Hamburg Commercial Bank

Financial Report 2021

of Hamburg Commercial Bank AG

Content

Combined Management Report

Annual Accounts

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.	Promontoria Holding 231 B.V.	Promontoria Holding 233 B.V.	JCF IV Neptun Holdings S.à r.l.	GoldenTree Asset Management Lux S.à r.l.	Chi Centauri LLC		
9.87 %	13.87 %	18.71 %					
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/konzernberichterstattung and is not part of this combined management report.

Strategic direction for the business areas

The divisions are adapting dynamically to changes in market and competitive conditions. In this regard, Hamburg Commercial Bank has adjusted the risk/return requirements in its strategic objectives. In addition to its business in Germany, the Bank is planning to make a risk-oriented adjustment to the portfolio structure spanning all segments to ensure a balanced portfolio structure and in view of macroeconomic developments. The aim is to expand project-related and sector-related activities outside of Germany, namely throughout Europe and in selected international markets, in line with a prudent approach. In addition, product sales will be optimised to create a competitive offering. This will also involve a stronger focus on syndicated business.

The **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.

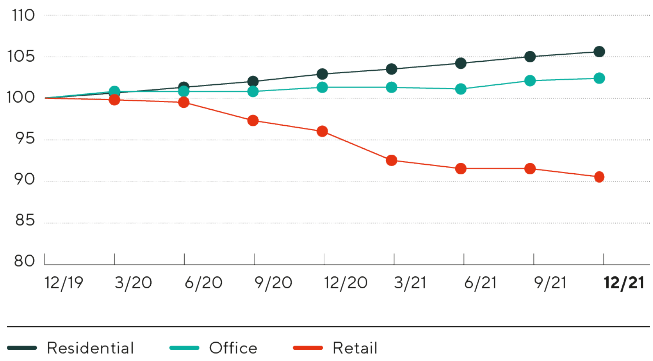
The euro/US dollar exchange rate was extremely volatile in the first half of the year. Especially in the second half of the year, the euro took a drastic tumble as the Fed signalled that it would be tightening its monetary policy earlier than the ECB and the US proved more resilient to the pandemic. 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.

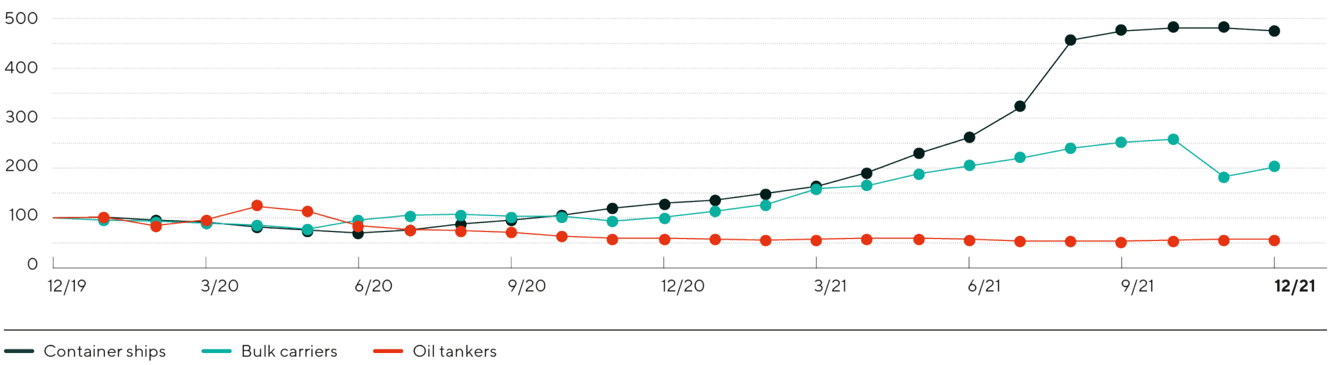
Global **project financing** volumes have recovered – after a slump in 2020 – and were up 11 % year-on-year in the first three quarters of 2021, recording a volume of USD 208 billion. The energy sector accounted for the largest share, making up around two-fifths of the volume and investing predominantly 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.

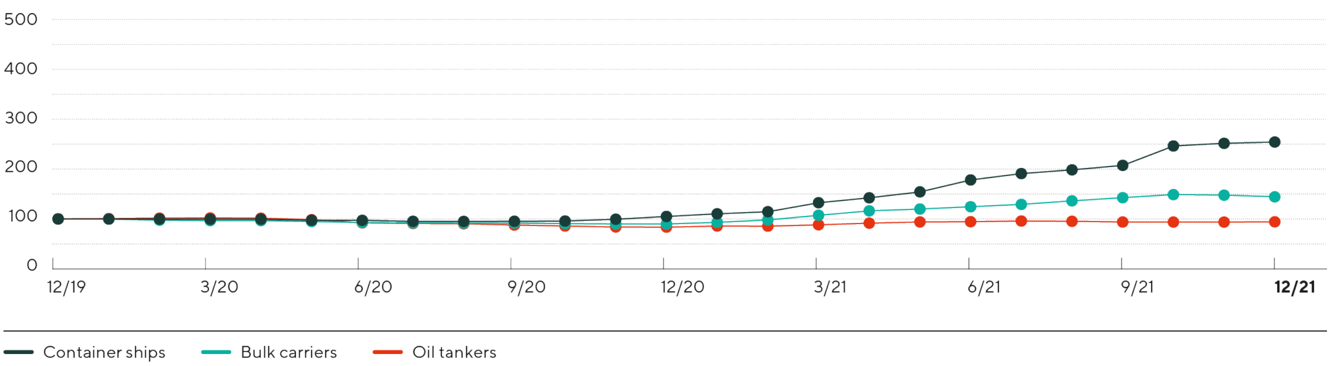
Time charter rates

(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 abovementioned 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.

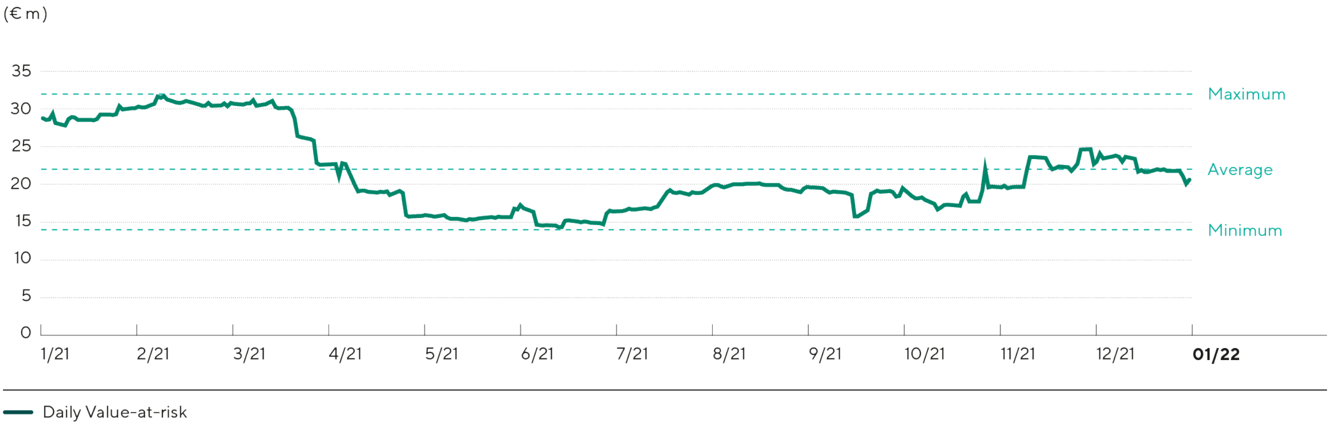
Where necessary, Hamburg Commercial Bank enters into hedging transactions to manage or reduce market risk in order to offset the impact of unfavourable market movements on its own positions. Derivative financial instruments, such as interest rate and cross currency interest rate swaps, are used as hedging 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.

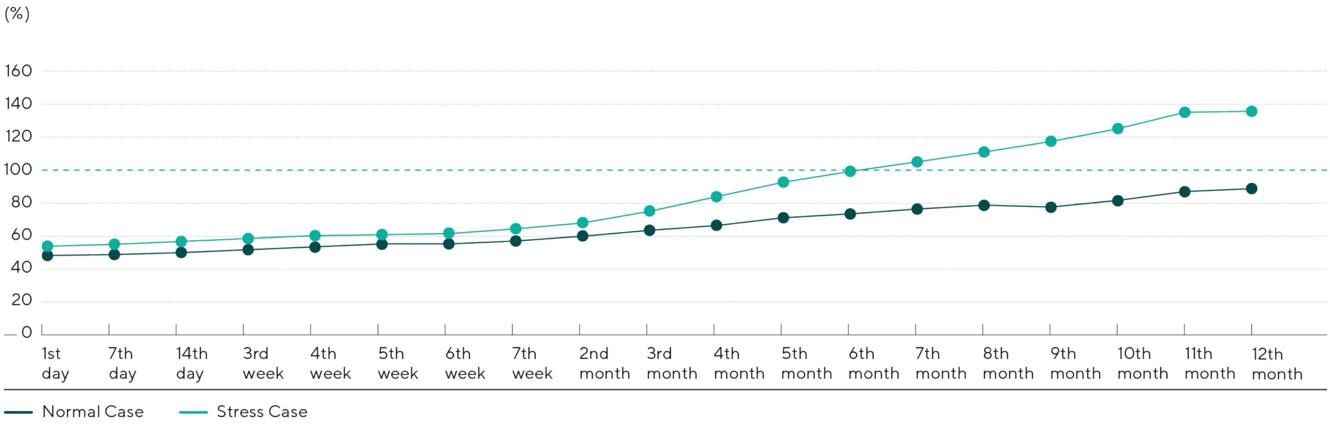
QUANTIFICATION OF LIQUIDITY RISK

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

Ian Banwell Christopher Brody

Annual financial statements of Hamburg Commercial Bank AG

Balance sheet of Hamburg Commercial Bank AG

as at 31 December 2021

Assets

(€ k)	(Note)				31.12.2021	31.12.2020
1 Cash reserve						
a) Cash on hand				1		1
b) Balances with central banks				3,261,353		1,718,442
thereof:					**3,261,354**	**1,718,443**
with Deutsche Bundesbank		3,260,938				
		(previous year: 1,717,885)				
2 Loans and advances to banks	(6, 7, 24-27)					
a) Payable on demand				110,711		191,057
b) Other loans and advances				661,436		992,910
					772,147	**1,183,967**
3 Loans and advances to customers	(6, 7, 24-27)				**19,099,126**	**22,324,745**
thereof:						
secured by mortgages		7,416,010				
		(previous year: 8,686,930)				
public-sector loans		1,209,474				
		(previous year: 1,563,042)				
secured by ship mortgages		3,725,638				
		(previous year: 2,856,246)				
4 Debentures and other fixed-interest securities	(9, 24-29, 33)					
a) Money market instruments						
aa) from other issuers			20,085			-
				20,085		
b) Bonds and debentures						
ba) from public-sector issuers			1,230,806			2,154,257
thereof:						
eligible as collateral at Deutsche Bundesbank		1,230,806				
		(previous year: 2,130,342)				
bb) from other issuers			3,129,493			3,084,842
thereof:				4,360,299		
eligible as collateral at Deutsche Bundesbank		2,442,191				
		(previous year: 2,590,742)				
c) Own debentures				2,028,378		2,879,606
Nominal value		2,023,171			**6,408,762**	**8,118,705**
		(previous year: 2,873,171)				
To be carried forward					**29,541,389**	**33,345,860**

