 million).

D) SENSITIVITY ANALYSIS
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 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 € 80 million, while a downgrade by one notch would result in an increase of € 36 million. A rating upgrade by two notches reduces the loan loss provisions by € 63 million, while an upgrade by one notch leads to a reduction of € 35 million.

E) OTHER EFFECTS
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.

5. Implementation of the Interest Rate Benchmark Reform at Hamburg Commercial Bank

Interbank Offered Rates (IBORs) are used as benchmarks for pricing and determining cash flows of a variety of financial instruments. The Interest Rate Benchmark Reform replaces IBOR reference rates and the Euro Overnight Index Average with other, more neutral reference rates, the so-called Risk-Free Rates (RFRs).

The IBOR transition has an impact on a wide range of products in the lending and capital market business of Hamburg Commercial Bank, as the interest rate calculation or interest payments for these products are based on an IBOR (e.g. interest rate swaps, interest rate options, securities, issues or loans). Moreover, numerous valuation models for discounting or determining forward rates include IBOR-based interest curves.

The discontinuation of IBORs/EONIA and the transition to RFRs lead to a number of challenges that are mainly procedural or operational in nature. In order to manage these challenges and to control and coordinate the transition process, Hamburg Commercial Bank has set up a dedicated IBOR project.

In the first half of 2021, the IBOR project focused on establishing the capacity to enter new business contracts based on the new RFRs. The implementation was successfully completed across all products for all currencies concerned by the beginning of the third quarter.

In the second half of the year, project activities focused on the transition of existing contracts. This was successfully implemented for almost all contracts in the relevant non-USD currencies (EUR/GBP/CHF/JPY) by 31 December 2021. The quotation of LIBOR rates for these currencies has been discontinued as at 31 December 2021. No significant interest rate (base) risks arose during the transition, as underlying and economic hedging transactions were adjusted in parallel.

The conversion of relevant USD contracts will continue beyond 31 December 2021 and will be completed by 30 June 2023 at the latest, when USD LIBOR will also no longer be quoted. As at 31 December 2021, the portfolio to be converted breaks down as follows:

USD portfolio

(USD)	Nominal value outstanding in million	Number of customers/ISINs
Non-derivative receivables	4,329	253
Loans	3,758	164
Securities	571	89
Non-derivative liabilities	221	50
Deposits	12	46
Own issues	209	4
Derivatives	1,243	22

GBP portfolio

(GBP)	Nominal value outstanding in million	Number of customers/ISINs
Non-derivative receivables	21	5
Loans	11	1
Securities	10	4

6. 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 agreements 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 net assets, financial position and results of operations 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 7 . Reference is made to Note 56 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 7. 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 net assets, financial position and results of operations 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 related 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 therefore 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 net assets, financial position and results of operations 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

7. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg, the scope of consolidation includes thirteen fully consolidated subsidiaries (31 December 2020: twelve).

As at 31 December 2020, 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 64). 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

The following companies are fully consolidated and included for the first time in the Group financial statements as at 31 December 2021:

- HCOB Investment Management S.à.r.l., Luxembourg
- HPS Elbe Unlevered Direct Lending Fund, SCSp, Luxembourg

Hamburg Commercial Bank AG holds 100 % of the voting rights in HCOB Investment Management S.à.r.l. and therefore exercises control over this company. The subsidiary currently acts as an asset manager for the plan assets invested to cover the Bank's pension liabilities. As it commenced its business activities in the reporting year, it was included in the scope of consolidation for the first time on a fully consolidated basis.

HPS Elbe Unlevered Direct Lending Fund, SCSp is a special-purpose fund (Loan Fund) whose primary business purpose is the acquisition of receivables from third-party customers. This company was established for the purpose of Hamburg Commercial Bank diversifying its activities in the international corporates business through this Loan Fund. Hamburg Commercial Bank's control of HPS Elbe Unlevered Direct Lending Fund is based on contractual rights which result in the company's decision makers being classified as agents of Hamburg Commercial Bank.

B) DISPOSALS

Compared to 31 December 2020, the following companies are no longer included in the group of consolidated companies:

- Funding II (formerly: HCOB Funding II), George Town

This company, which originally served as a refinancing vehicle for a capital market transaction, no longer has any operating business activities following the termination of the transaction, the repayment of most of its items in the statement of financial position and the fulfilment of its business purpose. It was deconsolidated in the second half of 2021 as it was no longer material to net assets, financial position and results of operations of the Hamburg Commercial Bank Group. The deconsolidation resulted in a loss of € 16 million, which is recognised in the Other operating result. The loss is mainly the result of the realisation of currency translation differences, a comparable amount of which had been recognised in Other comprehensive income as at 31 December 2020.

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 net assets, financial position and results of operations.

III. Information on consolidated structured entities

Hamburg Commercial Bank's scope of consolidation includes six fully-consolidated structured entities. Three of these companies are controlled on the basis of a majority of voting rights. For three 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 was 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. The relevant securities and silent participations matured during the reporting year and were paid in due time. Hamburg Commercial Bank AG had provided these consolidated structured entities with a guarantee facility via a subsidiary, which served to secure potential payment obligations of the structured entities to the holders of the securities. This was discontinued subsequent to the repayment and is no longer in place as at the reporting date.

Hamburg Commercial Bank AG has furthermore granted liquidity and credit facilities to several consolidated structured entities. These were also discontinued following the repayment of the securities and silent participations; in addition, they were of minor significance for the financial situation of the Group.

Hamburg Commercial Bank AG has entered contractual obligations to bear the operating expenses for two consolidated structured entities, which are still continued as at the reporting date.

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

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

8. 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 9):

- the allocation to stages 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 9)
- 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 9)

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 allocation to stages 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 9)
- 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 9)
- 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 9);
- 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 allocation to stages and the calculation of the amount of the loan loss provisions.

The transfer of a financial instrument between Stage 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 Stage 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 Stage 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 4 ("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.

9. 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 that 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 that 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 area and securities related to the lending business are assigned to the "Hold to collect" 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 Stage 1 and 2 assets are recorded, in cases involving fixed income securities under the "Financial investments" item in the statement of financial position, under "Net income from financial investments". Gains from the corresponding disposal of Stage 3 assets are recognised in the result from loan loss provisions. Interest and prepayment penalties, current results and realised gains on Stage 1 and Stage 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 of 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 net assets, financial position and results of operations. 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 commitments

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 PROVISIONS 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 stages:

a. Stage 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. Stage 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. Stage 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 Stage 3.

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

Expected credit losses at Stage 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 Stage 1. At Stage 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 calculated the loan loss provisions for Stage 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 (Stage 1) or over a lifetime horizon (Stage 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 Stage 1 is calculated by multiplying the CCF by the line that is open on the reporting date. In order to calculate the EAD at Stage 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 Stage 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 related 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 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 reporting 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 estimates 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. In addition, regular checks are 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. In addition, the Bank's portfolios are regularly screened for potential climate risks based on the already implemented ESG risk management and ESG stress testing functions. At the moment, the Bank's main portfolios do not show any significant, unconsidered climate-related credit risks. The only area with potential ESG issues is tanker financing. However, these have already been taken into account in the forecasts of charter and ship prices in this segment and are thus included in the risk provisioning calculation based on the inclusion of macroeconomic scenarios.

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 allocation to stages. 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 stages is the individual financial instrument as a general rule. The rating of the corresponding debtor that applies at the time of addition to 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 rating expected, based on the time at which a financial instrument was recognised for the first time, for the reporting 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. As such, a sector-specific deviation of three or two rating levels was defined as significant. If this is the case then the financial instrument in question is allocated to Stage 2. Otherwise, it remains at Stage 1.

In addition, financial instruments are allocated to Stage 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. In addition, the level of supervision and any covenant breaches are also included as indicators of a significant deterioration in credit quality.

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 Stage 1. Nor does the Bank 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 losses for trade receivables, leasing receivables and contract assets.

A financial instrument is transferred from Stage 2 to Stage 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 Stage 3
Defining Stage 3 of the impairment model involves assessing on each reporting 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 of a massive and permanent inability to service debt, whereby an improvement in the situation 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. Depending on the default event, this lasts at least 92 or 365 days, respectively. During this period of good conduct, the debtor is still considered to be in default.

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 receivables 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 stage. 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 stage in question. In such cases, however, the calculation method is based on the standard credit risk parameters in the same way as for Stage 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 an identical financial instrument as at the measurement date. This is generally the case for exchange-traded shares that are 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 ad 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.

VALUATION 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 used make partial use of parameters that are not observable on the market 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 relevant market for the fair value calculation differs from the market in which the transaction was contracted and the valuation model is not based exclusively on observable parameters, these differences (so-called day one profits and losses) are accrued as day one profit and loss reserves. 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 procedures. 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. If the relevant market to be used to determine the fair value differs from the market in which the transaction was contracted and the valuation model is based on significant unobservable parameters such differences (so-called day one profits and losses) are deferred as a day one profit and loss reserve. 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.

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 10). The remaining hybrid financial instruments have matured in the reporting year.

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 through 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 the 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 hedges 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 underlying 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 or lapsed. 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 of 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 capitalised 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

The item shows the market value of derivatives that have a positive or negative fair value and that 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 reporting 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 9. 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. 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.

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 a separate 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 flows 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 recognised.

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 reporting 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 32.

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 exist with Provinzial NordWest Lebensversicherung AG for direct insurance policies partly financed by employees. 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 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 not 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

	2021	2020
Discount rate		
Domestic	1.39 %	1.10 %
Foreign (weighted)	1.39 %	1.10 %
Salary growth (weighted)	2.0 %	2.0 %
Adjustment rate for pensions		
Domestic		
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, invalidity 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 42.

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 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. With the CTA, the Bank has established 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 9.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 probably 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 tax liabilities 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 amendments. 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 recognised 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 or 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 in the Other assets or Other liabilities. These include, for example, accrued expenses and income.

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 is 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 that 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. In the reporting period, the Bank used average exchange rates for the translation of 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.

HEDGING OF FOREIGN CURRENCY RISKS FROM THE TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

Hamburg Commercial Bank hedges foreign currency risks resulting from the translation of financial statements of foreign operations from their own functional currency into the reporting currency of the parent company. By hedging net investments in foreign operations, corresponding currency translation differences are compensated directly in equity without affecting profit or loss. The Group exclusively uses non-derivative financial instruments to hedge foreign currency risks. The effective portion of the measurement of these financial instruments is recognised directly in equity in the Currency conversion reserve.

Notes on the Group statement of income

10. Net interest income

Net interest income

(€ m)	2021	2020
Interest income from		
Lending and money market transactions categorised as AC and FVOCI	534	650
Fixed-interest securities categorised as AC and FVOCI	43	58
Impaired financial assets	8	17
Discounting of provisions	1	-
Interest income from financial assets categorised as AC and FVOCI	**586**	**725**
thereof attributable to financial assets measured at AC	537	645
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	49	80
Interest income from		
Other lending and money market transactions	10	28
Other fixed-interest securities	18	14
Other miscellaneous non-fixed-interest securities	2	-
Trading transactions	5	5
Derivative financial instruments	267	578
Current income from		
Equities and other non-fixed-interest securities	-	1
Long-term equity investments	1	-
Interest income from other financial instruments	**303**	**626**
Negative interest on investments categorised as AC and FVOCI	**-16**	**-19**
thereof attributable to financial assets measured at AC	-16	-19
Negative interest on other cash investments and derivatives	**-79**	**-79**
Interest expenses for		
Liabilities to banks	43	56
Liabilities to customers	154	291
Securitised liabilities	41	60
Subordinated capital	7	12
Other liabilities	-	7
Derivative financial instruments	120	365
Interest expenses	**365**	**791**
thereof attributable to financial liabilities not measured at fair value through profit or loss	107	198
Positive interest on borrowings and derivatives	**-97**	**-95**
thereof attributable to financial liabilities not measured at fair value through profit or loss	-29	-20
Net income from reassessment of interest and repayment cash flows	-	82
Net income from discounting and compounding	-	-10
Net income/loss from hybrid financial instruments	**-**	**72**
thereof attributable to financial liabilities not measured at fair value through profit or loss	-	72
Total	**526**	**629**

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 is mainly attributable to derivative 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.

The net income from hybrid financial instruments from the previous year included the effects on earnings resulting from the application of IFRS 9 B5.4.6. As at the reporting date 31 December 2021, there are no hybrid financial instruments. The decrease in interest income and interest expenses from derivative financial instruments is mainly due to changes in the portfolio and the sharp decline in short-term US dollar interest rates.

11. Net commission income

Net commission income

(€ m)	2021	2020
Commission income from		
Lending business	21	25
Securities business	2	2
Guarantee business	6	8
Payments and account transactions as well as documentary business	17	18
Other commission income	3	4
Commission income	**49**	**57**
Commission expense from		
Lending business	4	3
Securities business	–	1
Payments and account transactions as well as documentary business	3	3
Other commission expenses	4	2
Commission expenses	**11**	**9**
Total	**38**	**48**

Financial instruments that are not measured at fair value through profit or loss account for € 36 million of Net commission income. In the previous year, € 48 million of Net commission income was attributable to these financial instruments.

12. Result from hedging

The change in value attributable to the hedged risk for designated underlying and hedging transactions in effective hedging relationships 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)	2021	2020
Fair value changes from hedging transactions	89	-74
Micro fair value hedge	56	-83
Portfolio fair value hedge	33	9
Fair value changes from heeding transactions	-88	79
Micro fair value hedge	-56	88
Portfolio fair value hedge	-32	-9
Total	**1**	**5**

13. 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 and credit derivatives.

Result from financial instruments categorised as FVPL

(€ m)	2021	2020
Loans, bonds and interest rate derivatives		
FVPL Held For Trading	-3	-200
FVPL Designated	32	30
FVPL Other	-9	8
Total	**20**	**-162**
Equities and equity derivatives		
FVPL Held For Trading	–	-1
FVPL Designated	–	1
FVPL Other	13	1
Total	**13**	**1**
Other products		
FVPL Held For Trading	3	5
FVPL Other	1	63
Total	**4**	**68**
Total	**37**	**-93**

The Result from financial instruments categorised as FVPL includes net income from foreign currency of € 1 million (previous year: € 59 million).

During the reporting period, € 1 million (previous year: € -4 million) of the changes in fair value of the financial assets categorised as FVPL Designated relate to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € 2 million (previous year: € -8 million) is attributable to changes in the credit spread.

14. 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)	2021	2020
Realised results from financial assets categorised as FVOCI	3	7
Total	**3**	**7**

15. 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, € 28 million of the total result from the disposal of financial assets categorised at AC results from the disposal of receivables in connection with early repayments/redemptions.

€ 9 million of the result is attributable to disposals of receivables through sale.

In accordance with IFRS 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)	2021	2020
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	33	68
Non-current assets held for sale and disposal groups	7	-
Total gains	**40**	**68**
Losses from the disposal of financial assets classified as AC		
Loans and advances to customers	1	8
Non-current assets held for sale and disposal groups	2	-
Total losses	**3**	**8**
Total	**37**	**60**

16. 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)	2021	2020
Loans and advances to customers		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	69	-18
thereof AC	69	-18
Significant increase in the loan default risk (Stage 2/lifetime ECL)	1	-89
thereof AC	1	-89
Impaired credit rating (Stage 3/lifetime ECL)	-45	-95
thereof AC	-45	-95
Loans that are purchased or originated credit-impaired (POCI)	-5	-1
thereof AC	-5	-1
Result from the change in loan loss provisions on loans and advances to customers	**20**	**-203**
Financial investments		
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-	1
thereof FVOCI	-	1
Result from the change in loan loss provisions for financial investments	**-**	**1**
Off-balance-sheet business		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	1	1
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-	-3
Impaired credit rating (Stage 3/lifetime ECL)	-6	14
Provisions in lending business in accordance with IAS 37	2	-7
Result from changes in provisions in the lending business	**-3**	**5**
- Direct write-downs	4	10
+ Recoveries on loans and advances previously written off	26	7
+ Result of non-substantial modifications	-2	4
Result from other changes to loan loss provisions	**20**	**1**
Result from changes in loan loss provisions before currency translation gains or losses	**37**	**-196**
Currency translation gains or losses on loan loss provisions denominated in foreign currency	**-5**	**8**
Total loan loss provisions	**32**	**-188**

17. Administrative expenses

Administrative expenses

(€ m)	2021	2020
Personnel expenses	141	178
Operating expenses	181	180
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	6	7
Total	**328**	**365**

Personnel expenses

(€ m)	2021	2020
Wages and salaries	120	148
Social security contributions	18	20
thereof employer contributions to government-sponsored pension plans	8	9
Expenses for pensions and support	3	10
Total	**141**	**178**

Operating expenses

(€ m)	2021	2020
IT costs	107	94
Costs for information services	7	8
Costs for external services and project work	24	27
Legal service costs	14	15
Expenses for land and buildings	4	8
Costs of advertising, PR and promotional work	2	2
Other operating expenses	23	26
Total	**181**	**180**

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

Depreciation and amortisation

(€ m)	2021	2020
Scheduled depreciation/amortisation on		
Plant and equipment	2	3
acquired software	1	2
Right-of-use-assets from leasing	1	2
Unscheduled depreciation/amortisation on		
Plant and equipment	1	-
acquired software	1	-
Total	**6**	**7**

The unscheduled depreciation on plant and equipment results from a dismantling of the existing telephone system and the resulting shortened remaining useful life of this system. The reason for the unscheduled amortisation on acquired software is the Bank's decision not to put an already acquired software into use.

18. Other operating result

Other operating result

(€ m)	2021	2020
Income		
from reversal of other provisions and release of liabilities	66	27
from legal disputes	3	9
from cost allocations and reimbursement of expenses	11	25
from interest on receivables from the tax office	17	2
from investment property (rental income)	–	3
from the disposal of property, plant and equipment	–	160
from write-ups on property, plant and equipment	–	2
Other income	13	29
Total income	**110**	**257**
Expenses		
from additions to other provisions	29	20
from expenses paid in advance for transaction fees, legal fees, servicing	9	18
for interest expenses pursuant to Section 233 AO	9	2
Other expenses	33	11
Total expenses	**80**	**51**
Income/loss arising from the deconsolidation of companies	-16	-1
Total	**14**	**205**

The reduction in the Other operating result is mainly due to special effects from the sale of buildings in the previous year.

The income from reversal of other provisions and liabilities in particular had a positive effect in the reporting year, exceeding the expenses from the addition to other provisions. This was mainly due to net changes in provisions in connection with the transition to the new deposit guarantee scheme, which had a positive effect of € 34 million.

Other expenses include charges from a legacy lease receivable (finance lease). Loans and advances to customers, value adjustments were made to the residual value of the leasing objects in the amount of € 13 million. In addition, losses of € 16 million were incurred due to exchange rate fluctuations in connection with the deconsolidation of companies.

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

Expenses for regulatory affairs, deposit guarantee fund and banking associations

(€ m)	2021	2020
Expenses for European bank levy	25	23
Expenses for deposit guarantee fund	3	4
Expenses for banking supervisory authority	2	5
Expenses for banking associations	2	-
Total	**32**	**32**

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.

20. Result from restructuring and transformation

Result from restructuring and transformation

(€ m)	2021	2020
Personnel expenses due to restructuring	-	1
Operating expenses due to restructuring	9	14
Income from restructuring	9	15
Result from restructuring	**-**	**-**
Expenses from privatisation	-	1
Expenses from transformation	29	18
Result from restructuring and transformation	**-29**	**-19**

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.

As in the previous year, the result from restructuring and transformation stood at nil, as moderate operating expenses due to restructuring were offset by income from the release of restructuring provisions. There were no further subsequent expenses from privatisation in the reporting year (previous year: € -1 million).

Expenses from transformation of € -29 million (previous year: € -18 million) result in particular from project expenses for the realisation of cost efficiencies, such as outsourcing.

21. Income tax expense

Income tax expense

(€ m)	2021	2020
Corporate tax and solidarity surcharge		
Domestic	12	-2
Trade income tax		
Domestic	12	-
Current income taxes	**24**	**-2**
Income tax from previous years	9	-
Subtotal current income tax	**33**	**-2**
Income from deferred tax		
from temporary differences	79	223
from losses carried forward	-175	-66
from consolidation	11	-
Subtotal deferred income tax	**-85**	**157**
Income tax expense (+)/income (–)	**-52**	**155**

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 € 140 million at the head office and € 35 million at the Luxembourg branch is recognised 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)	2021	2020
Group net result	351	102
Income tax expense	-52	155
Income before taxes incl. income from transfer of losses	299	257
Domestic income tax rate to be applied in %	32.11	32.05
Imputed income tax expenses in the financial year	**96**	**82**
Tax effects due to		
Changes in the write-down of deferred taxes on losses carried forward	-227	24
differing effective tax rates in Germany and abroad	-15	-12
non-deductible expenses	102	32
corrections to trade taxes	-	-3
changes in tax rate	-1	-1
Taxes for previous years	-3	-6
Tax-free income	-3	-1
Write-down of deferred taxes on temporary differences and miscellaneous	-1	40
Total tax expense (+)/income (–)	**-52**	**155**

In calculating taxes for 2021, a tax rate of 32.11 % (previous year: 32.05 %) 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 € 15 million. The main effects in the reconciliation of the theoretical to the actual tax expense are the change in the recoverability of deferred taxes on losses carried forward as well as non-tax-deductible expenses. The income from the change in the valuation allowances on deferred taxes on losses carried forward relates to the head office and the Luxembourg branch, as the assessment of the usability of the loss carryforwards was re-evaluated based on the current corporate planning. The Non-deductible expenses item also includes the changes in permanent valuation differences between IFRS and tax value as well as effects concerning the deconsolidation of Group companies.

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 to the current tax expense for previous years, the Taxes for previous years item also includes adjustments to deferred taxes on loss carryforwards and temporary differences because of more recent findings on the previous year's items. In contrast to the presentation in the previous year, corrections to trade taxes were recognised in 2021 according to their tax effect in the reconciliation effects Non-deductible expenses and Tax-free income.

22. 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 are included in this item.

Net gains and losses from financial instruments

(€ m)	2021	2020
FVPL Held For Trading, Other, Designated	37	-93
AC assets and liabilities	69	-128
FVOCI Mandatory	3	7
Total	**109**	**-214**

23. 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.

Hamburg Commercial Bank AG carried out a one-for-ten share split in May 2021, without increasing the share capital. This raised the number of ordinary shares from 302 million to 3,018 million shares.

In December 2021, the share capital was reduced through non-cash cancellation of shares. This transaction took the number of ordinary shares down to 302 million.

Accordingly, 302 million shares are included as the denominator in the calculation of earnings per share for both the reporting period and the previous year.

As in the previous year, Hamburg Commercial Bank AG has not issued any diluted forms of capital as at 31 December 2021, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

Earnings per share

	2021	2020
Attributable Group net result (€ m) – undiluted/diluted	351	102
Number of shares (millions)		
Average number of ordinary shares outstanding undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	1.16	0.34
Diluted	1.16	0.34

Notes on the Group statement of financial position

24. Cash reserve

Cash reserve

(€ m)	2021	2020
Cash on hand	-	-
Balances with central banks	3,261	1,741
thereof at the Deutsche Bundesbank	3,261	1,718
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	-	-
Total	**3,261**	**1,741**

25. Loans and advances to banks

Loans and advances to banks

(€ m)	2021			2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	268	318	586	558	395	953
Other loans and advances	600	50	650	555	50	605
Total before loan loss provisions	**868**	**368**	**1,236**	**1,113**	**445**	**1,558**
Loan loss provisions	-	-	-	-	-	-
Total after loan loss provisions	**868**	**368**	**1,236**	**1,113**	**445**	**1,558**

Of loans and advances to banks, holdings in the amount of € 11 million (previous year: € 19 million) have a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 829 million (previous year: € 1,329).

The development of the carrying amounts of loans and advances to banks is shown in Note 50.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 60.

26. Loans and advances to customers

Loans and advances to customers

(€ m)	2021			2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Retail customers	181	4	185	239	8	247
Corporate clients	8,147	10,883	19,030	10,498	10,182	20,680
Public authorities	865	118	983	1,374	177	1,551
Total before loan loss provisions	**9,193**	**11,005**	**20,198**	**12,111**	**10,367**	**22,478**
Loan loss provisions	266	180	446	309	260	569
Total after loan loss provisions	**8,927**	**10,825**	**19,752**	**11,802**	**10,107**	**21,909**

Of loans and advances to customers, holdings in the amount of € 16,197 million (previous year: € 17,893 million) have a residual maturity of more than one year.

Loans and advances to customers include money market transactions in the amount of € 47 million (previous year: € 295 million).

Loans and advances to customers include receivables under finance lease transactions in the amount of € 36 million (previous year: € 50 million).

The development of the carrying amounts of loans and advances to customers is shown in Note 50.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 60.

27. Loan loss provisions

Loan loss provisions

(€ m)	2021	2020
Loan loss provisions for loans and advances to customers classified as AC, incl. leasing	446	569
Loan loss provisions in the lending business	**446**	**569**
Loan loss provisions for items in the statement of financial position	**446**	**569**
Provisions in the lending business	44	39
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	**490**	**608**

In accordance with IFRS 9, the Loan loss provisions item is only set up for transactions categorised as AC and FVOCI. In the reporting year, loan loss provisions mainly refer to transactions categorised as AC. Out of the total loan loss provisions of € 490 million as at 31 December 2021 (previous year: € 608 million), € 186 million (previous year: € 238 million) pertain to the adjustment of loan loss provisions because of model overlays. Details on the composition of these adjustments, particularly in the context of the impact of COVID-19 can be found in Note 4.

As at the reporting date, € 209 million of the loan loss provisions for items in the statement of financial position were allocated to the individually impaired volume of receivables from Stage 3 customers including POCI (previous year: € 261 million) and € 237 million to Stage 1 and 2 credit exposures in the IFRS 9 loan loss provisioning model (previous year: € 307 million).

For off-balance sheet items, loan loss provisions of € 41 million (previous year: € 35 million) were created at Stage 3 and loan loss provisions of € 3 million (previous year: € 5 million) were created at Stage 1 and 2. For information on the development of the IFRS 9 portfolio of loan loss provisions in connection with the change in the gross carrying amounts for loans and advances to customers, please refer to Note 50.

In addition, the Bank forms loan loss provisions in accordance with IAS 37 for the off-balance sheet lending business, which totalled € 8 million as at the reporting date (previous year: € 10 million) and is reported in Note 41 Provisions.

28. 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.

In addition, Hamburg Commercial Bank manages its foreign exchange risk by hedging net investments in foreign operations in accordance with IFRS 9.6.5.13.

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 exclusively used for interest rate and for foreign exchange risks in connection with net investments in foreign operations (see explanations on currency translation in Note 9, Accounting and measurement principles).

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	
	2037	2038
Nominal value of hedging instruments	250	200
Average swap rate	3.752	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 values, hedge adjustment and the positive and negative fair values of derivatives used in hedge accounting. At present, only interest rate swaps are taken into account as hedging instruments for interest rate risks. 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.

At present, only bearer debentures are taken into account as hedging instruments for the hedging of net investments in foreign operations in accordance with IFRS 9.6.5.13.

Hedging instruments

(€ m)		2021			2020		
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 value of hedging derivatives	2,554	26	6	2,126	2	-9
Interest rate derivatives (liabilities side)	Negative fair value of hedging derivatives	2,016	149	-108	4,520	371	39
Hedging of net investments in foreign operations/foreign exchange risk							
Debentures	Subordinated capital	181	181	3	-	-	-

[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 to hedge interest rate risks are reported in the balance sheet item Positive fair values of hedging derivatives, and derivatives on the liabilities side to hedge interest rate risks 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.

At present, foreign exchange risks from net investments in foreign operations are exclusively hedged with liability-side transactions in the balance sheet item Subordinated capital Customers.

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). The underlying transactions currently include assets (receivables and securities) and liabilities. Hedge accounting is exclusively used to hedge interest and foreign exchange risks in connection with net investments in foreign operations at present.