Assets

(€ k)		(Note)			31.12.2021	31.12.2020
		Carried forward			**29,541,389**	**33,345,860**
5	**Shares and other non-fixed-interest securities**	(9, 28, 29, 33)			**186,426**	**12,163**
6	**Trading portfolio**	(10, 30)			**563,911**	**968,797**
7	**Equity holdings in non-affiliated companies**	(16, 28, 33, 65)			**4,002**	**11,752**
	thereof:					
	in banks		327			
			(previous year: 8,077)			
8	**Interests in affiliated companies**	(16, 28, 33, 65)			**2,107**	**712,894**
	thereof:					
	in banks		-			
			(previous year: 185,370)			
9	**Trust assets**	(32)			**683**	**10,638**
	thereof:					
	trust loans		683			
			(previous year: 10,638)			
10	**Intangible fixed assets**	(17, 33)				
	a) Industrial property rights acquired in-house and similar rights and assets			2,286		151
	b) Licenses, industrial property rights and similar rights and assets as well as licenses to use such rights and assets purchased			32,030		15,087
					34,316	**15,238**
11	**Tangible fixed assets**	(18, 33)			**3,005**	**5,556**
12	**Other assets**	(34)			**623,770**	**1,149,027**
13	**Prepaid expenses**	(6, 20, 35)			**22,403**	**17,607**
14	**Deferred tax assets**	(19, 36)			**863,267**	**574,463**
15	**Difference resulting from asset offsetting**	(39)			**96,090**	**110,652**
Total assets					**31,941,369**	**36,934,647**

Liabilities

(€ k)		(Note)				31.12.2021	31.12.2020
1	**Liabilities to banks**	(20, 40-42)					
	a) Payable on demand				72,929		91,969
	b) With agreed maturities or notice periods				5,457,115		7,714,868
						5,530,044	**7,806,837**
2	**Liabilities to customers**	(20, 40-42)					
	a) Savings deposits						
	aa) With agreed notice period of three months			780			6,923
					780		6,923
	b) Other liabilities						
	ba) Payable on demand			4,491,883			4,897,274
	bb) With agreed maturities or notice periods			6,619,368			8,634,889
					11,111,251		13,532,163
						11,112,031	**13,539,086**
3	**Securitised liabilities**	(20, 42, 70)					
	a) Debentures issued				8,768,513		8,637,708
						8,768,513	**8,637,708**
4	**Trading portfolio**	(10, 43)				**442,318**	**694,091**
5	**Trust liabilities**	(44)				**683**	**10,638**
	thereof:						
	trust loans		683				
			(previous year: 10,638)				
6	**Other liabilities**	(45)				**316,026**	**520,544**
7	**Deferred income**	(6, 20, 46)				**92,171**	**64,915**
8	**Deferred tax liabilities**	(19, 47)				**13,894**	**7,857**
9	**Provisions**	(21)					
	a) Provisions for pensions and similar obligations				109,022		115,937
	b) Tax provisions				40,292		16,178
	c) Other provisions	(48)			408,457		511,265
						557,771	**643,380**
10	**Subordinated debt**	(49)				**912,521**	**929,552**
11	**Fund for general banking risks**	(50)				**2,367,654**	**2,366,156**
	thereof special items under Section 340e (4) HGB		57,852				
			(previous year: 56,355)				
To be carried forward						**30,113,626**	**35,220,764**

Liabilities

(€ k)	(Note)			31.12.2021	31.12.2020
	Carried forward			**30,113,626**	**35,220,764**
12 Equity capital	(51)				
a) Subscribed capital					
aa) Share capital		301,822			3,018,225
			301,822		
b) Capital reserve			1,525,921		83,204
c) Accumulated loss			-		-1,387,546
				1,827,743	**1,713,883**
Total liabilities				**31,941,369**	**36,934,647**

1 Contingent liabilities	(63)		
a) Liabilities from guarantees and indemnity agreements		**749,686**	**976,447**
2 Other commitments	(63)		
a) Irrevocable loan commitments		**3,943,847**	**4,399,539**

Income statement of Hamburg Commercial Bank AG

for the period 1 January to 31 December 2021

(€ k)		(Note)				2021	2020
1	**Interest income from**	(52, 53)					
	a) lending and money market transactions			1,320,677			2,096,956
	less negative interest resulting from loan and money market transactions			-74,957	1,245,720		-75,110
	b) fixed-interest securities and book-entry securities			71,835			82,183
	less negative interest resulting from securities and book entry securities			-	71,835		-
					1,317,555		**2,104,029**
2	**Interest expenses**	(53)					
	from the banking business			791,330			1,855,279
	less positive interest resulting from the banking business			-62,603			-54,888
					728,727		1,800,391
						588,828	**303,638**
3	**Current income from**	(52)					
	a) shares and other non-fixed-interest securities				-		592
	b) equity holdings in non-affiliated companies				527		376
	c) interest in affiliated companies				25,223		29,797
						25,750	**30,765**
4	**Income from profit pooling, profit transfer and partial profit transfer agreements**					**293**	**209,836**
5	**Commission income**	(52, 54)			50,018		58,923
6	**Commission expenses**	(54)			12,054		11,288
						37,964	**47,635**
7	**Net income/Net expenses from the trading portfolio**	(52)				**13,479**	**-12,395**
8	**Other operating income**	(52, 55)				**123,407**	**154,343**
9	**General administrative expenses**						
	a) Personnel expenses						
	aa) Wages and salaries			120,100			145,225
	ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits			20,101			21,657
					140,201		166,882
	thereof:						
	for retirement pensions		2,355				
			(previous year: 2,057)				
	b) Other administrative expenses	(60)			219,042		221,187
						359,243	**388,069**
10	**Depreciation, amortisation and impairments on intangible fixed assets and tangible fixed assets**	(33)				**4,239**	**4,755**
11	**Other operating expenses**	(56)				**164,332**	**128,597**
12	**Write-down and impairment of loans and advances and certain securities and additions to provisions in the lending business**					**468,464**	**218,662**
To be carried forward						**-206,557**	**-6,261**

(€ k)		(Note)		2021	2020
		Carried forward		**-206,557**	**-6,261**
13	**Income from additions to equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets**			**83,455**	**59,984**
14	**Expenses from the transfer of losses**			**4,947**	**2,189**
15	**Profit on ordinary activities**			**-128,049**	**51,534**
16	**Extraordinary income**	(57)	8,021		14,823
17	**Extraordinary expenses**	(57)	37,128		82,112
18	**Extraordinary result**	(57)		**-29,107**	**-67,289**
19	**Income tax expenses**	(58)	-268,745		52,424
20	**Other taxes not shown under item 11**		2,405		704
21	**Income from the assumption of losses**	(59)		**-**	**76,578**
22	**Net income/loss for the year**			**109,184**	**7,695**
23	**Loss carried forward from the previous year**			**-1,387,546**	**-1,395,241**
24	**Revenue from capital reduction in accordance with Sec. 240 Sentence 1 German Stock Corporation Act (AktG) (based on the redemption of shares in accordance with Sec. 237 (3) 1 German Stock Corporation Act (AktG))**			**2,716,402**	**-**
25	**Allocation to the capital reserve according to Sec. 272 (2) No. 5 German Commercial Code (HGB) pursuant to Sec. 237 (1) German Stock Corporation Act (AktG)**			**-2,716,402**	**-**
26	**Redemption of shares made available free of charge pursuant to Sec. 237 (3) 1 German Stock Corporation Act (AktG)**			**-2,716,402**	**-**
27	**Reversal of the capital reserve according to Sec. 272 (2) No. 4 German Commercial Code (HGB)**			**2,716,402**	**-**
28	**Withdrawal from capital reserve according to Sec. 27 2 (2) No. 1- 3 German Commercial Code (HGB)**			**1,278,362**	**-**
29	**Accumulated loss**			**-**	**-1,387,546**

Notes for the 2021 financial year

General information and notes

1. Hamburg Commercial Bank AG and its shareholders

Hamburg Commercial Bank AG, formerly HSH Nordbank AG, with its registered offices in Hamburg, was established by the merger of Hamburgische Landesbank – Girozentrale –, Hamburg, and the Landesbank Schleswig-Holstein Girozentrale, Kiel, on 2 June 2003. For accounting and tax purposes, the merger took effect retroactively as of 1 January 2003. Since 28 November 2018, the Bank has shareholders who are independent of each other: Cerberus Capital Management, L.P., J. C. Flowers & Co. LLC, GoldenTree Asset Management LP, Centaurus Capital LP and BAWAG P.S.K. and/or funds initiated by these shareholders. Since 4 February 2019, the Bank has been operating under the name Hamburg Commercial Bank AG.

Hamburg Commercial Bank AG is entered in the Hamburg commercial register under HRB 87366.

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

The following overview shows Hamburg Commercial Bank AG and its shareholders with their respective direct and indirect holdings of voting capital as at 31 December 2021:

Shareholder structure

Several funds initiated by **Cerberus Capital Management, L.P.**			One fund advised by **J.C. Flowers & Co. LLC**	One fund initiated by **GoldenTree Asset Management LP**	**Centaurus Capital LP**	**BAWAG P.S.K.** Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft	**HCOB** Current and former Management Board Members (who are or were in office from November 2018)
Promontoria Holding 221 B.V.	Promontoria Holding 231 B.V.	Promontoria Holding 233 B.V.	JCF IV Neptun Holdings S.à r.l.	GoldenTree Asset Management Lux S.à r.l.	Chi Centauri LLC		
9.87 %	13.87 %	18.71 %					
42.45 %			**34.96 %**	**12.49 %**	**7.49 %**	**2.50 %**	**0.11 %**

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

I. Estimates and discretionary decisions

Uncertainties with regard to the estimates required in line with impairment provisions have increased due to the COVID-19 pandemic. This relates both to the integration of forward-looking macroeconomic scenarios and their weighting in determining expected losses in general loan loss provisions for loan exposures and to the estimation of future cash flows for individual valuation allowances with respect to loan exposures.

Determining the extent to which a significant deterioration in credit quality occurs and thus to increase risk provisioning is per se a key discretionary decision. This results from the question of whether the loan default risk of a debtor increases significantly or whether the debtor in question only suffers from a COVID-19-related temporary liquidity shortage, which would entail no significant increase in loan default risk. In accordance with IDW RS BFA 7 (para. 26), the Bank applies the IFRS 9 methodology for the measurement of the general loan loss provision. In the event of a significant increase in the credit default risk, increased loan loss provisions are applied in accordance with IFRS 9 methodology. In contrast to IFRS 9, the German Commercial Code (HGB) does not require a separate disclosure of general loan loss provisions for latent and significantly increased loan default risk. In line with the Bank's approach under IFRS 9, HCOB's conservative loan loss provisioning policy has increased general loan loss provisions for loan exposures that are particularly affected by the COVID-19 pandemic.

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, several macroeconomic forecasts are taken into account (cf. table "Macroeconomic forecasts for 2022"). In addition, regular checks are performed to analyse whether other 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 7 .

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.

Loan loss provisions (for on- and off-balance-sheet transactions) amount to € 517 million as at 31 December 2021 (previous year: € 680 million). Of this amount, € 186 million (previous year: € 238 million) is attributable to the adjustments to the loan loss provision through model overlays, which are created on credit exposures for which general loan loss provisions have been made. No overlays are formed for individual valuation allowances.

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 December2021)

	Base Scenario	Stress Scenario
GDP USA (%)	4.0	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.

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 sub-portfolios 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 formed overlays of € 84 million (previous year: € 121 million) for these loan exposures for which general loan loss provisions were made.

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 (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.