Underlying transactions[1]

(€ m)		2021			2020		
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	6,787	30	-75	4,863	105	-38
Micro fair value hedge	Loans and advances to customers	661	59	-90	875	149	43
Portfolio fair value hedge: Fixed-interest issues	Negative adjustment item from portfolio fair value hedges	6,803	181	-84	7,357	265	-105
Portfolio fair value hedge (inactive)	Positive adjustment item from portfolio fair value hedges	110	3	-1	77	4	-1
Portfolio fair value hedge (inactive)	Negative adjustment item from portfolio fair value hedges	-	-	-4	61	4	-20
Micro fair value hedge (inactive)	Loans and advances to customers	69	4	-2	73	6	-49
Micro fair value hedge (inactive)	Liabilities due to customers, subordinated capital	26	7	-	29	7	-1
Hedging of net investments in foreign operations/foreign exchange risk							
USD hedging	Equity (currency conversion reserve)	181	-3	-3	-	-	-

[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.

29. 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 € 643 million (previous year: € 1,422 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 60 .

Trading assets

(€ m)	2021	2020
Positive fair value of financial derivatives		
Interest-related transactions	524	1,222
Currency-related transactions	6	55
Other transactions	46	100
Syndication	1	-
Positive fair value of financial derivatives	**577**	**1,377**
Other, including promissory notes held for trading	107	118
Receivables from syndication transactions	5	49
Total	**689**	**1,544**

30. Financial investments

In particular, financial instruments not held for trading purposed 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)	2021	2020
Debentures and other fixed-interest securities	4,510	5,438
negotiable and listed	3,886	4,561
negotiable and not listed	624	877
Shares and other non-fixed-interest securities	5	12
negotiable and listed	5	5
negotiable and not listed	-	7
Long-term equity investments	9	8
negotiable and not listed	1	1
Interests in affiliated companies	-	1
Total	**4,524**	**5,459**

Of the financial investments, holdings of € 3,689 million (previous year: € 3,927 million) have a residual maturity of more than one year.

The development of the carrying amounts of financial investments for the current year is shown in Note 50.

31. Intangible assets

Intangible assets

(€ m)	2021	2020
Software	4	3
developed in-house	2	-
acquired	2	3
Software in development	30	12
acquired	30	12
Total	**34**	**15**

The Software in development item includes in particular the expenses in connection with the modernisation of the Bank-wide IT landscape during a multi-year transformation phase.

The addition recognised in the reporting year results primarily from the development costs incurred for the configuration of the SAP S/4 HANA Banking and Finance modules and for the development of the integrative SAP data platform.

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

Development of intangible assets

(€ m)		Software		Software in development		
2021	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	Total
Acquisition costs as at 1 January 2021	**171**	**81**	**159**	**-**	**12**	**423**
Additions	-	2	-	-	19	21
Disposals	-	76	1	-	-	77
As at 31 December 2021	**171**	**7**	**158**	**-**	**31**	**367**
Amortisation as at 1 January 2021	**171**	**81**	**156**	**-**	**-**	**408**
Additions	-	-	1	-	1	2
Disposals	-	76	1	-	-	77
As at 31 December 2021	**171**	**5**	**156**	**-**	**1**	**333**
Carrying amount as at 31 December 2021	**-**	**2**	**2**	**-**	**30**	**34**
Carrying amount as at 1 January 2021	**-**	**-**	**3**	**-**	**12**	**15**

Development of 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
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
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**

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.

32. Property, plant and equipment and investment property

Property, plant and equipment

(€ m)	2021	2020
Land and buildings	8	8
Plant and equipment	3	6
Right-of-use assets from leasing	8	9
Assets under construction	-	-
Total	**19**	**23**

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)	2021	2020
Investment property	1	1
Total	**1**	**1**

The fair value of investment property amounts to € 1 million (previous year: € 1 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.

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

Development of Property, plant and equipment and Investment property

(€ m)	Property, plant and equipment				Investment property	
2021	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 2021	**23**	**59**	**-**	**13**	**1**	**-**
Additions	-	-	-	1	-	-
Disposals	-	18	-	2	-	-
As at 31 December 2021	**23**	**41**	**-**	**12**	**1**	**-**
Amortisation as at 1 January 2021	**15**	**53**	**-**	**4**	**-**	**-**
Additions	-	2	-	2	-	-
Disposals	-	17	-	2	-	-
As at 31 December 2021	**15**	**38**	**-**	**4**	**-**	**-**
Carrying amount as at 31 December 2021	**8**	**3**	**-**	**8**	**1**	**-**
Carrying amount as at 01 January 2021	**8**	**6**	**-**	**9**	**1**	**-**

Further details on depreciation are presented in Note 17.

A portion of the depreciation for the rights of use from leasing is not reported under Administrative expenses but under Other operating result. This refers to the depreciation of the capitalised right of use from the sale and leaseback transaction of the main building of HCOB finalised in the previous year.

Development of 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
Reclassifications	6	-	-	-	-6	-
Additions	-1	-	-	-	-	-
As at 31 December 2020	**15**	**53**	**-**	**4**	**-**	**-**
Carrying amount as at 31 December 2020	**8**	**6**	**-**	**9**	**1**	**-**
Carrying amount as at 01 January 2020	**88**	**7**	**-**	**3**	**39**	**2**

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

These referred to the disposal of buildings previously held by the 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.

In addition, reclassifications were made from Investment properties to Land and buildings due to a change in the type of use to own use.

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

Non-current assets held for sale and disposal groups

(€ m)	2021	2020
Loans and advances to customers	10	626
Financial investments	-	8
Total	**10**	**634**

As part of the ongoing transformation process, Hamburg Commercial Bank AG had decided in 2020 to sell loans and advances to customers in the amount of approximately € 626 million. Most of these loans and advances to customers were sold in the course of 2021. For the unsold loans and advances in this portfolio, disposal was no longer considered highly probable as at 31 December 2021; as a result, these loans and advances are no longer recognised as Non-current assets held for sale and disposal groups as at the reporting date.

Total income of approximately € 5 million resulted for the above-stated disposals and is recognised in the Result from the disposal of financial assets classified as AC.

In the third quarter of 2021, the Bank sold the equity participation measured at fair value and recognised under Financial investments.

Furthermore, the Bank believes it is highly probable that a customer receivable will be sold in the first quarter of 2022. This receivable is allocated to the Project Finance segment, measured at amortised cost (AC) and does not include any loan loss provisions. The sale was closed in February 2022, and the receivable has been disposed.

34. Current tax assets

Current tax assets

(€ m)	2021	2020
Domestic	7	22
Foreign	3	3
Total	**10**	**25**

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.

35. 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)	2021	2020
Assets		
Loans and advances to banks	33	-
Loans and advances to customers	4	-
Loan loss provisions	77	89
Financial investments	-	7
Other assets	44	137
Liabilities		
Liabilities to banks	-	44
Liabilities to customers	2	9
Negative fair value of hedging derivatives	48	119
Negative adjustment item from portfolio fair value hedges	58	86
Trading liabilities	17	154
Subordinated capital	2	113
Provisions	192	228
Other liabilities	5	11
Tax losses carried forward	355	179
Subtotal for deferred tax assets	**837**	**1,176**
Netting of deferred tax liabilities	-221	-644
Total	**616**	**532**

Out of the deferred tax assets after offsetting, € 545 million is attributable to Germany and € 71 million to abroad.

Deferred taxes on loss carryforwards were recognised in the amount of € 355 million (previous year: € 179 million). As at 31 December 2021, € 282 million of this amount is attributable to the head office (previous year: € 142 million) and € 73 million to the Luxembourg branch (previous year: € 37 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 € 3,427 million as at the reporting date (previous year: € 4,953 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 2020 in the amount of € 2 million were used by the Luxembourg branch.

The reduction in deferred tax assets before offsetting in the amount of € 339 million result mainly from the changes in measurement differences for several items in the statement of financial position. The measurement of subordinated capital, trading liabilities, negative fair values of hedging derivatives, other assets and tax loss carryforwards had a particularly strong impact on the development of deferred tax assets in the reporting year.

The value of deferred tax assets results from the positive future tax results expected in the tax planning as derived from corporate. 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.

€ 22 million of the reduction in deferred tax assets relates to deferred taxes for pension obligations recognised directly in equity.

The differences between the valuation for tax purposes and measurement under IFRS 9.B5.4.6 does not result in any deferred tax expenses in 2021 (previous year: € 18 million deferred tax income).

36. Other assets

Other assets

(€ m)	2021	2020
Receivables from fund transactions	-	-
Other prepaid expenses	16	10
Receivables from other taxes	7	7
Capitalised plan assets	21	-
Other assets	17	247
Total	**61**	**264**

Other assets of € 3 million (previous year: € 2 million) have a residual maturity of more than one year.

€ 25 million of the assets reported here (previous year: € 245 million). A purchase price receivable had been included in the previous year, which was settled in the reporting year. Due to the increase in plan assets for pension provisions, the fair value of the plan assets exceeds the covered pension liabilities and was capitalised at € 21 million.

37. Liabilities to banks

Liabilities to banks

(€ m)	2021			2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	69	44	113	221	167	388
Other term liabilities	5,362	29	5,391	7,088	2	7,090
Total	**5,431**	**73**	**5,504**	**7,309**	**169**	**7,478**

Of liabilities to banks, holdings in the amount of € 4,466 million (previous year: € 6,933 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 less than € -1 million as at 31 December 2021 (previous year: € -3 million). Changes in value caused by credit risk accounted for less than € 1 million (previous year: € 1 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 60.

Liabilities to banks include liabilities from TLTRO III transactions ("Targeted Longer-Term Refinancing Operations") with the ECB in the amount of € 1,743 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 interest rate period from June 2020 to June 2021 as well as for the current interest rate period from June 2021 to June 2022, the maximum interest rate for TLTRO operations was in each case reduced to 50 basis points below the average rate applied in main refinancing operations (MRO). As at 31 December 2021, the TLTRO III liabilities therefore accounted for € 7 million of accrued 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 total, interest income from TLTRO III liabilities of € 14 million was incurred in the 2021 financial year.

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 has not met these criteria and has therefore not been granted a premium.

38. Liabilities to customers

Liabilities to customers by customer group

(€ m)	2021	2020
Corporate clients	9,590	8,604
Public authorities	1,520	4,193
Retail customers	31	307
Total	**11,141**	**13,104**

Liabilities to customers

(€ m)	2021			2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Savings deposits with agreed notice periods of						
3 months	1	-	1	7	-	7
Other liabilities						
Payable on demand	2,907	1,621	4,528	3,800	1,103	4,903
Term liabilities	5,716	896	6,612	7,629	565	8,194
Total	**8,624**	**2,517**	**11,141**	**11,436**	**1,668**	**13,104**

Of liabilities to customers, holdings in the amount of € 3,635 million (previous year: € 3,446 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 € -14 million as at 31 December 2021 (previous year: € -12 million). Changes in value caused by credit risk account for € -2 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 60.

39. Securitised liabilities

Securitised liabilities

(€ m)	2021	2020
Debentures issued	6,704	5,670
Total	**6,704**	**5,670**

Of securitised liabilities, holdings of € 4,637 million (previous year: € 4,365) have a residual maturity of more than one year.

Debentures issued include € 0 million of hybrid financial instruments (previous year: € 2 million).

In the Securitised liabilities item, repurchased own debentures in the amount of € 2,093 million (previous: € 3,275 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 € -15 million as at 31 December 2021 (previous year: € -42 million). Changes in value caused by credit risk account for € 2 million of this amount (previous year: € -3 million).

40. 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 hedge derivative or are used as hedging instrument but do not meet the requirements of IFRS 9 for hedge accounting.

Trading liabilities

(€ m)	2021	2020
Negative fair value from derivative financial instruments		
Interest-related business	91	509
Currency-related business	84	13
Other business	63	114
Other	51	50
Total	**289**	**686**

Of the trading liabilities, holdings of € 201 million (previous year: € 628 million) have a residual maturity of more than one year.

Information on collateral transferred is presented in Note 60 .

41. Provisions

Provisions

(€ m)	2021	2020
Provisions for pension obligations and similar obligations	110	198
Other provisions		
Provisions for personnel expenses	42	41
Provisions in the lending business	53	49
Provisions for restructuring	69	131
Provisions for litigation risks and costs	124	122
Other provisions	56	93
Total	**454**	**634**

The provisions in the lending business shown in the table above include € 8 million (previous year: € 10 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 € 224 million (previous year: € 401 million) have a residual maturity of more than one year.

Further information regarding Provisions in the lending business can be found in Note 27.

€ 51 million of the provisions for restructuring (previous year: € 95 million) relate to personnel expenses and € 18 million (previous year: € 35 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, for transformation expenses, provisions for onerous contracts and provisions for archiving costs and interest on corporate and trade tax.

Changes in pension provisions are presented in Note 42.

Hamburg Commercial Bank had set up provisions for litigation risks and costs as at the reporting 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.

The provisions for litigation risks mainly result from legal disputes in the Bank's lending business. To avoid any adverse effects for the Bank, detailed information on the legal disputes has been omitted in accordance with IAS 37.92.

Further information on the Bank's legal risks is described in the risk report, section "Non-Financial Risk – Non-Financial Risk in the Reporting Year".

Other provisions have changed as follows:

Changes in other provisions

(€ m) 2021	For personnel expenses	In the lending business (non-financial instruments)	For restructuring	For litigation risks and costs	Other	Total
As at 1 January 2021	**41**	**10**	**131**	**122**	**93**	**397**
Additions	34	2	2	18	54	110
Reversals	10	4	9	7	47	77
Reclassifications	-1	-	-27	-	2	-26
Utilisation in the financial year	22	-	28	9	46	105
As at 31 December 2021	**42**	**8**	**69**	**124**	**56**	**299**

For information on the development of loan loss provisions for financial instruments reported under contingent liabilities in the current year, please refer to Note 50 (Schedule of loan loss provisions).

Changes in other provisions

(€ m) 2020	For personnel expenses	In the lending business (non-financial instruments)	For restructuring	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**

42. 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)	2021	2020
Net present value of obligations, wholly or partly financed through funds	989	1,067
Net present value of obligations not financed through funds	108	122
Net present value of pension obligations and similar obligations	**1,097**	**1,189**
Fair value of plan assets	1,008	991
Reclassification to Capitalised plan assets	-21	-
Pension plan net liability (provisions for pension obligations and similar obligations)	110	198

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

Changes in net present value

(€ m)	2021	2020
Net present value as at 1 January	**1,189**	**1,135**
Actuarial losses/gains (-)		
due to changed financial assumptions	-49	60
due to experience-based adjustments	-14	-11
Interest expenses	9	12
One-off expense/gain	-10	-5
Plan curtailment	-4	-6
Current service cost	5	6
Benefits paid	-44	-44
Reclassifications	15	42
Net present value as at 31 December	**1,097**	**1,189**

The change in actuarial gains and losses is mainly attributable to an increase in the discount rate. The plan curtailment of € 4 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 of € 15 million were transferred from restructuring provisions to early retirement liabilities.

The fair value of plan assets has changed as follows.

Changes in fair value of plan assets

(€ m)	2021	2020
Fair value of plan assets as at 1 January	**991**	**40**
Deposits	-	925
Employer contributions	-	-
Expected return on plan assets	11	5
Actuarial gains	6	21
Employee contributions	-	-
Fair value of plan assets as at 31 December	**1,008**	**991**

The net interest of € 2 million is composed of the interest expense of the pension and similar liabilities of € 9 million and the interest income of the plan assets of € 11 million. The changes in the measurement of pension and similar liabilities amounting to € 63 million are netted in OCI with the changes in the measurement of plan assets amounting to € 6 million, which mainly result from changes in financial adjustments. An adjustment to the interest derivation method results in a slight increase in the actuarial interest rate, which has no material effect on the Group financial statements.

The total actuarial gains for the financial year before deferred taxes amounts to € 69 million (previous year: € -28 million). Allowing for deferred taxes, this results in a loss of € 47 million (previous year: € -19 million), which is recognised in Other comprehensive income and disclosed in retained earnings on an accumulated basis. As at 31 December 2021, the balance of actuarial losses in retained earnings before tax amounted to € -191 million (previous year: € -261 million) and to € -130 million after tax (previous year: € -177 million).

Breakdown of plan assets

(€ m)	2021	2020
Cash and cash equivalents	345	633
Investment funds	633	308
thereof exchanged trade funds equity	113	99
thereof exchanged trade funds bonds	177	152
thereof hedge funds	210	57
thereof private debt funds	98	-
thereof real estate & infrastructure funds	35	-
Debentures and other fixed-interest securities	21	24
Derivatives	-4	15
Qualified insurance policies	8	7
Other assets	5	4
Total	**1,008**	**991**

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 € 0 million were incurred for defined benefit pension plans in the 2021 reporting year (previous year: € 7 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 9) would have had the following impact on the present value of pension obligations as at 31 December 2021:

Sensitivity of pension obligations

(€ m)	Increase	Decrease
2021		
Discount rate (+/-0.25 %)	-41	43
Inflation trend[1] (+/-0.25 %)	-37	36
Life expectancy (+1 year)	49	

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	

[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 2022 financial year (previous year: € 56 million).

The weighted average duration of the defined benefit obligation is 17.0 years as at 31 December 2021 (previous year: 17.8 years).

Expenses for defined contribution plans were € 10 million in the reporting period 2021 (previous year: € 11 million). Payments to statutory pension schemes in the amount of € 8 million (previous year: € 9 million).

43. Current tax liabilities

Current tax liabilities

(€ m)	2021	2020
Provisions for income taxes	39	7
Total	**39**	**7**

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

44. 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)	2021	2020
Assets		
Loans and advances to banks	-	11
Loans and advances to customers	2	29
Financial investments	20	43
Trading assets	137	341
Positive fair values of hedging derivatives	9	1
Positive adjustment item from portfolio fair value hedges	10	35
Property, plant and equipment	2	3
Liabilities		
Liabilities to banks	21	-
Securitised liabilities	16	114
Provisions	-	1
Other liabilities	4	66
Total	**221**	**644**
Netting of deferred tax assets	-221	-644
Total	**-**	**-**

The decrease 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.

€ 21 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 € 0 million (previous year: € 1 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.

45. Other liabilities

Other liabilities

(€ m)	2021	2020
Collateral provided for liabilities assumed	48	159
Liabilities for outstanding invoices	56	53
Liabilities for restructuring	19	32
Personnel liabilities	8	12
Deferred income	2	3
Other tax liabilities	5	6
Liabilities for leases	19	25
Other	15	22
Total	**172**	**312**

Other liabilities in the amount of € 66 million (previous year: € 178 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.

€ 123 million of the liabilities reported here relate to financial instruments (previous year: € 245 million).

46. Subordinated capital

Subordinated capital

(€ m)	2021	2020
Subordinated debt	921	938
Maturing in less than two years	2	31
Silent participations	-	2
Total	**921**	**940**

Hamburg Commercial Bank reports subordinated liabilities and silent participations under subordinated capital.

Subordinated capital of € 918 million (previous year: € 908 million) have a residual maturity of more than one year.

The carrying amounts for silent participations were determined on the basis of assumptions regarding the future earnings situation of Hamburg Commercial Bank and the exercise of termination or extension options (IFRS 9.B5.4.6). No measurement of subordinated capital was necessary in the financial year as the instruments were repaid.

47. Equity

Equity

(€ m)	2021	2020
Share capital	302	3,018
Capital reserve	1,524	82
Retained earnings	2,437	1,010
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-191	-261
thereof: deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	61	83
Revaluation reserve	103	148
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	-2	3
thereof: valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	105	145
Currency conversion reserve[1]	-	-16
Group net result	351	102
Total before non-controlling interests	**4,717**	**4,344**
Non-controlling interests	-	-
Total	**4,717**	**4,344**

[1] Including the hedge adjustment from hedging net investments in foreign operations in accordance with IFRS 9.6.5.13 (cf. Note 6 and Note 25).

Equity

The composition of reported equity was restructured in the 2021 financial year, while this had no effect on the amount of equity overall. The increase in equity of € 369 million compared to the previous year is related to the positive Group net result.

Share capital

In accordance with the resolution passed by the annual general meeting of Hamburg Commercial Bank AG held on 19 May 2021, the shares were split based on a ratio of one to ten. The share capital of Hamburg Commercial Bank AG is divided into 3,018,224,530 registered shares, each representing a notional of € 1 of share capital (formerly: 301,822,453 registered shares each representing a notional of € 10,00 of share capital).

By resolution of the Annual General Meeting of 18 November 2021, the share capital of the Company was reduced by € 2,716 million from € 3,018 million to € 302 million by way of a simplified redemption procedure through the redemption of shares pursuant to section 237 (3) no. 1 AktG. In the course of this procedure, 2,716,402,077 no-par value shares, which the Bank's shareholders made available to the Bank free of charge, were cancelled.

As at 31 December 2021, several funds launched by Cerberus Capital Management L.P., New York, indirectly held a total of 42.45 % of the voting rights via three acquisition companies (Promontoria Holding 221 B.V. 9.87 %, Promontoria Holding 231 B.V. 13.87 % and Promontoria Holding 233 B.V. 18.71 %). Funds advised by J.C. Flowers & Co LLC, New York, indirectly hold a 34.96 % 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 7.49 % via Chi Centauri LLC as an acquisition company. BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft, Vienna, holds a share of 2.50 % and the members of the Managing Board or former members of the Managing Board of HCOB hold a share of 0.11 % (previous year: 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

Apart from the temporary holding of treasury shares from the restructuring of equity, neither Hamburg Commercial Bank AG itself nor any company dependent on it, or in which it holds a majority interest, holds any further treasury shares. There are no cross-shareholdings as defined by Section 19 AktG.

Changes in ordinary shares

(Number of shares)	2021	2020
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.

Retained earnings were increased by € 1,278 million with amounts released from the reduction of share capital.

Capital reserve

The remaining amounts released from the reduction of the share capital in the amount of € 1,438 million were transferred to the Capital reserve in the reporting year. The Capital reserve contains share-based remuneration in accordance with IFRS 2 of € 11 million in the reporting year (previous year: € 7 million).

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.

In addition, the hedge adjustment resulting from the hedging of net investments in foreign operations is also recognised in this item. The amount reported in the currency conversion reserve includes a hedge adjustment of € 3 million as at 31 December 2021.

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 reporting of capital adequacy to the supervisory authorities is done for each quarter. The capital ratios required under supervisory law were complied with on each reporting date in the course of the year under review.

Regulatory figures

(%)	2021	2020
Overall capital ratio	35.7	33.3
Tier 1 capital ratio	28.9	27.0
CET1 capital ratio	28.9	27.0

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

Notes to the Group cash flow statement

48. Additional disclosures on the Group cash flow statement

The following cash flows and effects on assets and liabilities resulted from the obtaining or loss of control over subsidiaries during the financial year:

Cash flow

	2021		2020	
(€ m)	Obtaining control	Loss of control	Obtaining control	Loss of control
Amounts paid/received	–	–	–	31

Assets

	2021		2020	
(€ m)	Obtaining control	Loss of control	Obtaining control	Loss of control
Loans and advances to banks	–	–	–	5
Loans and advances to customers	–	–	–	1
Financial investments	–	–	–	31
Other assets	–	–	–	2

Liabilities

	2021		2020	
(€ m)	Obtaining control	Loss of control	Obtaining control	Loss of control
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.

Reconciliation Cash flow from financing activities

(€ m)	Other subordinated capital	Silent participations	Profit participation capital
Balance sheet value as at 1 January 2021	**939**	**2**	**–**
Cash changes			
Deposits	–	–	–
Payments made	-31	-2	–
Non-cash changes			
Changes due to exchange rate fluctuations	–	–	–
Changes in fair value	13	–	–
Balance sheet value as at 31 December 2021	**921**	**–**	**–**

Reconciliation Cash flow from financing activities

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

Segment reporting

49. Segment report

(€ m/%)	Real Estate		Shipping		Project Finance		Corporates		Lending Units	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Net interest income	188	218	102	112	61	66	90	80	441	476
Net commission income	7	12	11	12	8	9	13	17	39	50
Other income[1]	8	-	29	-23	5	3	1	7	43	-13
Total income	**203**	**230**	**142**	**101**	**74**	**78**	**104**	**104**	**523**	**513**
Loan loss provisions (expected loss)	-13	-18	-12	-25	-5	-6	-23	-24	-53	-73
Administrative expenses & regulatory costs	-93	-110	-59	-57	-38	-40	-57	-56	-247	-263
Other operating result	-	-	-	-	-	-	-	-	-	-
Result from restructuring and transformation	-	-	-	-	-	-	-	-	-	-
Net income before taxes	**97**	**102**	**71**	**19**	**31**	**32**	**24**	**24**	**223**	**177**
Income tax	-12	-13	-9	-2	-4	-4	-3	-3	-28	-22
Earnings after taxes	**85**	**89**	**62**	**17**	**27**	**28**	**21**	**21**	**195**	**155**
Cost/income ratio (CIR - %)	40	41	38	50	45	43	50	48	42	45
RoE after taxes (%)	**20.3**	**15.1**	**24.5**	**4.3**	**9.7**	**8.8**	**5.3**	**4.3**	**14.5**	**8.7**
Loan loss provisions (expected loss - %)	0.14	0.17	0.35	0.59	0.12	0.12	0.65	0.56	0.26	0.29
Average segment assets (€ bn)	9.1	11.2	3.4	4.2	4.5	5.4	3.6	4.3	20.6	25.1
Loan loss provisions (income statement)	-43	-151	72	124	-7	-15	6	-151	28	-193

(€ bn)	31.12. 2021	31.12. 2020	31.12. 2021	31.12. 2020	31.12. 2021	31.12. 2020	31.12. 2021	31.12. 2020	31.12. 2021	31.12. 2020
Segment assets	**8.0**	**9.5**	**3.7**	**3.3**	**3.9**	**5.1**	**3.7**	**3.7**	**19.3**	**21.6**
Risk Weighted Assets (RWA)	2.9	3.6	1.7	2.2	2.1	2.2	3.3	3.2	10.0	11.2
Loan loss provisions (balance sheet)	0.2	0.2	0.0	0.1	0.1	0.1	0.1	0.2	0.4	0.6
NPE ratio (%)	2.2	1.3	2.2	5.4	0.8	1.1	3.5	5.0	2.2	2.6

[1] Other income includes the other results items within the total income (IFRS).

(€ m/%)	Lending Units		Treasury & Group Functions		Reconciliation		Group	
	2021	2020	2021	2020	2021	2020	2021	2020
Net interest income	441	476	23	79	62	74	526	629
Net commission income	39	50	-	1	-1	-3	38	48
Other income[1]	43	-13	114	-49	-79	41	78	-21
Total income	**523**	**513**	**137**	**31**	**-18**	**112**	**642**	**656**
Loan loss provisions (expected loss)	-53	-73	-2	-4	87	-111	32[2]	-188[2]
Administrative expenses & regulatory costs	-247	-263	-113	-134	-	-	-360	-397
Other operating result	-	-	14	205	-	-	14	205
Result from restructuring and transformation	-	-	-29	-19	-	-	-29	-19
Net income before taxes	**223**	**177**	**7**	**79**	**69**	**1**	**299**	**257**
Income tax	-28	-22	-1	-10	81	-123	52	-155
Earnings after taxes	**195**	**155**	**6**	**69**	**150**	**-122**	**351**	**102**
Cost/income ratio (CIR - %)	42	45	70	57			50	42
RoE after taxes (%)	**14.5**	**8.7**	**1.2**	**11.9**			**18.4**	**4.3**
Loan loss provisions (expected loss - %)	0.26	0.29	0.02	0.03			-0.10[2]	0.46[2]
Average segment assets (€ bn)	20.6	25.1	11.0	15.7	-	-	31.6	40.8
Loan loss provisions (income statement)	28	-193	3	4	1	1	32	-188

(€ bn)	31.12. 2021	31.12. 2020	31.12. 2021	31.12. 2020	31.12. 2021	31.12. 2020	31.12. 2021	31.12. 2020
Segment assets	**19.3**	**21.6**	**10.9**	**12.1**	**0.1**	**0.1**	**30.3**	**33.8**
Risk Weighted Assets (RWA)	10.0	11.2	4.1	4.2	-0.1	0.1	14.0	15.5
Loan loss provisions (balance sheet)	0.4	0.6	-	-	-	-	0.4	0.6
NPE ratio (%)	2.2	2.6	-	-			1.4	1.8

[1] Other income includes the other results items within the total income (IFRS).
[2] Loan loss provisions in accordance with IFRS at Group level.

General information
Segment reporting is prepared 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.

Total income reported for the segments was exclusively generated with customer transactions.

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.