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

Until 31 December 2021, Hamburg Commercial Bank AG was a member of the support fund of the Landesbank and was integrated into the guarantee system of the German Savings Banks Finance Group.

The German Savings Banks Finance Group has an institutional guarantee scheme. This has been recognised as a deposit guarantee scheme under the German Law on Deposit Insurance (*Einlagensicherungsgesetz – EinSiG*) since 3 July 2015.

The primary objective of the guarantee scheme is to protect the member institutions themselves and to avert imminent or existing financial difficulties at these institutions. This is intended to avoid triggering a deposit guarantee event and ensure that the business relationship with the customer is continued on a sustainable basis and without restrictions (voluntary institutional guarantee).

The institutional guarantee scheme of the German Savings Banks Finance Group also meets the statutory deposit guarantee requirements under the EinSiG by its official recognition as deposit guarantee fund scheme. Under the statutory deposit guarantee, the customer has a claim against the guarantee scheme for the repayment of its deposits up to € 100,000.

The seamless transition of Hamburg Commercial Bank AG to the deposit protection fund for private banks took place on 1 January 2022. This deposit guarantee fund consists of the Compensation Scheme of German Private Banks (EdB, statutory deposit guarantee fund) and the voluntary deposit protection fund of the Association of German Banks (ESF).

The transitional agreement reached in the understanding with the EU Commission dated 17 July 2001 on the expiration of the maintenance obligation (Anstaltslast) and guarantee obligation (*Gewährträgerhaftung*) mechanisms on 18 July 2005 also applies to Hamburg Commercial Bank AG pursuant to Section 2 of the treaty signed by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein on 4 February 2003 concerning the merger of the predecessor institutions. Liabilities entered into on or before 18 July 2001 are therefore covered by the guarantee obligation, regardless of their maturities.

As previous owner of Landesbank Schleswig-Holstein Girozentrale, Landesbank Baden-Württemberg, Stuttgart is liable within the scope of the guarantee obligation described above for the liabilities agreed upon prior to its withdrawal effective 23 May 2003 and transferred to Hamburg Commercial Bank AG by way of the merger. Westdeutsche Landesbank, Düsseldorf, and/or its legal successor are liable for liabilities entered into before the expiry of the guarantee obligation.

5. Accounting standards applied

We prepared the annual financial statements and the management report of Hamburg Commercial Bank AG as at 31 December 2021 in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Bank Accounting Regulation (RechKredV) and the German Mortgage Bond Act (PfandBG). In addition, we complied with the applicable pronouncements of the Institute of Public Auditors in Germany, Incorporated Association – IDW.

Further explanatory information on selected items and scenarios is set out below.

ACCOUNTING AND MEASUREMENT PRINCIPLES
Accounting and valuation are based on the assumption that the Bank is a going concern. The going concern assumption is based on the Bank's corporate planning.

6. Receivables

We recognise loans and advances to banks and to customers (asset items 2 and 3) at their nominal value or at their cost of acquisition. Premiums or discounts are recorded under prepaid expenses or deferred income and amortised on a straight-line basis over the term of the loan or the fixed-interest period, whichever is shorter. Pro-rata interest is recognised on an accrual basis and disclosed in the corresponding loans and advances line items. We observe the strict lower-of-cost-or-market principles by rigorously applying our risk provisioning principles, which are described below.

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

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

In order to provide for possible loan losses, we make valuation allowances in accordance with the following principles. These adjustments are set off against the corresponding items in the balance sheet. For off-balance sheet business, the valuation allowances are achieved by means of provisions. In order to ensure that our loan loss provisions cover all identifiable counterparty default and country risks, risk is determined in three steps:

Our loan exposures are monitored on an ongoing basis. We make individual valuation allowances in the amount of the anticipated loss for all counterparty default risks identifiable when examined individually. We calculate the exposure at default from the carrying amount of loans and advances less the net present value of all payments still expected to be received. The expected incoming payments comprise in particular all expected interest and redemption payments, as well as payments from the liquidation of collateral; with any liquidation costs taken into account.

Finally, we set up portfolio valuation allowances in accordance with the German commercial law for the remaining loan exposures not accounted for, but still involving latent risks.

In accordance with IDW RS BFA 7 (para. 26), the Bank applies the IFRS 9 methodology for the measurement of the general loan loss provision. In the event of a significant increase in the credit default risk, increased loan loss provisions are applied in accordance with the IFRS 9 methodology. Portfolio valuation allowances are not reported separately, i.e. not broken down into the latent and the significantly increased credit default risk.

As part of the allocation to loan loss provisions for loans and advances to customers in accordance with the expected credit loss model, adjustments in the form of model overlays were also taken into account as at 31 December 2021. These adjustments result from elements of the methodology that cannot be processed electronically and reflect the probability of occurrence of macroeconomic scenarios both at the level of the Overall bank and at the level of individual business units according to certain standards, thus taking the expected developments into account in the calculation parameters. Primarily, these overlays address the economic uncertainties associated with the current COVID-19 pandemic.

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

Provided the credit risk no longer exists or is reduced, all loan loss provisions mentioned above are reversed accordingly. We thereby comply with the obligation to reverse impairments in accordance with tax law and with the provisions of the German Commercial Code.

If the Bank determines that a loan must be classified as unrecoverable (in whole or in part), its write-down is initiated.

8. Determining fair value

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments is determined on the basis of the listed price on an active market (mark-to-market), or, if this is not possible, on the basis of recognised valuation techniques and models (mark-to-matrix or mark-to-model, respectively).

Fair value can be determined using the mark-to-market method if a market price is available at which a transaction could be entered into or has been entered into. This is generally the case with regard to securities and derivatives traded on liquid markets.

The mark-to-matrix method is used to determine fair value where the fair value cannot be determined on the basis of market or transaction prices of an identical financial instrument. For this purpose, prices of comparable financial instruments or indices, which are representative for the financial instrument, are used as an alternative and adjusted where necessary.

Fair value is determined by the mark-to-model valuation using a suitable model (e.g. option price model, discounted cash flow method, collateralised debt obligation model) if a valuation cannot be derived either of adequate quality or at all. Trading assets and liabilities are measured using mid-market rates.

Where valuation techniques and models are concerned, a distinction can be drawn between procedures based exclusively on observable market data or parameters that are non-observable only to an insignificant extent on the one hand and those based to a significant extent on non-observable parameters on the other hand. Observable market data is usually available for liquid securities and simple OTC derivatives traded in liquid markets (e.g. interest rate swaps, forward exchange contracts and currency options in certain currencies as well as equity derivatives on certain listed shares or indices). Valuation techniques and models based on unobservable market data or measurement parameters, and which therefore require assumptions to be made with regard to these parameters, are usually necessary for structured securities – or more generally for securities whose markets are illiquid – and for complex OTC derivatives. Examples of non-observable parameters are special correlations and volatilities. In these cases, a significant number of judgements have to be made with regard to the selection of both the model and the parameter estimates. If the valuation technique or model used to determine the value of a derivative does not appropriately reflect modelling risks, parameter uncertainties, funding costs and benefits as well as credit or counterparty risk, the value is correspondingly adjusted by the Bank. The methods used make partial use of parameters that are not observable on the market in the form of estimates.

If the measurement of a financial instrument is based partly on non-observable parameters, the fair value determined is the best estimated value in accordance with a discretionary decision made by the Bank. However, it remains subjective in that there may be alternative parameter selection options that cannot be refuted by observable market data.

The financial crisis has resulted in derivatives being increasingly concluded on a secured basis in the interbank market (under a collateral agreement, e.g. CSA). In addition collateralisation is explicitly considered in the valuation of OTC derivatives.

A substantial proportion of securities held in the trading portfolio is valued using liquid market prices. If a current price from a liquid market is not available, interest-bearing securities are valued using the discounted and sector-dependent yield curves derived from market data of fixed-income securities.

Exchange-traded derivatives are also valued based on stock market prices. If no current price is available, recognised valuation models (such as the Black-Scholes model for European options) are used for the valuation that are based on estimates of unobservable parameters to an insignificant extent at most.

9. Securities

For valuation purposes, we divide our securities (asset items 4 and 5) not assigned to the trading portfolio in accordance with the provisions under German commercial law into an investment portfolio and a liquidity reserve, depending on the respective purpose.

Given that securities held in the investment portfolio are intended for long-term investment, we value them at the moderate lower-of-cost-or-market value. When impairments are considered to be temporary, we recognise the corresponding securities at acquisition cost. Impairments are considered to be temporary if they are not considered indications of future disruptions in the servicing of interest and capital payments. This is the case, for example, where impairments are caused by changes in interest rates. We thus avoid reporting performance volatility, which would not be economically justified based on the short-term nature of the value fluctuations. As part of the risk provisioning process for securities, we have defined comprehensive criteria ("trigger events") for identifying possible permanent impairments. These are identified on a quarterly basis. All securities triggered including any cover assets/underlyings are subjected to an analysis and a two-stage risk assessment process. Depending on the security's asset class, this analysis includes additional indicators (e.g. external ratings, calculation of over-collateralisation for mezzanine tranches, cash flow analyses). As long as this analysis of an individual case does not confirm a trigger event in economic terms or no trigger event is identified, there is no permanent impairment. In the case of impairments expected to be permanent – usually caused by changes in the credit rating – we write down the security to the lower of the exchange price, market price or fair value.

We value the securities held in the liquidity reserve in accordance with the strict lower-of-cost-or-market principle. Accordingly, securities are stated at the lower of cost or exchange price, market price or fair value, irrespective of whether impairment is permanent.

For the balance sheet treatment and the presentation of hedging relationships, please refer to our remarks under Note 13.

Interest resulting from the Bank's own securities holdings is reported as interest income. In this connection, pro rata interest is recognised on an accrual basis. Valuation gains or losses and realised profits on securities held in the investment portfolio are allocated to Net income from financial investments (item 14 in the income statement); in the case of securities held in the liquidity reserve, they are allocated to Credit risk income/expense (item 12 in the income statement).

Dividends and other disbursements are reported under current income from shares and other non-fixed-interest securities

During the financial year, there were no reclassifications between the trading portfolio, liquidity reserve and/or investment portfolio.

10. Financial instruments held in the trading portfolio

We include in the assets and liabilities held for trading (asset item 6 and liability item 4) all financial instruments that we acquired or sold for purposes of realising a short-term proprietary trading profit. In addition to securities, these include in particular derivative financial instruments, but also certain receivables. Securities, receivables and derivatives with a positive fair value are disclosed under Trading portfolio (assets) (item 6); derivatives with a negative fair value are disclosed under Trading portfolio (liabilities) (item 4). The criteria for allocation to the Trading portfolio remained unchanged during the financial year. We value all financial instruments held in the trading portfolio at fair value less a risk discount. Where no stock market or market prices are available for financial instruments, fair value is calculated on the basis of generally accepted valuation models (cf. also Note 8). In order to account for counterparty risks from derivatives held in the trading portfolio, we have created so-called credit valuation adjustments and have reduced the Trading portfolio (assets) accordingly. Furthermore, we have created debt valuation adjustments and have reduced the Trading portfolio (liabilities) accordingly.

Funding valuation adjustments are used to take account of the funding costs and advantages arising from the provision or receipt of cash collateral in connection with the hedging of an uncollateralised OTC derivative with a collateralised OTC derivative.

The risk discount represents a potential loss (value at risk) determined by mathematical methods and is based on all positions held in Hamburg Commercial Bank AG's trading portfolio. The value at risk (VAR) is calculated in such a way that a potential loss on items held for trading will not be exceeded within a holding period of ten days with a confidence level of 99%. The observation period for the VaR is 250 trading days. The VaR discount is calculated taking into account correlations between the individual transactions in the Trading portfolio. In general, the risk discount is deducted from the assets held for trading. In those exceptional cases in which the liabilities held for trading are larger than the assets held for trading, a risk mark-up is instead disclosed under Trading portfolio (liabilities).