Adjustments to segment reporting
As part of the Bank's transformation process, there were changes in the responsibilities of the Management Board and the business areas in 2021, resulting in corresponding changes in the organisational structure. In addition, methodological adjustments were made to segment reporting and the information supplemented in order to boost the transparency of internal business area management, in particular resource allocation and performance measurement. Both aspects have led to a change in segment reporting in accordance with the requirements of IFRS 8 (Management Approach).

For reasons of comparability, the changes in segment reporting were also applied to the previous year. The previous year's figures have been adjusted accordingly.

A) ADJUSTMENTS TO THE ORGANISATIONAL STRUCTURE
In line with the changed responsibilities in the Management Board (CIO), the new segment structure bundles all market-related units in the four segments "Real Estate", "Shipping",

"Project Finance" and "Corporates", whereby project and corporate finance were still shown in the former "Corporates & Structured Finance" segment in the previous year. The four market-related segments are additional presented together as "lending units". Main focus of the market-related segments' business activities is on offering financing solutions in the lending business. The remaining segment "Treasury & Group Functions" comprises the capital market activities, which have been newly established during the transformation process and focus on the management of strategic investments, and the Treasury function (CFO) as well as the remaining staff and service functions (formerly "Others"). The capital market activities were previously reported in the former segment "Diversified Lending & Markets" and now comprise the management of the portfolios in the bank book (liquidity buffer, cover pools, strategic investment portfolio and management of pension obligations) as well as bank-wide asset liability management (ALM) and the management of the cash position in the new segment "Treasury & Group Functions". The business activities with international corporate clients were transferred from the former "Diversified Lending & Markets" segment to the "Corporates" segment. The financing business with institutional clients as well as the bank-wide syndication activities (formerly in the "Corporates & Structured Finance" segment) is reported in the "Treasury & Group Functions" segment. The contributions to operating earnings from the positions of the ALM book in the Treasury & Group Functions segment are allocated to the market-related segments. 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.

B) METHODOLOGICAL ADJUSTMENTS

In order to increase the level of transparency, the segment results in the areas of total income, loan loss provisions, administrative costs and capital utilisation (average equity utilisation) were changed in accordance with the internal performance measurement structure. In accordance with IFRS 8.28, the resulting reconciliation effects in the individual income items are presented separately, which is explained in greater detail below.

The total income of the segments now also includes OCI results, which under IFRS are reported in other comprehensive income not recognised through profit or loss.

The risk costs (expected loss) at segment level posted in the segment report in accordance with the internal performance measurement structure are now based on the expected loss of the transactions (through-the-cycle view). The reconciliation to total income and loan loss provisions in accordance with the consolidated income statement under IFRS is provided in the reconciliation column.

In the market-related segments, administrative expenses and regulatory costs are reported based on the regulatory costs allocated in the internal performance measurement (expenses for regulation, deposit guarantee fund and banking associations) and the standard processing costs applied (for administrative expenses). The standard processing costs of the segments take into account the personnel and material costs in the amount of the target costs for the year 2022. The costs not allocated to the market-related segments (so-called "legacy costs" as the difference between the actual expenses and the target costs 2022) are allocated to the Treasury & Group Functions segment.

The result from restructuring and transformation is reported in full in the Treasury & Group Functions segment.

The income taxes of the segments are calculated using a minimum tax rate of 12.8 % on the respective net income before taxes due to the high existing loss carryforwards. The difference to actual income taxes at Group level is shown in the Reconciliation item.

The return on equity (RoE after taxes) is based on a normalised equity utilisation (average risk weighted assets (RWA) and normalised CET1 ratio of 13 percent).

Further reconciliation effects in accordance with IFRS 8.28

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

These are reporting and valuation effects resulting from the transition, but also effects in the interest income and other income, which are summarised in the other income items under total income (IFRS).

Net interest income for the purpose of internal reporting to management is calculated in accordance with Fund Transfer Pricing (FTP). Reconciliation effects relating to Net interest income of the Group also include effects from different calculation and amortisation methods used for internal reporting purposes. 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 item 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.

Definitions

For the definition of the KPIs CIR and NPE ratio, please refer to the explanations provided in the Group management report (Chapter "Basis of the Group", Section "Management system").

The loan loss provisions (income statement) shown (as additional information) in the tables above represent the loan loss provisions of the segments according to the consolidated income statement under IFRS. The risk costs (expected loss – %) are calculated based on the quotient of risk costs (expected loss) and the average segment assets.

Disclosures on financial instruments

50. 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 items in the statement of financial position Loans and advances to banks, Loans and advances to customers, Financial investments, Non-current assets held for sale and disposal groups, and for the off-balance sheet business.

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

Development of gross carrying amounts for loans and advances to banks

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2021	**1,557**	**–**	**–**	**–**	**1,557**
thereof AC	1,535	–	–	–	1,535
thereof FVOCI	22	–	–	–	22
Other changes	– 321	–	–	–	– 321
thereof AC	– 317	–	–	–	– 317
thereof FVOCI	– 4	–	–	–	– 4
Carrying amount as at 31 December 2021	**1,236**	**–**	**–**	**–**	**1,236**
thereof AC	1,218	–	–	–	1,218
thereof FVOCI	18	–	–	–	18

Development of gross carrying amounts for loans and advances to banks

(€ m)	2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount 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 amount as at 31 December 2020	**1,558**	**–**	**–**	**–**	**1,558**
thereof AC	1,537	–	–	–	1,537
thereof FVOCI	21	–	–	–	21

Development of 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 of gross carrying amounts for loans and advances to customers

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2021	**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
Transfer to LECL Stage 2	-994	994	–		–
thereof AC	-994	994	–		–
Transfer to LECL Stage 3	-142	-37	179		–
thereof AC	-142	-37	179		–
Transfer to 12M ECL	554	-554	–		–
thereof AC	554	-554	–		–
Other changes	-937	-957	-298	-1	-2,193
thereof AC	-785	-956	-298	-1	-2,040
thereof FVOCI	-139	-1	–	–	-140
thereof receivables under finance leases	-13	–	–	–	-13
Carrying amount as at 31 December 2021	**17,300**	**2,169**	**425**	**15**	**19,909**
thereof AC	16,354	2,164	425	15	18,958
thereof FVOCI	910	5	–	–	915
thereof receivables under finance leases	36	–	–	–	36

Development of gross carrying amounts 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 Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount 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 Stage 2	– 1,811	1,811	–		–
thereof AC	– 1,804	1,804	–		–
Transfer to LECL Stage 3	– 75	– 577	652		–
thereof AC	– 75	– 577	652		–
Transfer to 12M ECL	310	– 310	–		–
thereof AC	310	– 310	–		–
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 amount 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 of loan loss provisions for loans and advances to customers

(€ m)	2021				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2021	**91**	**216**	**261**	**1**	**569**
Transfer to LECL Stage 2	-5	5	-	–	-
Transfer to LECL Stage 3	-1	-6	7	–	-
Transfer to 12M ECL	49	-49	-	–	-
Reversals due to disposals, repayments and other reductions	118	127	59	–	304
Additions due to new additions and other increases	49	126	103	5	283
Utilisation	-	-	118	–	118
Change in line with effective interest rate	-	-	7	– 1	6
Exchange rate changes	3	4	3	–	10
Loan loss provisions as at 31 December 2021	**68**	**169**	**204**	**5**	**446**

Development of loan loss provisions 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 Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2020	**57**	**308**	**343**	**–**	**708**
Transfer to LECL Stage 2	-10	10	-	-	-
Transfer to LECL Stage 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 as at 31 December 2020	**91**	**216**	**261**	**1**	**569**

As in the prior-year period, changes in loans and advances to customers in the reporting period relate only to transactions classified as AC.

Development of gross carrying amounts for financial investments

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2021	**4,890**	**-**	**-**	**-**	**4,890**
thereof AC	86	-	-	-	86
thereof FVOCI	4,804	-	-	-	4,804
Transfer to LECL Stage 2	– 16	16	-	-	-
thereof FVOCI	– 16	16	-	-	-
Other changes	– 825	-	-	-	– 825
thereof AC	5	-	-	-	5
thereof FVOCI	– 830	-	-	-	– 830
Carrying amount as at 31 December 2021	**4,049**	**16**	**-**	**-**	**4,065**
thereof AC	91	-	-	-	91
thereof FVOCI	3,958	16	-	-	3,974

Development of 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 Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or originated credit-im-paired (POCI)	Total
Carrying amount 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	-6	–	–	–	- 26
thereof FVOCI	-527	- 51	–	–	-578
Carrying amount as at 31 December 2020	**4,890**	**–**	**–**	**–**	**4,890**
thereof AC	86	–	–	–	86
thereof FVOCI	4,804	–	–	–	4,804

Development of loan loss provisions for financial investments

(€ m)	2021			
	Insignificant increase in the loan default risk (12-month - ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Total
Loan loss provisions as at 1 January 2021	**–**	**–**	**–**	**–**
Additions due to new additions and other increases	1	–	–	1
Loan loss provisions as at 31 December 2021	**1**	**–**	**–**	**1**

Development of loan loss provisions for financial investments

(€ m)	2020			
	Insignificant increase in the loan default risk (12-month - ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Total
Loan loss provisions as at 1 January 2020	**–**	**1**	**–**	**1**
Reversals due to disposals	–	1	–	1
Loan loss provisions as at 31 December 2020	**–**	**–**	**–**	**–**

As in the prior-year period, changes in financial investments in the reporting period relate only to transactions classified as FVOCI.

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

(€ m)	2021				
	Insignificant increase in the loan default risk (12-month - ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or originated credit-im-paired (POCI)	Total
Carrying amount as at 1 January 2021	**609**	**17**	**–**	**–**	**626**
Other changes	-599	-17	–	–	-616
Carrying amount as at 31 December 2021	**10**	**–**	**–**	**–**	**10**

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.

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

(€ m)	2020				
	Insignificant increase in the loan default risk (12-month - ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or originated credit-im-paired (POCI)	Total
Carrying amount as at 1 January 2020	**245**	**–**	**–**	**–**	**245**
Other changes	364	17	–	–	381
Carrying amount as at 31 December 2020	**609**	**17**	**–**	**–**	**626**

Carrying amounts off-balance-sheet business

(€ m)	2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or originated credit-im-paired (POCI)	Total
Carrying amount as at 1 January 2021	**4,257**	**259**	**76**	**–**	**4,592**
Other changes	-397	-37	-12	–	-446
Carrying amount as at 1 December 2021	**3,860**	**222**	**64**	**–**	**4,146**

Carrying amounts off-balance-sheet business

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

Development of loan loss provisions of off-balance sheet business

(€ m)	2021				
	Insignificant increase in the loan default risk (12-month - ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2021	**3**	**1**	**35**	**-**	**39**
Reversals due to disposals and other reductions	-4	-1	-6	-	-11
Additions due to new additions and other increases	3	1	12	-	16
Loan loss provisions as at 31 December 2021	**2**	**1**	**41**	**-**	**44**
thereof provisions for contingent liabilities	-	-	10	-	10
thereof provisions for irrevocable loan commitments	2	1	31	-	34

Development of loan loss provisions of off-balance sheet business

(€ m)	2020				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2020	**4**	**3**	**46**	**-**	**53**
Transfer to LECL Stage 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 as at 31 December 2020	**3**	**1**	**35**	**-**	**39**
thereof provisions for contingent liabilities	-	-	11	-	11
thereof provisions for irrevocable loan commitments	3	1	24	-	28

51. Residual maturity breakdown of financial instruments

When determining the residual maturity 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) 2021	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Liabilities						
Liabilities to banks	118	863	548	3,356	686	5,571
Liabilities to customers	4,518	1,982	1,840	1,922	1,282	11,544
Securitised liabilities	-	79	2,006	3,887	824	6,796
Negative fair value of hedging derivatives	-	17	18	76	30	141
Trading liabilities	1	37	33	42	224	337
thereof: Derivatives	1	37	32	30	187	287
Other liabilities	1	75	21	66	-	163
Subordinated capital	-	-	7	51	1,028	1,086
Contingent liabilities	752	-	-	-	-	752
Irrevocable loan commitments	3,800	-	-	-	-	3,800
Total	**9,190**	**3,053**	**4,473**	**9,400**	**4,074**	**30,190**

Residual maturity breakdown

(€ m) 2020	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 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**

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 risk report included in the Combined Management Report of the Bank.

52. 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) 2021	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVOCI Mandatory	**4,905**	**4,905**	**1,943**	**2,720**	**242**
Loans and advances to banks	18	18	–	18	–
Loans and advances to customers	914	914	–	914	–
Financial investments	3,973	3,973	1,943	1,788	242
FVPL Designated	**41**	**41**	**–**	**41**	**–**
Financial investments	41	41	–	41	–
FVPL Held For Trading	**689**	**689**	**–**	**569**	**120**
Trading assets	689	689	–	569	120
FVPL Other	**710**	**710**	**–**	**360**	**350**
Loans and advances to customers	291	291	–	–	291
Financial investments	419	419	–	360	59
AC assets	**23,116**	**23,842**	**–**	**6,800**	**17,042**
Cash reserve	3,261	3,261	–	3,261	–
Loans and advances to banks	1,218	1,222	–	1,222	–
Loans and advances to customers	18,511	19,233	–	2,191	17,042
Financial investments	91	92	–	92	–
Non-current assets held for sale and disposal groups	10	10	–	10	–
Other assets	25	24	–	24	–
No IFRS 9 category	**94**	**90**	**–**	**26**	**–**
Positive fair values of hedging derivatives	26	26	–	26	–
Receivables under finance leases	36	36	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	32	28[1]	n.r.	n.r.	n.r.
Total assets	**29,555**	**30,277**	**1,943**	**10,516**	**17,754**

[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 € 4 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) 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 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**	**–**	**4,842**	**20,644**
Cash reserve	1,741	1,741	–	1,741	–
Loans and advances to banks	1,536	1,539	–	1,539	–
Loans and advances to customers	20,429	21,239	–	1,260[2]	19,979[2]
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**	**10,558**	**21,341**

[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.

[2] Adjustment of prior-year figures cf. Note 3.

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

Liabilities

(€ m) 2021	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	**440**	**440**	**–**	**287**	**153**
Liabilities to banks	16	16	–	1	15
Liabilities to customers	223	223	–	97	126
Securitised liabilities	201	201	–	189	12
FVPL Held For Trading	**289**	**289**	**–**	**233**	**56**
Trading liabilities	289	289	–	233	56
AC liabilities	**23,953**	**24,375**	**–**	**23,513**	**862**
Liabilities to banks	5,488	5,472	–	5,467	5
Liabilities to customers	10,918	11,212	–	11,179	33
Securitised liabilities	6,503	6,538	–	5,714	824
Other liabilities	123	122	–	122	–
Subordinated capital	921	1,031	–	1,031	–
No IFRS 9 category	**330**	**149**	**–**	**149**	**–**
Negative fair value of hedging derivatives	149	149	–	149	–
Value adjustments from the portfolio fair value hedge	181	–	n.r.	n.r.	n.r.
Total liabilities	**25,012**	**25,253**	**–**	**24,182**	**1,071**

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**	**–**	**26,866**	**294**
Liabilities to banks	7,366	7,364	–	7,333	31
Liabilities to customers	12,687	13,131	–	12,951[1]	180[1]
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**	**–**	**28,310**	**839**

[1] Adjustment of prior-year figures cf. Note 3.

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) 2021	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Financial investments						
thereof FVOCI Mandatory	1,287	-829	829	-1,287	–	–
thereof FVPL Other	–	-25	25	–	–	–
Total	**1,287**	**-854**	**854**	**-1,287**	**–**	**–**

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**

As in the previous period, there were no transfers on the liabilities side in the period under review.

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		Quantitative change in balance		Transfers					
2021	1 January 2021	Realised net income (income statement)	OCI reserve	Purchases	Sales	Issues	Settlements	From level 3	To level 3	Transfer/ recategorisation	Exchange rate changes	31 December 2021	Net income from assets held as at 31 December 2021
Balance sheet item/category/ instrument type													
Loans and advances to customers													
thereof FVPL Other	314	17	-	-	-32	-	-19	-	-	-	11	**291**	-3
Trading assets (FVPL Trading)	230	-50	-	-	-	-	-62	-	-	-	2	**120**	-
Financial investments													
thereof FVOCI Mandatory	136	-1	-1	210	-19	-	-85	-	-	-	2	**242**	-
thereof FVPL Other	9	2	-	49	-1	-	-	-	-	-	-	**59**	1
Non-current assets held for sale and disposal groups													
thereof FVPL Other	8	-	-	-	-8	-	-	-	-	-	-	**-**	-
Total	**697**	**-32[1]**	**-1**	**259**	**-60**	**-**	**-166**	**-**	**-**	**-**	**15**	**712**	**-2**

[1] Of the net income in the income statement recognised in profit or loss, € -21 million relate to the result from financial instruments categorised as FVPL, € -10 million to the net interest result and € -1 million to net income from financial investments.

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Quantitative change in balance		Quantitative change in balance		Transfers					
2021	1 January 2020	Realised net income (income statement)	OCI reserve	Purchases	Sales	Issues	Settlements	From level 3	To level 3	Transfer/ recategorisation	Exchange rate changes	31 December	Net income from assets held as at 31 December 2020
Balance sheet item/category/ instrument type													
Loans and advances to customers													
thereof FVPL Other	373	-23	-	38	-16	-	-39	-	-	-	-19	314	-5
Trading assets (FVPL Trading)	345	-143	-	56	-10	-	-13	-4	3	-	-4	230	-11
Financial investments													
thereof FVOCI Mandatory	20	1	-	115	-	-	-	-	-	-	-	136	-
thereof FVPL Other	36	4	-	1	-1	-	-	-	-	-	-	9	-
Non-current assets held for sale and disposal groups													
thereof FVPL Other	8	-	-	-	-	-	-	-	-	-	-	8	-
Total	**782**	**-161**	**-**	**210**	**-27**	**-**	**-52**	**-4**	**3**	**-**	**-23**	**697**	**-16**

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

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Quantitative change in balance		Quantitative change in balance		Transfers					
2021	1 January 2021	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales	New business	Settlements	From level 3	To level 3	Transfer/ recategorisation	Exchange rate changes	31 December 2021	Net income from assets held as at 31 December 2021
Balance sheet item/category/ instrument type													
Liabilities to banks													
FVPL Designated	101	-5	1	–	-82	–	–	–	–	–	–	**15**	–
Liabilities to customers													
FVPL Designated	266	-14	1	–	-115	–	-11	–	–	–	-1	**126**	4
Securitised liabilities													
FVPL Designated	117	-26	1	–	–	–	-77	–	–	–	-3	**12**	–
Trading assets (FVPL Trading)	61	-5	–	–	–	–	–	–	–	–	–	**56**	5
Total	**545**	**-50[1]**	**3**	**–**	**-197**	**–**	**-88**	**–**	**–**	**–**	**-4**	**209**	**9**

[1] Of the net income in the income statement, € -42 million relate to the result from financial instruments categorised as FVPL and € -8 million to the net interest result.

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Quantitative change in balance		Quantitative change in balance		Transfers					
2020	1 January 2020	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales	New business	Settlements	From level 3	To level 3	Transfer/ recategorisation	Exchange rate changes	31 December 2020	Net income from assets held as at 31 December 2020
Balance sheet item/category/ instrument type													
Liabilities to banks													
FVPL Designated	111	-3	–	–	–	–	-7	–	–	–	–	**101**	-2
Liabilities to customers													
FVPL Designated	343	1	–	–	–	–	-75	–	–	–	-3	**266**	-10
Securitised liabilities													
FVPL Designated	354	-51	-4	-204	70	–	-37	–	–	–	-11	**117**	-4
Trading assets (FVPL Trading)	87	-80	–	50	–	–	–	–	6	-2	–	**61**	-4
Total	**895**	**-133[1]**	**-4**	**-154**	**70**	**–**	**-119**	**–**	**6**	**-2**	**-14**	**545**	**-20**

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

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) 2021		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin
Loans and advances to customers	FVPL Other	291		DCF method	Spread (bps)	24- 1748
Trading assets/trading liabilities	FVPL Held For Trading	120	56	DCF method	Spread	24- 1748
					Longevity	10 %-33 %
				Option pricing model	Interest rate volatility	11 %-42 %
					Spread (bps)	9- 256
Financial investments	FVPL Other	59		DCF method	Spread	101 - 295
				DCF method	Capital costs	7 %-8 %
	FVOCI Mandatory	242		DCF method	Spread (bps)	101 - 295
Liabilities to banks	FVPL Designated		15	Option pricing model	Interest rate FX correlation	-29 %-12 %
Liabilities to customers	FVPL Designated		126	Option pricing model	Interest rate volatility	11 %-42 %
				Price	Price	1
Securitised liabilities	FVPL Designated		12	Option pricing model	Interest rate FX correlation	-29 %-12 %
Total		**712**	**209**			

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	-35 %-9 %
				Price	Price	2- 85
Trading assets/trading liabilities	FVPL Held For Trading	230	61	DCF method	Spread	48- 1470
					Longevity	10 %-33 %
				Option pricing model	Interest rate volatility	9 %-47 %
					Interest rate FX correlation	-35 %-9 %
					FX correlation	3 %-79 %
Financial investments	FVPL Other	9		Price	Price	1- 11,471
				DCF method	Capital costs	6 %-8 %
	FVOCI Mandatory	136		DCF method	Spread (bps)	48- 1470
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Capital costs	6 %-8 %
Liabilities to banks	FVPL Designated		101	Option pricing model	Interest rate volatility	9 %-47 %
					Interest rate FX correlation	-35 %-9 %
Liabilities to customers	FVPL Designated		266	Option pricing model	Interest rate volatility	9 %-47 %
					Interest rate FX correlation	-35 %-9 %
				Price	Price	2- 10
Securitised liabilities	FVPL Designated		117	Option pricing model	Interest rate volatility	9 %-47 %
					FX correlation	3 %-79 %
Total		**697**	**545**			

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 VALUE IN RELATION TO UNOBSERVABLE INPUT
The following describes how the fair value of financial instruments can change as a result of fluctuations in significant unobservable outputs.

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" derivatives) 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 exit 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 € 18 million (previous year: € 50 million). Of this amount, € 13 million was recognised in the income statement as income/expense and € 5 million in the revaluation reserve (previous year: € 3 million income statement).

III. Day one profit and loss

The day one profit and loss reserve developed as follows:

(€ m)	2021	2020
Holdings as at 1 January	**6**	**6**
Additions not recognised in profit or loss	-	1
Reversals recognised in profit or loss	2	1
Holdings as at 31 December	**4**	**6**

The day one profit and loss reserve is solely attributable to financial instruments classified as FVPL Trading.

53. Offsetting of financial instruments

Financial assets and financial liabilities are netted and disclosed as a net amount on the statement of financial position, 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 statement of financial position 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 statement of financial position. 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) 2021	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	591	166	425	-	248	177
Loans and advances to customers	47	-	47	-	45	2
Derivatives	738	275	463	30	76	357

Of the net amount of derivatives disclosed on the statement of financial position, positive market values of hedging derivatives account for € 26 million and trading assets for € 437 million.

Financial liabilities

(€ m) 2021	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	53	3	50	–	47	3
Liabilities to customers	30	–	30	–	30	–
Derivatives	823	439	384	30	294	60

Of the net amount of derivatives disclosed on the statement of financial position, negative market values of hedging derivatives account for € 148 million and trading liabilities for € 236 million.

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 statement of financial position, negative market values of hedging derivatives account for € 371 million and trading liabilities for € 632 million.

54. Credit risk analysis of impaired 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) 2021		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	3,261	–	–	–
	Loans and advances to banks				
	thereof AC assets	755	448	7	7
	thereof FVOCI Mandatory	–	18	–	–
	Loans and advances to customers				
	thereof AC assets	441	3,890	7,011	4,960
	thereof FVOCI Mandatory	714	114	82	–
	Financial investments				
	thereof AC assets	–	–	43	48
	thereof FVOCI Mandatory	1,629	1,944	381	4
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	10	–
	Other assets				
	thereof AC assets	–	25	–	–
	No holding category				
	Receivables under finance lease transactions	–	36	–	–
	Contingent liabilities	10	146	128	19
	Irrevocable loan commitments	52	790	1,668	982
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers				
	thereof AC assets	–	54	536	957
	thereof FVOCI Mandatory	4	–	–	–
	Financial investments				
	thereof FVOCI Mandatory	–	–	–	16
	No holding category				
	Contingent liabilities	–	–	7	3
	Irrevocable loan commitments	–	–	105	65
Credit-impaired (LECL Stage 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	–	–	8	–
Total		**6,866**	**7,465**	**9,986**	**7,061**

Credit quality

(€ m) 2021		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	28	23	–
	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	54	2	9
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers			
	thereof AC assets	384	232	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof FVOCI Mandatory	–	–	–
	No holding category			
	Contingent liabilities	3	6	–
	Irrevocable loan commitments	18	15	–
Credit-impaired (LECL Stage 3)	Loans and advances to customers			
	thereof AC assets	–	–	426
	No holding category			
	Contingent liabilities	–	–	24
	Irrevocable loan commitments	–	–	40
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	7
Total		**487**	**278**	**506**

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) 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 Stage 2)	Loans and advances to customers				
	thereof AC assets	–	–	613	872
	Loans and advances to banks				
	thereof AC assets	–	–	–	–
	Financial investments				
	thereof FVOCI Mandatory	–	–	–	–
	No holding category				
	Contingent liabilities	–	–	13	6
	Irrevocable loan commitments	–	–	90	67
Credit-impaired (LECL Stage 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 Stage 2)	Loans and advances to customers			
	thereof AC assets	922	310	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	Financial investments			
	thereof FVOCI Mandatory	–	–	–
	No holding category			
	Contingent liabilities	2	10	–
	Irrevocable loan commitments	49	23	–
Credit-impaired (LECL Stage 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**

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 50, as well as the nominal value of off-balance sheet liabilities as presented in Note 58.

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 27. 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		
2021	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	–	–	–	–
Financial investments	41	–	–	–
FVPL Other				
Loans and advances to customers	291	42	–	–
Financial investments	419	–	–	–
Non-current assets held for sale and disposal groups	–	–	–	–
FVPL Held For Trading				
Trading assets	689	79	18	64
No holding category				
Positive fair values of hedging derivatives	26	–	–	–
Value adjustments from the portfolio fair value hedge	32	–	–	–
Total assets	**1,498**	**121**	**18**	**64**

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**

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		
2021	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	440	145	4	52
No holding category				
Contingent liabilities	24	3	2	8
Irrevocable loan commitments	40	–	–	–
Total assets	**504**	**148**	**6**	**60**

(€ 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**

For loans and advances to customers amounting to € 23 million (31 December 2020: € 42 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 risks. 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 predominantly 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 € 160 million (31 December 2020: € 326 million). The collateral received is broken down as follows: € 50 million (31 December 2020: € 326 million) relates to OTC derivatives and structured transactions. The Group did not receive any collateral from genuine repo transactions as the lender. Collateral received includes cash collateral in the amount of € 50 million (31 December 2020: € 326 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 € 0 million (31 December 2020: € 96 million).

55. 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) 2021	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	640	404	1,044
Irrevocable and revocable loan commitments	31	40	71
Total	**671**	**444**	**1,115**

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**

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 262 million have already been set up for the portfolios measured at amortised cost (previous year: € 322 million).

56. Information on unconsolidated structured entities

I. Interests in unconsolidated structured entities

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 43 unconsolidated structure entities (previous year: 39), Hamburg Commercial Bank maintains a business relationship (i.e. holds an 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 structured entities

(€ m)	Number		Total assets	
	2021	2020	2021	2020
ABS investments	14	8	5,473	2,499
Investment funds	11	10	5,091	2,898
Securitisation and refinancing vehicles	16	19	312	391
Other	2	2	641	398
Total	**43**	**39**	**11,517**	**6,186**

The function of refinancing and securitisation vehicles is to issue securities. These companies are involved in the (revolving) purchase and, in certain cases, securitisation of loan, trading and lease receivables, including refinancing with investors. They are mainly financed through issuing debentures (and promissory notes) as well as via loans and subordinated loans. Furthermore, the Bank has 14 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, making 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 at the reporting date.

The following table shows the IFRS carrying amounts of exposures involving unconsolidated structured entities as at 31 December 2021, broken down into items of financial position.