Income and expense (current income and expense) from financial instruments held for trading are generally disclosed under Net trading income/expense from the trading portfolio. Current income and expenses from securities and receivables are exempt from this. Consistent with Hamburg Commercial Bank AG's internal management, these are stated under Interest income, Interest expense, respectively Current income from shares and other non-fixed-interest securities.

Each year that Hamburg Commercial Bank AG discloses net income in the trading portfolio, at least 10% of this net income is allocated to the special item Fund for General Banking Risks (liability item 11). Reversals of this item are only possible in order to balance net expenses in the trading portfolio or as far as the item exceeds 50% of the average of the past five years net income in the trading portfolio. Expenses from the addition to and income from the reversal of the item are stated respectively under the net income or net expenses of the trading portfolio. € 1 million was added to the special item during the past financial year (previous year: € 0 million) from net income from the trading portfolio.

11. Balance sheet presentation on a net basis

We net the fair values of trading portfolio derivatives traded over the counter and cash collateral, for which measurement is performed and collateral provided on a daily basis under a master agreement with collateral agreement. The netting has no effect on the disclosure of net income from the trading portfolio. Cf. also Note 68.

12. Derivative financial instruments

Derivative financial instruments are recognised and valued in accordance with the general rules of commercial law. Internal transactions and their accounting are required to comply with uniformly determined conditions. In particular, the term must be in line with market conditions.

Income and expenses from option contracts held in the non-trading portfolio are disclosed under Other operating income or Other operating expenses in accordance with the disclosure requirements of IDW RS BFA 6. Income and expenses from interest rate cap agreements are disclosed under Interest income or Interest expenses. We recognise credit derivatives held in the non-trading portfolio in accordance with IDW RS BFA 1. The rules for loan collateral provided apply in principle to credit default swaps in which Hamburg Commercial Bank AG takes the position of a collateral provider and which are not allocated to a valuation unit within the meaning of Section 254 German Commercial Code (HGB). A provision is recognised in the amount of the negative fair value to take account of the default risk as at the reporting date if a payout is likely to be triggered.

During the financial year, accounting for internal derivatives resulted in interest income in the amount of € 475 million (previous year: € 893 million), interest expense in the amount of € 284 million (previous year: € 797 million) and Other operating income of less than € 1 million (previous year: € 2 million) and Other operating expense of € 1 million (previous year: less than € 1 million). Reverse effects are reported in the Net income from the trading portfolio.

Premiums paid or received on purchased or written options, which are not part of the Trading portfolio, are disclosed under Other assets or Other liabilities. If necessary, we conduct write-offs or create provisions to comply with the lower-of-cost-or-market or the recognition-of-loss principle (imparity principle).

In cases involving financial instruments featuring a margin system (futures and OTC derivatives), initial margin payments made/received are recognised under Other assets (cf. Note 34) or Other liabilities (cf. Note 45). The same applies to variation margin payments from the banking book. Unrealised gains and losses from open positions under trading portfolio assets and liabilities are netted against the variation margin payments made/received on the face of the balance sheet. The results are reflected in Net income from the trading portfolio.

The amount, the time and the certainty of future cash flows from derivatives, and thereby their fair values, are uncertain. Major influencing factors are:

- future developments with regard to interest rates, exchange rates, market prices, commodity prices, credit indices and other market prices;
- the future volatility of such prices;
- the default risk of the respective counterparty.

13. Structured products

We account for structured products in accordance with the IDW RS HFA 22 interpretation. Structured products valued at fair value or in accordance with the strict lower-of-cost-or-market principle are not subject to separate accounting. Structured assets that are valued in accordance with the moderate lower-of-cost-or-market principle are subject to separate accounting with regard to derivative components and the host instrument. As a matter of principle, the separated derivative components are included in valuation units (cf. also Note 14). Derivative components of equity-linked structured products, however, are valued individually under the recognition-of-loss principle (imparity principle).

14. Hedge accounting via valuation units

We account for hedging relationships with regard to which the clear assignment of hedged items to hedging instruments is documented in a comprehensible manner in risk management as valuation units within the meaning of Section 254 German Commercial Code (HGB) in accordance with the IDW RS HFA 35 in cases where the requirements for the application of Section 254 German Commercial Code (HGB) are met, if the transactions cannot be considered in full in the valuation of the banking book, according to IDW RS BFA 3 with the corresponding changes.

Hedged items included in valuation units are assets and liabilities in the form of securities and securitised liabilities as well as derivative financial instruments. Hedging instruments are derivative financial instruments. All types of market risks may be hedged. However, by far the largest share of valuation units has the purpose of hedging interest rate risk. The clear assignment of the hedged item to the related hedging instrument, the determination of the risk hedged as well as the risk management strategy, information as to the prospective effectiveness and to the methods for determining effectiveness are documented for balance sheet hedging relationships. In addition, the intention to retain or the period of time for which the hedging relationship is to remain in place is included in the documentation. In principle, the intention is to maintain all hedging relationships for the full residual maturity of the hedged transaction. In individual cases, hedging relationships are designated only for a certain term of hedged items and/or hedging instruments.

We present not only micro hedges but also portfolio hedges as valuation units.

A micro hedging relationship is present where a certain risk from a hedged item is hedged by a singly hedging instrument. A portfolio hedging relationship is present where a certain risk from a portfolio of hedged items of the same type is hedged with multiple hedges of the same type. In the case of micro valuation units, the combination into a related unit within the system is already required in the trading system upon the conclusion of the transaction. These are perfect hedging relationships where the value parameters are the same for the hedged portion of the hedged item and the hedging portion of the hedging instrument (e.g. currency, nominal amount, interest rate, interest due date, term). In the case the interest rate risk of a securities portfolio of the same type of fixed-interest securities is hedged by multiple interest swaps, this hedging relationship may be considered for purposes of forming a portfolio valuation unit. We create portfolio valuation units for the corresponding securities portfolios included in the liquidity reserve.

The depiction of hedging relationships accounted for as valuation units is made in two steps. In the first step, the changes in value to be attributed to the hedged risk from the hedged item and the hedging instruments are determined with regard to a valuation unit. We apply the so-called "net hedge presentation method". Changes in value are neither recognised in the carrying amount of the hedged items/hedging instruments on the face of the balance sheet nor in the income statement. Any unrealised loss arising on the netting of such changes in value is recognised in the income statement in accordance with the recognition-of-loss principle as provision for contingent losses, which is disclosed on the balance sheet under Other provisions. Additions to valuation allowances for liquidity reserve portfolios as well as additions to loan loss provisions in the lending business are disclosed in the income statement under Depreciation and impairments on loans (and advances) and certain securities and reversals of such provisions under Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business. Other holdings are disclosed under Other operating expenses. In the second step, the residual change in fair value of the hedged item and hedging instrument are determined on the basis of the individual transaction. This represents the change in fair value attributable to the non-hedged risks. This is separately accounted for in accordance with the recognition-of-loss principle under general accounting standards. In the second step, unrealised losses relating to the liquidity reserve are disclosed in the same manner as in the first step.

The prospective and retrospective effectiveness of a hedging relationship is substantiated and documented at least once a year at the time the annual financial statements are prepared. In the case of micro hedges, the prospective documentation of effectiveness is made on the basis of the critical-terms-match method. As part of this substantiation, it needs to be shown that the value parameters of the hedged item and the hedging instruments to be allocated to the hedged risk match. If they match, it is to be presumed that changes in value attributable to the hedged risk will be offset over the entire residual maturity/the designated term of the transactions. In the case of portfolio hedges, prospective substantiation of effectiveness is accomplished by means of quantitative and maturity range-dependent sensitivity analyses in relation to the hedged risk. In the case of a corresponding offset of sensitivities of hedged items and hedging instruments in the relevant maturity ranges, it may be presumed that there will be a high degree of correlation between the changes in the value attributable to the hedged item and those attributable to the hedging instrument over the entire residual maturity of the transactions. The retrospective measurement of effectiveness is generally accomplished, not only for micro but also for portfolio hedges by mathematically determining the ratio of the cumulative changes in value on the part of the hedged item to be attributed to the hedged risk arising since the designation of the hedge to those of the hedging instruments.

AMOUNT OF HEDGED ITEMS AND HEDGING INSTRUMENTS INCLUDED IN VALUATION UNITS

The following table shows the carrying amounts of assets and liabilities included in the valuation units by balance sheet item. The carrying amounts include accrued interest. Derivative financial instruments included in valuation units are disclosed under the items Positive market value of derivatives/Negative market value of derivatives at their respective fair values.

Underlying transactions

(€ k)	31.12.2021		31.12.2020	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Assets				
Loans and advances to customers	–	–	–	–
Debentures and other fixed-interest securities	–	2,883,937	–	3,386,673
Liabilities				
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Securitised liabilities	10,134	–	15,331	–
Positive market value of derivatives	–	–	–	–
Negative market value of derivatives	44	–	98	–

Hedging instruments

(€ k)	31.12.2021		31.12.2020	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Positive market value of derivatives	54	14,066	145	–
Negative market value of derivatives	–	46,189	–	118,105

In relation to the underlying nominal values, predominantly interest rate risk is being hedged. Other risks relate to credit risks.

AMOUNT OF THE RISKS HEDGED IN VALUATION UNITS

The following table shows the effective portion of the changes in value to be allocated to the hedged risks on a cumulative basis since the designation of the valuation unit.

Underlying transactions

(€ k)	31.12.2021				31.12.2020			
	Micro valuation units		Portfolio valuation units		Micro valuation units		Portfolio valuation units	
	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value
Assets								
Loans and advances to customers	–	–	–	–	–	–	–	–
Debentures and other fixed-interest securities	–	–	19,081	–	–	–	62,806	–
Liabilities								
Liabilities to banks	–	–	–	–	–	–	–	–
Liabilities to customers	–	–	–	–	–	–	–	–
Securitised liabilities	–	44	–	–	–	296	–	–
Derivatives	32	–	–	–	145	–	–	–

Positive changes in value on the part of the hedged items are offset by corresponding negative changes in value on the part of the hedging instruments for which no provisions for contingent losses were created, and negative changes in value on the part of the hedged items are offset by corresponding positive changes on the part of the hedging transactions.

15. Accounting for interest-related financial instruments held in the banking book

We have performed the loss-free valuation of interest-related transactions in the banking book by means of a computation based on the present value approach in accordance with IDW RS BFA 3. We have included all balance sheet and off-balance sheet interest-related financial instruments that are not part of the trading book. The whole banking book was used as the net risk exposure for the purpose of the calculation – in line with the funding context. Within the framework of the calculation, we have compared the carrying amount of balance sheet and off-balance sheet transactions in the banking book under commercial law with the interest-related net present values. We then deducted the risk costs and administrative costs determined on a present value basis from the amount of the net present values exceeding the carrying amounts.

If a negative balance arises on comparing the present values to the carrying amounts, this amount is recognised in the income statement as a provision for contingent losses, which is disclosed under Other provisions on the balance sheet. Based on the results of the calculation, no provisions needed to be created as at 31 December 2021.

Derivative financial instruments not allocated to the trading book and neither included in a valuation unit nor in the net risk exposure of the loss-free valuation and do also not fall under the specific cover are valued individually under the recognition-of-loss principle.

16. Equity holdings in non-affiliated companies and interests in affiliated companies

We recognise equity holdings in non-affiliated companies and interests in affiliated companies at acquisition cost. In the case of impairment expected to be permanent – usually induced by changes in the credit rating – we write them down to the lower fair value.