Type of business relationship

(€ m) 2021	Investment funds	ABS	Securitisation and refinancing vehicles	Other structured entities	Total
Loans and advances to customers	97	-	113	66	276
Positive fair value of hedging derivatives	-	-	-	-	-
Trading assets	-	-	-	-	-
Financial investments	-	202	20	-	222
Total assets	**97**	**202**	**133**	**66**	**498**
Liabilities to customers	2	-	9	2	13
Total liabilities	**2**	**-**	**9**	**2**	**13**

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**

The above table contains loans, debentures, deposits and derivatives in respect of unconsolidated structured entities.

In addition, there are maximum potential losses from irrevocable loan commitments amounting to € 34 million (previous year: € 42 million), thereof € 0 million results from investment funds (previous year: € 0 million) and € 34 million from securitisation and refinancing vehicles (previous year: € 42 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.

57. 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 Stages 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 Stage 2, Stage 3 financial instruments modified in the reporting period before modification		Gains or losses from the modification at Stage 2, 3 in the reporting period	
	2021	2020	2021	2020
AC				
Loans and advances to customers	52	344	1	-
Total	**52**	**344**	**1**	**-**

58. Contingent liabilities and irrevocable loan commitments

Contingent liabilities

(€ m)	2021	2020
Contingent liabilities from guarantees and warranty agreements		
Loan guarantees	77	87
Letters of credit	135	124
Other guarantees	540	757
Total	**752**	**968**

Loan commitments

(€ m)	2021	2020
Loan commitments for		
Open account loans to banks	-	-
Open account loans to customers	3,768	4,187
Guarantees	18	2
Other	14	20
Total	**3,800**	**4,209**

Information on collateral transferred is presented in Note 60 .

In addition to the values shown in the table, there are other contingent liabilities arising from legal disputes. The addition results from some new legal disputes in the Bank's lending business in the amount of € 61 million (previous year: € 7 million).

To avoid any adverse effects for the Bank, detailed information on the legal disputes has been omitted in accordance with IAS 37.92.

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

59. 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	
	2021	2020	2021	2020	2021	2020
Interest rate swaps	11,039	22,725	722	1,577	324	1,028
Swaptions						
Purchases	60	963	–	17	–	11
Sales	37	1,089	1	7	–	100
Caps, floors	2,983	4,971	14	17	4	9
Exchange-traded contracts	130	95	–	–	–	–
Other forward interest rate transactions	182	142	6	1	7	2
Total	**14,431**	**29,985**	**743**	**1,619**	**335**	**1,150**

Derivatives transactions with interest rate and foreign exchange risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2021	2020	2021	2020	2021	2020
Cross-currency interest rate swaps	743	1,569	3	13	29	43
Total	**743**	**1,569**	**3**	**13**	**29**	**43**

Derivatives transactions with foreign exchange risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2021	2020	2021	2020	2021	2020
Forward exchange transactions	3,284	3,388	6	55	84	12
Total	**3,284**	**3,388**	**6**	**55**	**84**	**12**

Derivatives transactions with equity and other price risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2021	2020	2021	2020	2021	2020
Exchange-traded contracts	1	1	–	–	–	–
Equity/index-based swaps	2	8	1	1	–	–
Total	**3**	**9**	**1**	**1**	**–**	**–**

Credit derivatives

(€ m)	Nominal values		Positive market values		Negative market values	
	2021	2020	2021	2020	2021	2020
Guarantor position	9	10	–	–	–	–
Total	**9**	**10**	**–**	**–**	**–**	**–**

Derivatives transactions with structured products

(€ m)	Nominal values		Positive market values		Negative market values	
	2021	2020	2021	2020	2021	2020
Structured products	883	1,300	46	99	65	116
Total	**883**	**1,300**	**46**	**99**	**65**	**116**

Derivatives transactions in fair value hedge accounting

(€ m)	Nominal values		Positive market values		Negative market values	
	2021	2020	2021	2020	2021	2020
Fair value hedges						
Interest rate swaps	4,570	6,645	80	30	313	457
Total	**4,570**	**6,645**	**80**	**30**	**313**	**457**

II. Counterparty classification

Counterparty classification

(€ m)	Nominal values		Positive market values		Negative market values	
	2021	2020	2021	2020	2021	2020
OECD banks	16,308	31,170	352	965	748	1,596
Non-OECD banks	34	5	1	1	-	-
Non-banks[1]	7,509	11,462	519	809	66	169
Public authorities	72	270	6	42	11	14
Total	**23,923**	**42,907**	**878**	**1,817**	**825**	**1,779**

[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	
	2021	2020	2021	2020	2021	2020	2021	2020
Residual maturity								
Up to 3 months	6	46	–	–	55	14	–	3
3 months to 1 year	36	37	6	6	34	45	1	4
1 year to 5 years	69	238	12	14	85	218	29	38
Up to 5 years	687	1,466	62	10	338	1,045	283	412
Total	**798**	**1,787**	**80**	**30**	**512**	**1,322**	**313**	**457**

60. Disclosures on collateral transferred and financial assets transferred with retention of rights and/or obligations

I. Collateral transferred

As at 31 December 2021, 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.

Carrying amounts of transferred collateral

(€ m)	2021	2020
Receivables	4,563	6,071
Loans and advances to banks	829	1,329
Loans and advances to customers	3,734	4,742
Trading assets/Financial investments	544	1,179
Non-current assets held for sale and disposal groups	–	596
Total	**5,107**	**7,846**

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. It is not possible to resell 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 relenting 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 fair value of € 0; it entails no risk.

61. Trust transactions

The table below shows the volume of trust transactions not recognised in the statement of financial position.

Trust transactions

(€ m)	2021	2020
Loans and advances to customers	9	11
Trust assets	**9**	**11**
Liabilities to banks	8	10
Liabilities to customers	1	1
Trust liabilities	**9**	**11**

62. 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 relationships 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. Companies 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 – Liabilities

(€ m)	2021	2020
Liabilities to customers	–	1
Total	**–**	**1**

Companies with a significant influence – Statement of income

(€ m)	2021	2020
Net interest income	-1	4
Result from the disposal of assets classified as AC	–	6
Total	**-1**	**10**

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

Subsidiaries – Liabilities

(€ m)	2021	2020
Liabilities to customers	7	1
Other liabilities	–	1
Total	**7**	**2**

III. Associates

The transactions with unconsolidated associates are shown below:

Associates – Liabilities

(€ m)	2021	2020
Liabilities to customers	3	4
Total	**3**	**4**

IV. Joint ventures

The transactions with unconsolidated joint ventures are shown below:

Joint ventures – Assets

(€ m)	2021	2020
Loans and advances to customers	11	12
Total	**11**	**12**

Joint ventures – Liabilities

(€ m)	2021	2020
Liabilities to customers	2	3
Total	**2**	**3**

Joint ventures – Income statement

(€ m)	2021	2020
Result from financial instruments categorised as FVPL	-	-2
Total	**-**	**-2**

V. Other related parties and companies

No significant transactions have 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 reporting date.

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 Hamburg Commercial Bank AG. 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.

For the years 2019 and 2020, 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 above-stated years, free of debt and without consideration. In financial year 2021, a total of 188,634 shares were transferred to eligible persons under the share bonus programme (previous year: 161,119 shares). Until 31 December 2021, a total of 349,753 shares have been transferred under the share bonus programme (until 31 December 2020: 161,119 shares). After the share split at a ratio of one to ten was implemented and the shares were cancelled for free due to the reduction in capital (see the explanations in Note 47), the beneficiaries hold a total of 349,753 shares, which corresponds to 0.11 % of the share capital.

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 2021, the Capital reserve includes an amount of € 11 million for share-based remuneration. This includes an amount of € 3 million attributable to shares already transferred by the shareholders.

The following table shows 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 had decided to waive 30 % of their variable remuneration for the 2019 financial year.

Remuneration of persons in key management positions

(€ k)	Management Board		Supervisory Board		Total	
	2021	2020	2021	2020	2021	2020
Short-term benefits	11,108	11,126	4,297	3,247	15,405	14,373
Termination benefits	1,597	2,400	-	-	1,597	2,400
Other long-term benefits	5,056	3,157	-	-	5,056	3,157
Post-employment benefits	1,175	1,386	-	-	1,175	1,386
Share-based payment	4,719	3,157	-	-	4,719	3,157
Total remuneration	**23,655**	**21,226**	**4,297**	**3,247**	**27,952**	**24,473**

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.

Remuneration of corporate bodies

(€ k)	2021	2020
Total remuneration of all active members of corporate bodies		
Management Board	22,058	18,826
Supervisory Board	4,297	3,247
Total	**26,355**	**22,073**
Total remuneration of former members of corporate bodies and their surviving dependants		
Management Board	**4,588**	**5,219**

As at 31 December 2021, a total of €k 51,836 (previous year: €k 57,984) was added to provisions for pension obligations relating to former members of the Management Board and their surviving dependants.

As at the reporting date of the previous year, there were no advances, loans or other contingent liabilities to members of the Management Board or the Supervisory Board as at 31 December 2021.

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 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

An amount of €k 3,213 was paid to the members of the Supervisory Board for their activities in the Supervisory Board in financial year 2021. For the portion of Supervisory Board remuneration for financial year 2021 (fourth quarter) paid out at the beginning of 2022, a provision of €k 1,084 was recognised as at 31 December 2021.

For this purpose, a provision of €k 852 had been formed as at 31 December 2020 for the Supervisory Board remuneration for the fourth quarter of 2020. The amount paid out to the members of the Supervisory Board for this purpose in the 2021 financial year amounted to €k 852.

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

The remuneration for financial year 2021 paid to the members of the Supervisory Board in 2021 and at the beginning of 2022 breaks down as follows:

Members of the Supervisory Board

(€)[1]	Fixed remuneration		Total	
Members of the Supervisory Board	2021	2020	2021	2020
Juan Rodríguez Inciarte, Chair	850,000	680,000	850,000	680,000
Simone Graf, Vice Chair	215,000	172,000	215,000	172,000
Geoffrey Adamson[2] (until 22 August 2020)	–	–	–	–
Olaf Behm	215,000	172,000	215,000	172,000
Oliver Dircks	222,500	172,000	222,500	172,000
Bert Ehlers	215,000	172,000	215,000	172,000
James Christopher Flowers[2] (until 23 April 2020)	–	–	–	–
Allen Gibson (until 29 February 2020)	–	30,330	–	30,330
Manuel González Cid[2]	–	–	–	–
Frederick Haddad (from 22 August 2020)	215,000	62,000	215,000	62,000
Klaus Heinemann	437,500	341,396	437,500	341,396
Chad Leat	422,500	332,000	422,500	332,000
Rieka Meetz-Schawaller	215,000	172,000	215,000	172,000
Mark Neporent[2]	–	–	–	–
Dr Ilinca Rosetti (from 24 April 2020)	207,500	109,890	207,500	109,890
Stefan Schlatermund	215,000	172,000	215,000	172,000
Sat Shah (from 1 March 2020 to 31 December 2020)	–	143,022	–	143,022
Mag. Friedrich Spandl (from 1 January 2021)	214,583	–	214,583	–
Mark Werner	222,500	172,000	222,500	172,000
Stephan Wilcke	215,000	172,000	215,000	172,000
Paulus de Wilt	215,000	172,000	215,000	172,000
Peter Yordán[2]	–	–	–	–
Total	**4,297,083**	**3,246,638**	**4,297,083**	**3,246,638**

[1] Amounts before deduction of Supervisory Board tax and solidarity surcharge.

[2] Supervisory Board remuneration waived.

The increase in Supervisory Board remuneration compared to 2020 is mainly due to the fact that the Supervisory Board had waived 20 % of its total remuneration for the 2020 financial year in favour of a good cause because of the COVID-19 crisis. 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. In addition, the number of committees has increased due to the IT Transformation Committee established with effect from 1 July 2021.

The members of the Supervisory Board have not provided any advisory and brokerage services or any other personal services to the Bank in 2021. Accordingly, no additional remunerations were granted.

63. Other financial obligations

The transactions listed below include payment obligations under pending contracts or continuing obligations that cannot be recognised in the statement of financial position 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). 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. By 1 January 2024, the target volume of the EU-wide Single Resolution Fund (SRF) shall be reached based on contributions from European banks. The current contribution shall be determined by the supervisor as at 31 May each year and shall be payable by 30 June. No subsequent contributions are expected.

Obligations amounting to € 44 million (previous year: € 17 million) result from service 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. This applies to liabilities entered into before 18 July 2001, irrespective of their term.

There are no material other financial obligations apart from those listed above.