17. Intangible fixed assets

We account for internally-developed and purchased software under Intangible fixed assets. Internally developed software is recognised in the amount of the production costs incurred in its development. Production costs include expenses directly attributable to the development of the software (so-called development costs). Expenses which cannot be directly allocated to the development of the software (so-called research costs) are not included in production costs but are expensed against income for the year incurred. As in the previous year, research and development costs of attributable to the development of software were incurred in the financial year.

Purchased software is valued at acquisition cost. In connection with the Bank's IT transformation, which mainly involves the renewal of IT applications and IT infrastructure, development costs of € 30 million were recognised in the reporting year (previous year: € 12 million) and reported under Acquired software under development.

Intangible fixed assets are subject to scheduled, straight-line amortisation. We assume a useful life of three years for acquired standard software. A useful life of five years is used for the amortisation of intangible fixed assets that were developed in-house. If the useful life cannot be reliably estimated, the amortisation period is ten years. In the case impairments are expected to be permanent, we conduct exceptional write-downs. If the reasons for such write-downs no longer exist, we conduct reversals up to the maximum amount of the amortised acquisition or production cost.

18. Tangible fixed assets

Tangible fixed assets are recognised at acquisition cost. For depreciable assets, we calculate scheduled straight-line depreciation for the following periods of useful life:

Tangible fixed asset category	Useful life in years
Buildings	50
Leasehold improvements	The useful life is determined on the basis of the remaining period of the lease.
Other operating equipment	3- 15
Leasing assets	Customary useful life
Low-value items (€ 250.00 to 1,000.00)	5

In the case of tangible fixed assets, we conduct extraordinary write-downs where it is likely that permanent impairment has occurred. If the reasons for the write-downs no longer exist, we conduct write-ups up to the maximum amount of the (amortised) acquisition or production costs.

Any acquisition cost subsequently incurred is capitalised and depreciated in line with the adjusted depreciation schedule. Expenses for the maintenance of tangible fixed assets are recognised as expenses in the appropriate accounting period.

Tangible fixed assets with a purchase price of up to € 250 are recognised as an expense in the year of acquisition in accordance with the applicable tax provisions.

19. Deferred taxes

Deferred taxes are calculated based on the different carrying amounts of assets and liabilities in the balance sheet drawn up for accounting tax purposes. We recognise deferred taxes on differences that are expected to offset in future financial years and will thereby lead to future tax expenses or reductions. Deferred tax assets are additionally attributed to tax losses carried forward to the extent the tax benefit from the losses carried forward is expected to be realised within the next five years. Deferred taxes are calculated using the tax rates expected to apply to the respective domestic and foreign operations when the differences reverse or the tax loss carryforwards are utilised. The overall tax rate for Germany is currently 32.11%, while the overall tax rate assumed for Luxembourg is 24.94%. In accordance with the relevant regulations, deferred taxes are not discounted. Deferred tax assets and deferred tax liabilities are stated in the balance sheet on a gross basis (asset item 14 and liability item 6).

At each reporting date, Hamburg Commercial Bank AG makes an assessment as to whether the realisation of future tax benefits is sufficiently probable to recognise deferred tax assets. Amongst other things, this requires a management assessment of the tax benefits that arise from the existing tax strategies and future taxable income as well as the consideration of other positive and negative factors. Deferred tax assets recognised could decrease if estimates of planned taxable income and the tax benefits achievable through available tax strategies are lowered, or if changes in current tax legislation limit the timing or extent to which future tax benefits may be realised.

20. Liabilities

We recognise liabilities at the amount repayable. Premiums and discounts are shown as deferred income or prepaid expenses, respectively, and are reversed over the term of a straight-line basis. We treat pro-rata interest on an accrual basis and report it in the corresponding liabilities line item.

21. Provisions

We value provisions at the expected call on the provisions in accordance with reasonable commercial judgement. Provisions with a residual maturity of more than one year are generally discounted on the basis of the average market rate determined and published by the Deutsche Bundesbank in accordance with the Regulations on the Determination and Disclosure of Discount Rates for Provisions (RückAbzinsV) in the versions applicable at the reporting date, which corresponds to the residual maturity. We disclose income and expenses from the discounting or compounding of provisions under Other operating income (cf. also Notes 55 and 56).

Provisions for pensions and similar obligations are calculated by independent actuaries based on the projected-unit-credit method. For this purpose, the unmodified 2018 G mortality tables from Professor Klaus Heubeck are employed as the biometrical basis. The following assumptions were made in determining the obligation:

	2021	2020
Salary growth	2.0%	2.0%
Personnel growth	0.5%	0.5%
Pension growth		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules	2.0%	2.0 %
Employment contract 4	2.0%	2.0 %
Staff turnover		
Age up to 30	6.0%	6.0 %
Age 30-55	linear decline to zero	linear decline to zero
Age above 56	0.0%	0.0 %
Retirement age	pursuant to the 2007 AGAnpassG	pursuant to the 2007 AGAnpassG

Provisions for pensions and similar obligation are discounted, in accordance with Section 253 (2) sentence 2 German Commercial Code (HGB), at the average market interest rate for the past ten years based on an assumed duration of 15 years. The discount rate applied as at the reporting date was 1.87% p.a. (previous year: 2.30% p.a.). The non-distributable difference in accordance with Section 253 (6) German Commercial Code (HGB) based on the average seven-year interest rate of 1.35% p.a. (previous year: 1.60% p.a.) amounts to € 79 million as at 31 December 2021 (previous year: € 102 million) (cf. Note 61).

Assets, whose sole purpose is the fulfilment of pension obligations and to which no other creditors have access (fund assets) are recognised at their fair value of € 975 million (previous year: € 956 million), while the amortised costs of the assets amount to € 932 (previous year: € 932 million). For the corresponding fund assets, an association called HCOB Trust e.V. ("Trust"), Hamburg, was established, which has concluded a bilateral contractual trust agreement (CTA) with the Bank. The CTA is used to build up an insolvency-protected asset fund, which provides additional security for pension liabilities in the event of the Bank's insolvency. This structure enables the Bank to actively manage its pension obligations in order to make targeted investments in a wide range of assets from a risk-return perspective and thus generate the necessary funds to cover its pension obligations. On the balance sheet, the assets tied up in the trust qualify as fund assets pursuant to Section 246 (2) German Commercial Code (HGB).

In accordance with Section 246 (2) sentence 2 German Commercial Code (HGB), fund assets are offset with Provisions for pension obligations and similar obligations. On balance, the amount required to meet the resultant liability was € 882 million as at 31 December 2021 (previous year: € 848 million). If the fair value of the assets exceeds the amount of liabilities, the excess amount is disclosed under the separate item Difference resulting from asset offsetting in accordance with Section 246 (2) sentence 3 German Commercial Code (HGB). Expenses of € 76 million (previous year: € 73 million), were offset against income of € 19 million (previous year: € 24 million) from plan assets in the reporting period, leaving net expenses of € 58 million (previous year: 49 million).

22. Currency translation

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

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

Remaining assets, liabilities and pending transactions – including financial instruments that are not classified as held for trading – are translated at the average spot rate prevailing as at the balance sheet date. As forward exchange transactions serve to hedge interest-bearing positions, we divide the agreed-upon forward exchange rate into the spot exchange rate and swap positions, and allocate the swap positions over the term of the transactions. The corresponding expense and income are reported in Net interest income. Positive and negative spot exchange rate differences from pending transactions are netted within the same currency and reported under other assets or other liabilities.

To the extent the assets, liabilities and pending transactions are specifically hedged by other assets, liabilities or pending transactions, all expenses and income from currency transaction are reported through profit and loss. All assets, liabilities and pending transactions in the same currency are in principle specifically hedged, as the foreign exchange risk is managed via a currency position for each foreign currency, the individual currency items are transferred to the corresponding currency position and the amounts of positions or transactions in a foreign currency match. In addition, we also view matching foreign currency transactions, which are not managed under a currency position as specifically hedged. If, in exceptional cases, there is no specific hedge (e.g. in case of assets with an acute default risk) and the residual term of the corresponding transactions is more than one year, valuation is made under the recognition-of-loss principle. Unrealised income from the currency translation is only recognised to the extent the acquisition costs of assets are not exceeded or the settlement amount of liabilities is not undercut. In the case of residual terms of less than one year, we also recognise unrealised income in the case of corresponding transactions, if such income is not specifically hedged. Expenses and income from currency translation related to items not classified as held for trading are disclosed under Other operating income/Other operating expenses.

For financial statements of entities to be consolidated that have been prepared in a foreign currency, we translate the assets and liabilities at the corresponding mid-market rate of the ECB on the balance sheet date. In the reporting period, the Bank used average exchange rates for the translation of expenses and income.

23. Accounting treatment applied to the restructuring

Provisions for restructuring are recognised in accordance with the regulations of Section 249 (1) sentence 1 German Commercial Code (HGB) in conjunction with Section 253 (1) sentence 2 German Commercial Code (HGB) and Section 253 (2) German Commercial Code (HGB), insofar as a restructuring programme has resulted in obligations or pending obligations from which the Bank cannot escape. The Bank discloses provisions for announced personnel measures as well as provisions for administrative cost measures under Other provisions. As soon as the obligation is sufficiently certain or can be quantified – e.g. through the signing of agreements – it is transferred to Other liabilities or Provisions for pensions and similar obligations as a matter of principle.

The resultant income and expense is disclosed under the Extraordinary result and is explained in detail there.

Notes on balance sheet assets

24. Affiliated companies

The following balance sheet items include loans and advances to affiliated companies in the following amounts:

(€ k)	31.12.2021	31.12.2020
Loans and advances to banks	10,031	370,978
Loans and advances to customers	8,706	49,367
Debentures and other fixed-interest securities		
Bonds and debentures	–	12,110

25. Non-affiliated companies

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

(€ k)	31.12.2021	31.12.2020
Loans and advances to banks	–	2,121

26. Subordinated assets

Assets must be reported as subordinated if they can only be honoured after the claims of other creditors in the event of the liquidation or insolvency of the debtor. We disclose subordinated assets under the following balance sheet items:

(€ k)	31.12.2021	31.12.2020
Loans and advances to banks		
subordinated loans and advances to other banks	–	58,546
Loans and advances to customers		
subordinated loans and advances to customers	20,383	31,673
Debentures and other fixed-interest securities		
Bonds and debentures	215,740	94,680
Shares and other non-fixed-interest securities	–	–

27. Residual maturities

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

(€ k)	31.12.2021	31.12.2020
Loans and advances to banks		
Other loans and advances		
Up to 3 months	304,750	115,128
Between 3 months and 1 year	346,225	501,155
Between 1 year and 5 years	9,961	14,999
More than 5 years	500	361,628
Loans and advances to customers		
Up to 3 months	1,628,300	1,961,215
Between 3 months and 1 year	2,194,254	2,401,697
Between 1 year and 5 years	9,688,093	9,159,517
More than 5 years	5,585,901	8,800,122
With an indefinite term	2,577	2,194
Debentures and other fixed-interest securities		
Due in the following year	901,610	1,851,764

28. Negotiable securities

(€ k)	Listed		Unlisted		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Debentures and other fixed-interest securities	5,846,786	7,370,252	561,976	748,454	6,408,762	8,118,706
Shares and other non-fixed-interest securities	4,918	4,616	383	7,466	5,301	12,082
Equity holdings in non-affiliated companies	–	–	–	7,750	–	7,750
Interests in affiliated companies	–	–	300	185,370	300	185,370

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

(€ k)	31.12.2021	31.12.2020
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	582,129	619,563
Carrying amount of securities reported above their fair value	210,724	42,642
Market value of securities reported above their fair value	210,286	42,356
Unrealised losses	438	286
thereof unrealised losses on securities that are not part of a valuation unit	438	286
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	181,472	425

The unrealised losses stated above result from the difference between the market value and carrying amount without taking the effects from the valuation units into account. Any collateral or guarantees are similarly not taken into account in calculating the unrealised losses.

Unrealised losses relating to securities held in valuation units, which are not to be allocated to the hedged risk (resulting for the most part from the creditworthiness of the issuer) amounted to € 0 million as at 31 December 2021 (previous year: € 0 million). These also include unrealised losses on securities relating to the unhedged risk, which would show an unrealised loss without taking the valuation unit into account.

If there is not a permanent but rather only a temporary impairment of securities held as fixed assets to be expected, which generally is not induced by changes in the credit rating, a write-down to fair value is not undertaken (cf. Note 9).

Grouped by the corresponding reason, unrealised losses relating to securities that are expected to suffer temporary impairments are as follows (stating in each case the difference between the carrying amount and the fair value):

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(€ k)	Rating of the securities	31.12.2021	31.12.2020
There were no trigger events		**438**	**286**
	Investment grade rating or higher	358	286
	Investment grade rating or lower	80	–
Total		**438**	**286**

There were no trigger events for securities carrying unrealised losses, and therefore no impairment loss was recognised.

30. Trading portfolio (assets)

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

(€ k)	31.12.2021	31.12.2020
Derivative financial instruments	506,659	815,588
Debentures and other fixed-interest securities	66,143	155,802
Other assets	19	42
Risk discount	– 8,910	– 2,635
Total	**563,911**	**968,797**

31. Investment assets

Below we provide information on investment assets in which the Bank holds an individual share of more than 10 %.

The shares are reported under asset item 6 "Shares and other non-fixed-interest securities".

(€ k) 2021 Fund	Investment objectives	Carrying amount	Share value pursuant to the German Investment Code (KAGB)	Delta	Distributed in the financial year
HPS Elbe Unlevered Direct Lending Fund, SCSp, Luxembourg	Investment in corporate loans	181,089	182,580	1,491	–

Redemption of shares in HPS Elbe Unlevered Direct Lending Fund is subject to a notice period of 3 months. In addition, terminated is excluded for the first year after the fund was launched in September 2021.

Given the positive performance to date, there are no triggers for impairment.

32. Trust assets

Trust assets are reported under the following balance sheet items:

(€ k)	31.12.2021	31.12.2020
Loans and advances to customers	683	10,638
Total	**683**	**10,638**

33. Statement of changes in fixed assets

Development of fixed assets

(€ k)	1.1.2021	2021				31.12.2021	31.12.2021	31.12.2021	31.12.2020
	Historical cost of acquisition	Additions	Disposals	Transfers	Exchange rate differences	Historical cost of acquisition	Accumulated deprecia tion	Carrying amount	Carrying amount
Securities	1,007,129	510,480	763,913	–	9,905	763,601	–	763,601	637,808
Equity holdings in non-affiliated companies	85,816	–	12,304	–	–	73,512	69,510	4,002	11,752
Interests in affiliated companies	1,259,747	524	909,132	–	3	351,142	349,035	2,107	712,894
Land and buildings	126	–	–	–	–	126	114	12	17
Plant and equipment	55,119	468	17,065	–	–	38,522	35,529	2,993	5,539
Assets under construction	–	–	–	–	–	–	–	–	–
Intangible fixed assets	172,755[1)]	21,053	898	–	–	192,910	158,594	34,316	15,238
Total	**2,580,692**	**532,525**	**1,703,312**	**–**	**9,908**	**1,419,813**	**612,782**	**807,031**	**1,383,248**

[1)] The opening balances for APC and depreciation were manually adjusted.

Development in depreciation/amortisation

(€ k)	1.1.2021	2021						31.12.2021
	Accumulated depreciation	Depreciation in the financial year	Write-ups in the financial year	Change in total depreciation in connetion with additions	Change in total depreciation in connetion with disposals	Change in total depreciation in connetion with transfers	Exchange rate differences	Accumu lated depreciation
Securities	369,321	–	–	–	369,321	–	–	–
Equity holdings in non-affiliated companies	74,064	–	–	–	4,554	–	–	69,510
Interests in affiliated companies	546,853	600	33	–	198,385	–	–	349,035
Land and buildings	109	5	–	–	–	–	–	114
Plant and equipment	49,580	2,260	–	–	16,311	–	–	35,529
Intangible fixed assets	157,518[1]	1,974	–	–	898	–	–	158,594
Total	**1,197,445**	**4,839**	**33**	**–**	**589,469**	**–**	**–**	**612,782**

In the year under review, no land and buildings used for the Bank's own business activities are included in the Land and buildings item (previous year: € 0 million).

In the reporting year, equity holdings in non-affiliated companies (Deutsche Wertpapier Service Bank) and interests in affiliated companies (HCOB Funding II) were disposed. In addition, HCOB Securities was reclassified from affiliated credit institutions to affiliated companies. In addition, equity no longer required for operations at HCOB Securities was returned to HCOB AG. This return of funds resulted in investment income of € 13 million, which is recognised in the Income from additions to equity holdings in non-affiliated companies.

34. Other assets

The major components of other assets are:

(€ k)	31.12.2021	31.12.2020
Initial and variation margins from OTC derivatives (cf. Note 12)	584,614	863,014
Receivables from fiscal authorities	13,530	13,561
Premiums paid from options trading and from interest limitation agreements	10,628	9,244
Adjustment item for currency translation	1,846	48,804
Tenant loans	854	47,354
Receivables from profit and loss transfer agreements and from dividends	815	148,936
Swap deferrals under forward exchange transactions	120	74

35. Prepaid expenses

The major items disclosed here are:

(€ k)	31.12.2021	31.12.2020
Discount accruals from issuing business	5,163	6,124
Premium accruals from claims	50	56
Deferred income from derivatives	658	457
Discount accruals from liabilities	885	1,136

36. Deferred tax assets

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

(€ k)	31.12.2021	31.12.2020
Assets		
Loans and advances to customers	237,078	108,072
Debentures and other fixed-interest securities	22,677	22,023
Equity holdings in non-affiliated companies	3,491	3,185
Interests in affiliated companies	1,596	1,596
Tangible fixed assets	2	2
Other assets	49,932	55,474
Deferred income	685	794
Liabilities		
Other liabilities	1,720	1,196
Deferred income	2,395	4,424
Provisions	193,152	198,363
Loss carryforwards	350,539	179,334
Total	**863,267**	**574,463**

The deferred tax assets increased by € 289 million in the financial year.

Deferred tax assets on loss carryforwards in the amount of approximately € 278 million are attributable to the Head Office, while € 72 million are attributable to loss carryforwards for the Luxembourg branch.

The analysis of recoverability of deferred tax assets did not require a valuation allowance on deferred tax assets on temporary differences at the end of the financial year (unchanged to previous year).

37. Genuine repurchase agreements

In the reporting year, we sold assets with a carrying amount of € 503 million (previous year: € 0 million) as a repurchaser of genuine repurchase agreements with a simultaneous agreement to repurchase. We continue to report these assets in our balance sheet, while the considerations received are recognised under the corresponding liability items.

38. Assets transferred as collateral

In addition to the assets sold under repurchase agreements (cf. Note 37) and the receivables serving as cover for bonds issued (cf. Note 70), we have further assets serving as collateral. These are mainly securities lodged with central banks and Eurex as collateral for participation in stock exchanges and clearing organisations and for funding as well as loan notes and loan receivables assigned as collateral for borrowings at central banks and other banks.

(€ k)	31.12.2021	31.12.2020
Assets transferred as collateral	5,543,236	8,584,424
thereof for		
Liabilities to banks	4,958,622	7,572,711
Liabilities to customers	–	148,699
Trading portfolio (liabilities)	584,614	863,014

39. Difference resulting from asset offsetting

The asset difference resulting from asset offsetting is due exclusively to the netting of obligations that were hedged with cover assets within the context of the CTA.

Fund assets according to Section 246 (2) Sentence 2 HGB amount to € 968 million (previous year: € 949 million). The pension liabilities thus covered amount to € 872 million (previous year: € 839 million). On balance, the excess amount after netting is € 96 million (previous year: € 110 million).

Notes on balance sheet liabilities

40. Affiliated companies

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

(€ k)	31.12.2021	31.12.2020
Liabilities to banks	9,852	551,405
Liabilities to customers	13,673	491,660

41. Non-affiliated companies

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

(€ k)	31.12.2021	31.12.2020
Liabilities to customers	3,492	7,461

42. Residual maturities

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

(€ k)	31.12.2021	31.12.2020
Liabilities to banks		
With an agreed maturity or notice period		
Up to 3 months	761,295	100,555
Between 3 months and 1 year	180,143	635,553
Between 1 year and 5 years	2,269,567	3,561,980
More than 5 years	2,246,110	3,416,780
Liabilities to customers		
Other liabilities with an agreed maturity or notice period		
Up to 3 months	1,846,678	2,184,830
Between 3 months and 1 year	1,134,513	2,572,518
Between 1 year and 5 years	984,981	1,557,918
More than 5 years	2,653,196	2,319,623
Securitised liabilities		
Debentures issued		
Due in the following year	2,162,510	1,629,433

43. Trading portfolio (liabilities)

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

(€ k)	31.12.2021	31.12.2020
Derivative financial instruments	442,265	693,978
Other liabilities	53	113
Total	**442,318**	**694,091**

44. Trust liabilities

Trust liabilities are reported under the following balance sheet items:

(€ k)	31.12.2021	31.12.2020
Liabilities to banks	34	835
Liabilities to customers	649	9,803
Total	**683**	**10,638**

45. Other liabilities

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

(€ k)	31.12.2021	31.12.2020
Variation margin OTC derivatives	109,651	174,571
Security deposits for assumption of debts	47,790	159,206
Pro rata interest on subordinated debt, profit participation rights and silent participations	2,348	98,478
Adjustment item for currency valuation	108,021	37,369
Liabilities to employees	17,443	30,441
Tax liabilities	4,379	5,724
Liabilities from profit and loss transfer agreements and from dividends	777	680

46. Deferred income

The major components of deferred income are the following:

(€ k)	31.12.2021	31.12.2020
Deferrals from advance loan fees	67,461	50,683
Deferred income from derivatives	9,599	3,726
Discount deferrals from receivables	5,319	4,035
Premium deferrals from issuing business	9,049	4,770

47. Deferred tax liabilities

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

(€ k)	31.12.2021	31.12.2020
Assets		
Intangible fixed assets	33	48
Tangible fixed assets	–	–
Difference resulting from asset offsetting	13,861	7,809
Liabilities		
Deferred income	–	–
Provisions	–	–
Total	**13,894**	**7,857**

The deferred tax liabilities have increased by approximately € 6 million in the financial year.

The different valuation of fund assets for pension provisions for tax purposes resulted in deferred tax liabilities of € 14 million, which were allocated to the balance sheet item Difference resulting from asset offsetting.

48. Other provisions

Other provisions primarily relate to the following items:

(€ k)	31.12.2021	31.12.2020
Litigation risks and costs	118,848	117,094
Restructuring measures	65,960	125,094
Lending business	52,516	49,390
Personnel expenses	49,241	51,425
Outstanding invoices	45,795	57,432
Regulatory expenses	16,014	54,308
Securities transaction and financial derivatives	15,153	17,288
Interest on corporate tax and trade tax	10,663	3,288
Provisions for pending losses	9,028	11,781
Archiving expenses	4,968	4,852
Processing fees for commercial loans	4,700	3,500
Transformation expenses	1,169	4,623

Provisions for restructuring measures of € 49 million (previous year: € 91 million) refer to personnel expenses and € 17 million (previous year: € 34 million) to operating expenses.