64. 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	-688,985.44
2	GmbH Altstadt Grundstücksgesellschaft, Hamburg[1) 2) 9)]	89.90	89.90	EUR	138,695.43	138,222,958.53
3	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,775,561.99	268,592.20
4	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	358,762.00	-76,653.00
5	HCOB Investment Management S.à.r.l., Findel, Luxembourg	100.00	100.00	EUR	12,000.00	0.00
6	HCOB Private Equity GmbH, Hamburg[2)]	100.00	100.00	EUR	550,000.00	71,110,124.60
7	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	3,823,042.00	-223,029.00
8	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	200,328,890.10	1,828,890.10
9	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong[1) 9)]	0.01	100.00	USD	-1,278,376.00	178,924.00
10	RESPARCS Funding II Limited Partnership, St. Helier, Jersey[1) 9)]	0.01	100.00	EUR	0.00	0.00

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[9)]	0.00	0.00	EUR	-208,175.92	65,263.88
12	HPS Elbe Unlevered Direct Lending Fund, SCSp, Luxembourg, Luxembourg[9)]	0.00	0.00	USD	205,101,414.00	1,688,804.00
13	OCEAN Funding 2013 GmbH, Frankfurt am Main[9)]	0.00	0.00	EUR	31,201.72	0.00

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
14	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong[1)]	51.00	51.00	USD	115.00	0.00
15	Avia Management S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	81,574.75	-289,022.85
16	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	33,674.44	-196.14
17	European Capital Investment Opportunities Limited, St. Helier, Jersey[1)]	51.00	51.00	EUR	111.00	86.00
18	HCOB Structured Situations Limited, St. Helier, Jersey[4)]	100.00	100.00	USD	347,000.00	551.00
19	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	73,894.70	0.00
20	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg[7)]	100.00	100.00	USD	62,763.63	0.00
21	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		[3)]	[3)]
22	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	39,132.43	2,796.68

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
23	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland[1)5)]	49.00	49.00	USD	5,632.00	-15,042.00
24	Next Generation Aircraft Finance 2 S.à.r.l., Findel, Luxembourg[1) 9)]	49.00	49.00	EUR	46,831.00	-136,823.00
25	Next Generation Aircraft Finance 3 S.à.r.l., Findel, Luxembourg[1) 9)]	49.00	49.00	EUR	46,476.00	-77,499.00

Unconsolidated joint ventures

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
26	Infrastructure Holding S.à.r.l., Luxembourg, Luxembourg[6)]	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
27	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	2,164,075.07	34,782.56
28	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg[8)]	56.44	56.44	EUR	2,060,579.18	-2,086,485.65

Long-term equity investments

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
29	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	1.33	1.33	EUR	261,565,103.15	8,372,000.00
30	GLB GmbH & Co. OHG, Frankfurt am Main	15.77	15.77	EUR	2,776,785.86	-61,398.48
31	GLB-Verwaltungs-GmbH, Frankfurt am Main	15.80	15.80	EUR	59,627.58	1,981.74
32	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekte Hamburg und Potsdam KG, Hamburg	5.15	5.16	EUR	4,177,406.18	597,559.29
33	HGA Objekt München GmbH & Co. KG, Hamburg[6)]	5.23	5.23	EUR	3,604,658.30	-22,425.57
34	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	9,043,877.34	874,820.78
35	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg[6)]	5.10	5.09	EUR	6,116,221.87	517,366.64
36	Hines European Development Fund Limited Partnership, Wilmington, USA[1)]	9.90	9.90	EUR	38,335,000.00	-1,181,000.00
37	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	1,365,842.44	-345,090.40
38	RSU Rating Service Unit GmbH & Co KG, Munich	13.60	13.60	EUR	9,693,136.90	632,382.55
39	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T. SCRL), La Hulpe, Belgium[6)]	0.03	0.03	EUR	442,950,000.00	39,830,000.00
40	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,624,212.00	-239,656.00
41	Vofü-Fonds I Hamburgische Grundbesitz und Anlage GmbH & Co. KG, Hamburg[6)]	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 2017 is available.
5) Only data as at 31 December 2018 is available.
6) Only data as at 31 December 2019 is available.
7) Only data as at 09 December 2020 is available.
8) This is not a subsidiary due to the requirement for a qualified voting majority for important decisions.
9) Structured entity.

Foreign exchange rates for € 1 as at 31 December 2021

USA	USD	1.1326

65. 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 64.

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

	2021			2020
	Male	Female	Total	Total
Full-time employees	590	219	809	989
Part-time employees	22	159	181	327
Total	**612**	**378**	**990**	**1,316**
Apprentices/trainees	7	2	9	12

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 2021. In addition, the review of the half-year financial report as at 30 June 2021, 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)	2021	2020
Audits of annual financial statements PWC GmbH	4	4
Other certification and valuation services PWC GmbH	-	-
Total	**4**	**4**

In addition, other services in an amount below € 1 million 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

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

66. Names of members of corporate bodies and directorships held

I. The Supervisory Board of the Hamburg Commercial Bank Group

JUAN RODRÍGUEZ INCIARTE, MADRID
Chairman
CEO of Sareema Inversiones S.A.

OLAF BEHM, HAMBURG
Deputy Chairman (since 17 January 2022)
Employee of Hamburg Commercial Bank AG

OLIVER DIRCKS, KIEL
Employee of Hamburg Commercial Bank AG

BERT EHLERS, SEEVETAL
Employee of Hamburg Commercial Bank AG

MANUEL GONZÁLEZ CID, MADRID
Senior Advisor Cerberus Global Investment Advisors, LLC

SIMONE GRAF, BUCHHOLZ
Vice Chairperson (until 16 January 2022)
Employee of Hamburg Commercial Bank AG

FREDERICK HADDAD, RUMSON
Partner & Manager Family Office FLGC

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

STEFAN SCHLATERMUND, HAMBURG
Employee of Hamburg Commercial Bank AG

MAG. FRIEDRICH SPANDL, VIENNA
Managing Director – Deputy CFO
BAWAG P.S.K. Bank für Arbeit und Wirtschaft und
Österreichische Postsparkasse AG

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

BERT EHLERS

FREDERICK HADDAD

STEFAN SCHLATERMUND

MAG. FRIEDRICH SPANDL

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 Nomination Committee

JUAN RODRÍGUEZ INCIARTE
Chair

MANUEL GONZÁLEZ CID

SIMONE GRAF

PETER YORDÁN

V. Members of the Remuneration Control Committee

JUAN RODRÍGUEZ INCIARTE
Chair

KLAUS HEINEMANN

RIEKA MEETZ-SCHAWALLER

STEPHAN WILCKE

VI. Members of the IT Transformation Committee (since 1 July 2021)

JUAN RODRÍGUEZ INCIARTE
Chair

OLIVER DIRCKS

KLAUS HEINEMANN

CHAD LEAT

DR ILINCA ROSETTI

MARK WERNER

VII. 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)

CHRISTOPHER BRODY
Born in 1968
Chief Investment Officer (CIO)

DR NICOLAS BLANCHARD
Born in 1968
Chief Clients and Products Officer (CCO)
(until 31 March 2021)

Annex to the Group financial statements

Country-by-Country Reporting 2021

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 revenues in Other operating income.

The profit or loss before taxes 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 at 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 2021, calculated as the quotient of net profit (Group net result after taxes) and total assets, is 1.09 %.

Reporting
Country-specific details of revenue, profit or loss and taxes as well as employee numbers

(€ m/number) 2021 Country	Revenue	Profit or loss before tax	Tax on profit or loss (+) expense/ (-) income	Employees
EU				
Germany	598	177	-24	965
Luxembourg	185	150	– 39	14
Greece	3	–	–	11
Third countries		–		
Singapore	–	–	–	1
British Channel Islands	–	–	–	–
Bermuda	1	1	–	–
Cayman Islands	16	16	–	–

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, Athens branch	Athens	Greece	Bank
4	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Mainz	Germany	Miscellaneous activities
5	BINNENALSTER-Beteiligungsgesellschaft mbH	Hamburg	Germany	Financial institution
6	GmbH Altstadt Grundstücksgesellschaft	Mainz	Germany	Miscellaneous activities
7	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	Germany	Financial institution
8	HCOB Investment Management S.a.r.l	Luxembourg	Luxembourg	Financial institution
9	HCOB Finance (Guernsey) Limited	St. Peter Port	Guernsey	Financial institution
10	HPS Elbe Unlevered Direct Lending Fund, SCSp	Luxembourg	Luxembourg	Miscellaneous activities
11	HCOB Private Equity GmbH	Hamburg	Germany	Financial institution
12	HCOB Residual Value Ltd.	Hamilton	Bermuda	Insurance company
13	HCOB Securities S.A.	Luxembourg	Luxembourg	Bank
14	OCEAN Funding 2013 GmbH	Frankfurt a. M.	Germany	Miscellaneous activities
15	RESPARCS Funding II Limited Partnership	St. Helier	Jersey	Financial institution
16	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 22 March 2022 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, 22 March 2022

Stefan Ermisch Ulrik Lackschewitz

Ian Banwell 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 2021, and the group statement of comprehensive income, group statement of icome, group statement of changes in equity and group cash flow statement for the financial year from 1 January to 31 December 2021, and group explanatory notes, including a summary of significant accounting policies. In addition, we have audited the group 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 2021. 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 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report 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 group 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 group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequentl y 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 Group 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 group 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 2021. 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 20,198 million are reported under the "Loans to customers" balance sheet line item. As at 31 December 2021, the risk provision recognized amounts to EUR 446 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 design of the Company's relevant internal control systems and – on that basis – 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 8 "Management estimates and discretionary decisions" and section 9 "Accounting and measurement principles" (under 9.I.D) and in sections 16 and 27 "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 454 million are reported. Of this amount, EUR 124 million relate to provisions for (potential) litigation risks and costs for court and out-of-court proceedings with (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 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 8 ´Estimates and management discretionary decisions´ and in section 9 ´Accounting and measurement principles´. In addition, provisions for litigation risks are explained in more detail in section 41 ´Provisions´ in the notes to the consolidated financial statements. Explanations of contingent liabilities arising from legal disputes are provided in section 58 ´Contingent liabilities and irrevocable loan commitments´. In addition, the risk report within the group management report contains further information on litigations.

❸ **Deferred Taxes**

① In the Company's consolidated financial statements deferred tax assets amounting to EUR 616 million after netting are reported. Deferred tax assets amounting to EUR 974 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 3,427 million since it is not probable that they will be utilized for tax purposes by means of offset against taxable profits.

From our point of 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 – especially in the context 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 doing so, we also assessed the executive directors' estimates of the impact of the of the COVID-19 pandemic on the Company's business activities and understood how this had been taken into account in determining the future earnings situation.

Based on our audit procedures, we were able to convince ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

③ The Company's disclosures relating to deferred tax assets and liabilities are contained the notes of the Company's consolidated financial statements in note 9 ´Accounting and measurement principles´ and note 35 ´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) as an unaudited part of the group management report.

The other information comprises further

- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB
- all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report

Our audit opinions on the consolidated financial statements and on the group 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 mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with 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 GROUP 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 group 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 group 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 group 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 group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP 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 group 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 group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group 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 group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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 group 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 group 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 group 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 group 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

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

ASSURANCE OPINION

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file HCOB_AG_KA+KLB_ESEF-2021-12-31.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 work extends only 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 these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion 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 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: 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 renderings of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [Number] 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 supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

GROUP AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE WORK 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 work. 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 opinion.
- Obtain an understanding of internal control relevant to the assurance work 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 opinion 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 in force at the date of the consolidated financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering 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) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 19 May 2021. We were engaged by the supervisory board on 14 July 2021. 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).

REFERENCE TO AN OTHER MATTER– USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including

the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Lothar Schreiber.

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, 22 March 2022

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Notice

If at times only the masculine form is used for certain terms relating to groups of people, this is not meant in a genderspecific manner, but occurs exclusively for the sake of better readability. This Annual Report was published on 07 April 2022 and is available for download from www.hcob-bank.de.

This is an English translation of the original German version of the Annual Report.

Forward-looking Statements

This Financial Annual Report includes forward-looking statements. These statements are based on our beliefs and assumptions as well as conclusions drawn from information currently available to us from sources that we consider to be reliable. Forward-looking statements contain information that does not simply reflect historical facts, including information, relating to possible or anticipated future growth and future economic developments.

Such forward-looking 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. Actual events may therefore differ considerably from forward-looking statements previously made. In view of this, you should never rely in an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this report. Furthermore, we are not required 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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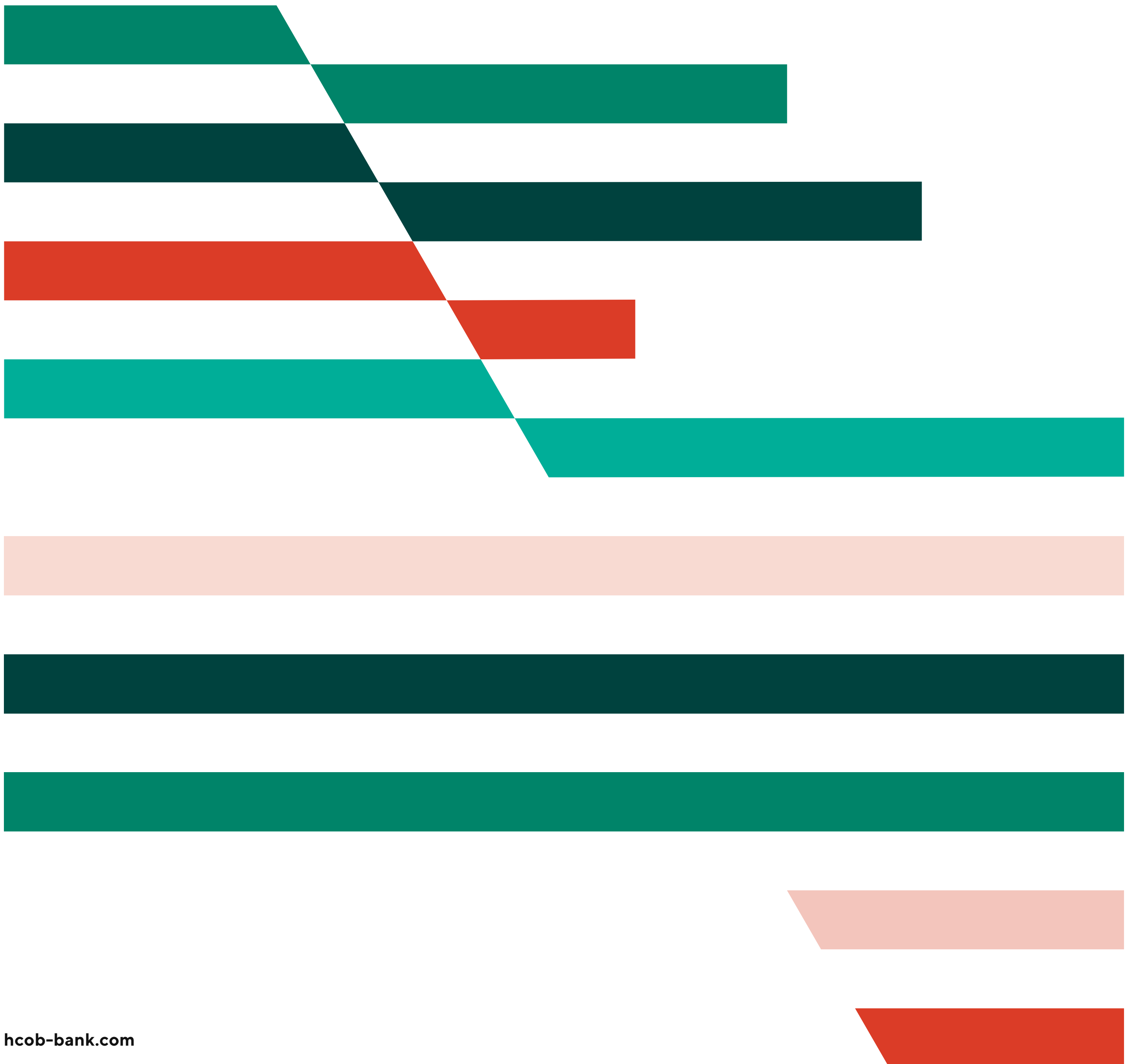

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