The provisions for restructuring measures were formed in 2018 in connection with the extensive restructuring programmes resulting from the privatisation respectively the transformation of Hamburg Commercial Bank AG. The decrease in this item is mainly due to current utilisations in the reporting year.

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

49. Subordinated debt

Subordinated debt was issued in the form of bearer bonds and is denominated in EUR and USD. The original maturities range from 30 years to 40 years. The interest rates payable are between 0% p.a. and 6.44% p.a.

Individual items exceeding 10% of total subordinated debt:

(€ m)	Currency	Interest rate	Maturity date	Termination rights
126	USD	0.62%	21 March 2031	None
92	EUR	0.00%	22 January 2041	None

In principle, subordinated debt meets the requirements of Article 63 Capital Requirements Regulation (CRR) for recognition as Tier 2 capital. Subordinated debt in the amount of € 0 million (previous year: € 28 million) will mature in less than two years. Interest expense on subordinated debt amounted to € 8 million in the year under review (previous year: € 12 million).

50. Fund for general banking risks

Additions from the net income from the trading portfolio amounted to € 1 million (previous year: € 0 million) . Moreover, no other amounts were allocated to the fund for general banking risks in accordance with Section 340g German Commercial Code (HGB) (previous year: € 0 million).

51. Equity

Pursuant to Section 25 (1) of the German Bank Accounting Regulation (RechKredV), subscribed capital consists of the share capital of Hamburg Commercial Bank AG.

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. Subscribed capital of Hamburg Commercial Bank AG was divided into 3,018,224,530 no-par value shares, each with a notional par value of € 1 per share (formerly: 301,822,453 shares with a notional par value of € 10 per share).

At the general meeting of Hamburg Commercial Bank AG held on 18 November 2021, the share capital of the company was reduced by € 2,716 million from € 3,018 million to € 302 million. 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 amount gained because of the reduction in share capital was used to fully offset Hamburg Commercial Bank AG's loss carryforward according to German Commercial Code (HGB) of € 1,278 million. The remaining amount of € 1,438 million was allocated to restricted capital contributions in accordance with Section 272(2) No. 1-3 German Commercial Code (HGB).

As in the previous year, several funds launched by Cerberus Capital Management L.P., New York, indirectly held a total of 42.45 % of the voting rights as at 31 December 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 German Stock Corporation Act (AktG).

The capital reserve includes amounts from share-based compensation of € 11 million (previous year: € 6 million).

Notes on the income statement

52. Breakdown of income items by geographical markets

(€ k)	2021			2020		
	Germany	Rest of Europe	Asia	Germany	Rest of Europe	Asia
Interest income	1,281,520	36,035	–	2,091,234	11,130	1,665
Current income from share and other non-fixed-interest securities, equity holdings in non-affiliated companies and interests in affiliated companies	23,921	1,829	–	24,181	6,584	–
Income from profit pooling, profit transfer and partial profit transfer agreements	293	–	–	209,836	–	–
Commission income	46,244	3,774	–	53,429	4,932	562
Net income from the trading portfolio	13,406	73	–	– 12,500	–	105
Other operating income	122,138	1,269	–	151,181	2,256	906

53. Net interest income

Net interest income includes one-time expenses from the disposal of receivables in the amount of € 73 million (previous year: € 216 million).

54. Net commission income

Net commission income is composed of the following:

(€ k)	2021	2020
Lending business	16,915	21,609
Payment transactions and foreign business, documentary business	14,905	15,433
Guarantee business	5,796	8,450
Securities business	-209	-1,102
Other	557	3,245
Total	**37,964**	**47,635**

55. Other operating income

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

(€ k)	2021	2020
Income from the disposal of tangible fixed assets	–	30,123
Income from the reversal of other provisions	82,851	29,327
Cost allocations and reimbursement of expenses	11,245	26,105
Income from the reversal of provisions for contingent losses from valuation units (cf. Note 14)	3,160	10,413
Income from legal disputes	3,150	8,750
Income from reversals of provisions for litigation	6,521	8,642
Income on exchange from transactions not specifically hedged	–	7,924
Interest income from claims against tax authorities	17,463	2,258
Income from option premiums received as well as compensation payments received for options held in the non-trading portfolio	20	292

Income from the reversal of other provisions mainly relates to income from the reversal of provisions in connection with the change in the deposit guarantee scheme and pension provisions.

56. Other operating expenses

Other operating expenses primarily include the following items:

(€ k)	2021	2020
Expenses for the compounding of provisions outside the lending business	59,832	52,276
Expenses from additions to other provisions	24,164	20,450
Expenses paid in advance for transaction fees, legal fees, servicing	8,976	18,020
Expenses relating to option premiums paid as well as compensation payments for options held in the investment portfolio	29,481	6,617
Expenses from additions to provisions for litigation risks	12,372	5,101
Interest expenses pursuant to Section 233 AO	9,472	1,964
Loss on exchange from transactions not specifically hedged	5,314	–

The expenses for the compounding of provisions include not only the expenses resulting from the change in the ten-year mean interest rate in the amount of € 21 million (previous year: € 28 million), but also the interest expense from discounting in the amount of roughly € 38 million (previous year: € 23 million).

57. Extraordinary result

The Extraordinary result comprises transformation expenses of € 29 million (previous year: € 18 million). Expenses in connection with the privatisation of the Bank amount to € 0 million (previous year: € 1 million). As in the previous year, the result from restructuring was balanced, as moderate operating expenses from restructuring were compensated by income from the release of restructuring provisions.

For information on the accounting treatment of the restructuring, please refer to our remarks under Note 23.

58. Income tax expense

Income tax expense is composed of the following:

(€ k)	2021	2020
Deferred income taxes	282,767	– 54,882
from temporary differences	111,562	– 122,335
from losses carried forward	171,205	67,453
Current income taxes	– 14,022	2,458
Total	**268,745**	**– 52,424**

The deferred tax expense in the year under review of € 283 million (previous year: deferred tax expense of € 55 million) results from the deferred tax expense on temporary differences of € 122 million (previous year: expense of € 122 million) offset by deferred tax income on loss carryforwards of € 171 million (previous year: income of € 67 million). The deferred tax income on temporary differences is almost exclusively attributable to the Head Office. The deferred tax income on loss carryforwards is attributable to the Head Office with € 136 million and to the Luxembourg branch with € 35 million.

Current income taxes of € 24 million relate to the tax expense for the current year in Germany. This is offset by tax income for previous years in the amount of € 10 million.

59. Income from the assumption of losses

Due to the repayment of the silent participations in 2021, there is no income from the assumption of losses in the reporting year (previous year: € 77 million).

60. 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 and conducted several audits of annual financial statements at the GmbH Altstadt Grundstücksgesellschaft subsidiary. In addition, the review of the half-year financial report as at 30 June 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.

AUDITOR'S FEES WITHIN THE MEANING OF IDW ACPS HFA 36 (NEW VERSION)

As parent company, Hamburg Commercial Bank AG is included in the consolidated financial statement of Hamburg Commercial Bank AG. Accordingly, in accordance with Section 285 no. 17 German Commercial Code (HGB), the total fee paid to the statutory auditor is not disclosed here. Please refer to the corresponding notes in the consolidated financial statements.

61. Non-distributable amounts

A total of € 977 million (previous year: € 693 million) of freely available reserves are blocked for distribution. The amount blocked for distribution is made up as follows: € 867 million (previous year: € 574 million) corresponds to the amount by which the deferred tax assets recognised in the balance sheet exceed the deferred tax liabilities – insofar as these are not taken into account in the amounts below. An amount of € 79 million (previous year: € 102 million) relates to the difference in accordance with Section 253 (6) German Commercial Code (HGB) in connection with the discount rate for pension provisions. The distribution block in accordance with Section 268 (8) Sentence 3 German Commercial Code (HGB) amounts to € 29 million (previous year: € 16 million) and results from the difference between the fair value of the cover assets and their amortised cost less the deferred tax liabilities created for this purpose. A total of € 2 million (previous year: € 1 million) results from the capitalisation of internally generated intangible fixed assets less the deferred tax liabilities formed for this purpose.

Other disclosures

62. Leasing business

Assets related to the leasing business include € 36 million (previous year: € 50 million) shown under Loans and advances to customers. Liabilities from the leasing business amount to € 0 million (previous year: € 14 million) and are disclosed under Liabilities to customers.

63. Contingent liabilities and other commitments

Contractually agreed obligations, the realisation of which is unlikely as at the reporting date, constitute contingent liabilities. This item mainly contains financial guarantees provided in the course of our lending business which contain a legally possible call right and it is unlikely that they will be drawn upon. Irrevocable loan commitments are reported under Other commitments. Credit guarantees and irrevocable loan commitments are subject to the Bank's loan loss provision process (cf. Note 7). As part of this process, the relevant commitments are continually monitored on the basis of certain criteria with respect to exposure to any acute default risk. In the event there are indication that the borrower's financial situation makes the fully repayment of the loan unlikely and there is a threat of a call on the guarantee, the default risk is covered by the recognition of a provision. Provisions are additionally recognised for irrevocable loan commitments where a drawdown is likely and the borrower is not expected to repay the agreed loan amount in full or in part, due to financial difficulties. Provisions are disclosed on the liability side of the balance sheet; contingent liabilities or other commitments are reduced accordingly. To this extent, there is no acute credit risk for the Bank with regard to the contingent liabilities and other commitments disclosed on the balance sheet as at the reporting date.

Contingent liabilities do not include any material liabilities.

Irrevocable loan commitments mainly relate to domestic customers with € 1,863 million (previous year: € 3,015 million) and to foreign customers with € 2,081 million (previous year: € 1,385 million).

As was the case in the previous year, there were not placement or underwriting commitments as at 31 December 2021.

64. Letters of comfort

Except in the case of political risk, Hamburg Commercial Bank AG ensures that its affiliated company HCOB Securities S.A., Luxembourg is able to meet its obligations.

In addition, Hamburg Commercial Bank AG has undertaken – except in the case of political risk – to provide HCOB Residual Value Ltd., Hamilton, with sufficient funds to allow it to meet when due the obligations it entered into during the period when Hamburg Commercial Bank AG held an equity interest in HCOB Residual Value Ltd.

65. Other financial obligations

The transactions listed below include payment obligations under pending contracts or continuing obligations that cannot be recognised in the balance sheet as well as other financial obligations that could have a material effect on the future financial position of Hamburg Commercial Bank AG.

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.

Further obligations in the amount of € 13 million result from long-term leases for land and buildings used for business purposes (previous year: € 16 million).

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

Additional obligations amounting to € 44 million (previous year: € 17 million) result from leasing agreements for IT services.

Under a sale of an equity holding the Bank has undertaken to purchase fund units at the market price up to a nominal amount of € 8 million (previous year: € 8 million).

There is a payment obligation amounting to a maximum of € 2 million vis-à-vis two affiliated companies under cost assumption agreements (previous year: € 2 million).

As part of its former guarantor function the Bank also has a general liability towards Deka Bank Deutsche Girozentrale together with other former shareholders. 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.

66. Notes on shareholdings

The following list contains information on the companies in which Hamburg Commercial Bank AG holds either a direct or indirect interest:

Affiliated companies – other domestic companies

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	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	33,674.44	– 196.14
3	GmbH Altstadt Grundstücksgesellschaft, Hamburg[1)2)]	89.90	89.90	EUR	138,695.43	138,222,958.53
4	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,775,561.99	268,592.20
5	HCOB Private Equity GmbH, Hamburg[2)]	100.00	100.00	EUR	550,000.00	71,110,124.60
6	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg	56.44	56.44	EUR	2,060,579.18	– 2,086,485.65
7	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	39,132.43	2,796.68

Affiliated companies – other foreign companies

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
8	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong[1)]	51.00	51.00	USD	115.00	–
9	Avia Management S.à r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	81,574.75	– 289,022.85
10	European Capital Investment Opportunities Limited, St. Helier, Jersey[1)]	51.00	51.00	EUR	111.00	86.00
11	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	358,762.00	– 76,653.00
12	HCOB Investment Management S.à.r.l., Findel, Luxembourg	100.00	100.00	EUR	12,000.00	–
13	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	3,823,042.00	– 223,029.00
14	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	200,328,890.10	1,828,890.10
15	HCOB Structured Situations Limited, St. Helier, Jersey[4)]	100.00	100.00	USD	347,000.00	551.00
16	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg[7)]	100.00	100.00	USD	62,763.63	–
17	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	73,894.70	–
18	Next Generation Aircraft Finance 2 S.à.r.l., Findel, Luxembourg[1) 8)]	49.00	49.00	EUR	46,831.00	– 136,823.00
19	Next Generation Aircraft Finance 3 S.à.r.l., Findel, Luxembourg[1) 8)]	49.00	49.00	EUR	46,476.00	– 77,499.00
20	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		[3)]	[3)]
21	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong[1)]	0.01	100.00	USD	– 1,278,376.00	178,924.00
22	RESPARCS Funding II Limited Partnership, St. Helier, Jersey[1)]	0.01	100.00	EUR	–	–

Equity holdings in non-affiliated companies

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	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	1.33	1.33	EUR	261,565,103.15	8,372,000.00
25	GLB GmbH & Co. OHG, Frankfurt am Main	15.77	15.77	EUR	2,776,785.86	– 61,398.48
26	GLB-Verwaltungs-GmbH, Frankfurt am Main	15.80	15.80	EUR	59,627.58	1,981.74
27	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	2,164,075.07	34,782.56
28	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekte Hamburg und Potsdam KG, Hamburg	5.15	5.16	EUR	4,177,406.18	597,559.29
29	HGA Objekt München GmbH & Co. KG, Hamburg[6)]	5.23	5.23	EUR	3,604,658.30	– 22,425.57
30	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	9,043,877.34	874,820.78
31	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg[6)]	5.10	5.09	EUR	6,116,221.87	517,366.64
32	Hines European Development Fund Limited Partnership, Wilmington, USA[1)]	9.90	9.90	EUR	38,335,000.00	– 1,181,000.00
33	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	1,365,842.44	– 345,090.40
34	RSU Rating Service Unit GmbH & Co KG, Munich	13.60	13.60	EUR	9,693,136.90	632,382.55
35	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
36	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,624,212.00	– 239,656.00
37	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) Data as at 31 December 2017 is available.
5) Data as at 31 December 2018 is available.
6) Data as at 31 December 2019 is available.
7) Data as at 09 December 2020 is available.
Based on the contractual arrangement, this is an affiliated company, although Hamburg Commercial Bank AG does not hold the majority of the voting rights.

Foreign exchange rates for € 1 as at 31 December 2021

USA	USD	1.1326

Hamburg Commercial Bank AG is the general partner of GLB GmbH & Co. OHG, Frankfurt am Main.

There are no equity holdings exceeding five per cent of the voting rights in large corporations.

67. Notes on foreign currencies

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

(€ k)	31.12.2021	31.12.2020
Assets	3,041,266	3,130,493
Liabilities	2,618,380	2,748,357

68. Information on the net balance sheet presentation

The netting of the fair values of trading portfolio derivatives traded over the counter against the cash collateral provided and received had the following impact with regard to the transactions included in the netting process:

(€ k)	31.12.2021			31.12.2020		
	Value before netting	Netting	Value after netting	Value before netting	Netting	Value after netting
Trading portfolio (assets)						
thereof derivative financial instruments	252,480	232,534	19,946	762,941	759,742	3,199
Other assets	434,716	53,141	381,575	942,722	456,669	486,053
Total assets	**687,196**	**285,675**	**401,521**	**1,705,663**	**1,216,411**	**489,252**
Trading portfolio (liabilities)						
thereof derivative financial instruments	315,381	312,730	2,651	1,006,680	980,286	26,394
Other liabilities	82,596	– 27,055	109,651	264,156	236,125	28,031
Total liabilities	**397,977**	**285,675**	**112,302**	**1,270,836**	**1,216,411**	**54,425**

69. Derivatives business

The following section presents the business conducted by Hamburg Commercial Bank AG in the area of derivative financial instruments (forward transactions within the meaning of Section 36 RechKredV) as at the reporting date.

Transactions held in the non-trading portfolio serve mainly to hedge interest, currency exchange rate or market price fluctuations. The following overview of the non-trading portfolio does not include derivatives that are a component of accounting valuation units (the nominal volume of these derivatives amounts to € 1,067 million as at 31 December 2021 (previous year: € 534 million)).

The following tables show, in addition to the nominal amounts of the contracts with counterparties outside of Hamburg Commercial Bank AG, the term structure and counterparty classification, broken down into interest rate risk, interest rate and foreign exchange risk, foreign exchange risks and other price risks. In addition, the following tables contain information on non-concluded foreign-currency-related, interest-dependent and other forward transactions as defined under Section 36 RechKredV.

I. Presentation of volumes and market values

Trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Interest rate swaps	11,503	24,122	682	1,464	322	908
FRA	–	–	–	–	–	–
Swaptions						
Purchases	60	963	–	17	–	11
Sales	37	1,089	1	7	–	100
Caps, floors	1,497	4,686	11	17	1	8
Exchange-traded contracts	130	95	–	–	–	–
Other forward interest rate transactions	38	36	6	1	7	2
Interest rate risks	**13,265**	**30,991**	**700**	**1,506**	**330**	**1,029**
Interest rate/currency swaps	701	1,506	3	13	2	15
Interest rate and foreign exchange risk	**701**	**1,506**	**3**	**13**	**2**	**15**
Forward exchange transactions	163	525	2	8	2	5
Currency options						
Purchases	–	–	–	–	–	–
Sales	–	–	–	–	–	–
Foreign exchange risks	**163**	**525**	**2**	**8**	**2**	**5**
Exchange-traded contracts	1	1	–	–	–	–
Equity and other price risks	**1**	**1**	**–**	**–**	**–**	**–**
Collateral taker	–	–	–	–	–	–
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Structured products	**538**	**641**	**34**	**45**	**37**	**54**
Total	**14,668**	**33,664**	**739**	**1,572**	**371**	**1,103**

Non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Interest rate swaps	3,046	4,722	104	143	314	574
Swaptions						
Purchases	–	–	–	–	–	–
Sales	–	–	–	–	–	–
Caps, floors	1,487	285	3	–	3	–
Exchange-traded contracts	–	–	–	–	–	–
Other forward interest rate transactions	–	–	–	–	–	–
Interest rate risks	**4,533**	**5,007**	**107**	**143**	**317**	**574**
Interest rate/currency swaps	42	64	–	–	27	29
Interest rate and foreign exchange risk	**42**	**64**	**–**	**–**	**27**	**29**
Forward exchange transactions	3,093	2,863	4	48	82	7
Foreign exchange risks	**3,093**	**2,863**	**4**	**48**	**82**	**7**
Equity options						
Purchases	–	–	–	–	–	–
Equity/index-based swaps	2	8	1	1	–	–
Equity and other price risks	**2**	**27**	**1**	**1**	**–**	**–**
Collateral provider	–	–	–	–	–	–
Collateral taker	–	–	–	–	–	–
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Structured products	**310**	**628**	**13**	**55**	**27**	**61**
Total	**7,980**	**8,589**	**125**	**247**	**453**	**671**

II. Counterparty classification

Trading and non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
OECD banks	15,242	30,657	337	965	748	1,592
Non-OECD banks	5	5	1	1	–	–
Non-banks (incl. stock exchanges)	7,329	11,321	520	811	65	168
Public authorities	72	270	6	42	11	14
Total	**22,648**	**42,253**	**864**	**1,819**	**824**	**1,774**

III. Maturities

Trading and non-trading portfolio nominal values

(€ m)	Interest rate risks		Credit risks		Foreign exchange risks		Equity and other price risks		Structured products	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Residual maturity										
Up to 3 months	429	1,340	–	–	1,926	2,630	3	23	6	–
Up to 1 year	2,357	3,859	–	–	1,318	750	–	3	30	8
Up to 5 years	8,730	17,955	–	–	12	8	–	2	127	110
Over 5 years	7,025	14,415	–	–	–	–	–	–	685	1,151
Total	**18,541**	**37,569**	**–**	**–**	**3,256**	**3,388**	**3**	**28**	**848**	**1,269**

IV. Carrying amounts of derivative financial instruments held in the non-trading portfolio

Derivatives held in the non-trading portfolio are in principle not recognised as they are pending transactions. There are exceptions in cases where Hamburg Commercial Bank AG has paid option premiums as a purchaser or has received option premiums as the seller. These are capitalised under Other assets/are expensed under Other liabilities. In addition, the recognition of provisions for contingent losses may be necessary where the individual valuation of derivatives results in negative market values. Furthermore, reconciliation items are recorded for currency transactions. As at 31 December 2021, the net amount of reconciliation items shown under Other assets amounted to € 2 million (previous year: € 49 million) and the reconciliation items shown under Other liabilities amountted to € 108 million (previous year: € 37 million).

(€ m)	Option premiums paid		Option premiums received	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Interest rate contracts	–	–	–	–
Equity and other contracts	–	–	–	–
Total	**–**	**–**	**–**	**–**

We have created provisions for contingent losses in the amount of € 8 million (previous year: € 17 million) for derivative financial instruments outside of the trading portfolio with regard to which an effective hedging relationship could not be shown. Payments resulting from the transition from EONIA to ESTR were immediately recognised in profit or loss.

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

The total amounts of mortgage bonds, public-sector bonds and ship mortgage bonds in circulation, and the corresponding cover funds, stated in terms of the nominal value, net present value and risk-adjusted present value in accordance with PfandBarwertV[1] are as follows:

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Mortgage bonds	3,247	3,883	3,284	3,969	3,227	3,911
Cover funds	3,866	4,363	4,106	4,711	4,022	4,562
thereof: derivatives	–	–	–	–	–	–
Surplus coverage	**619**	**480**	**822**	**742**	**795**	**651**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Public-sector mortgage bonds	902	1,165	1,083	1,468	1,032	1,381
Cover funds	958	1,269	1,235	1,798	1,132	1,613
thereof: derivatives	–	–	–	–	–	–
Surplus coverage	**56**	**104**	**152**	**330**	**100**	**232**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Ship mortgage bonds	1,938	1,968	1,962	1,998	1,956	2,051
Cover funds	2,279	2,258	2,432	2,393	2,238	2,203
thereof: derivatives	–	–	–	–	–	–
Surplus coverage	**341**	**290**	**470**	**395**	**282**	**152**

Composition of the additional cover assets

(€ m)		Receivables within the meaning of Section 19 (1) no. 2 PfandBG			Mortgage bonds
Registered receivables 2021	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 19 (1) no. 3 PfandBG	Total
Germany	–	5	–	275	280
Total	**–**	**5**	**–**	**275**	**280**

[1] Statutory order on the provision of collateral for the current coverage of mortgage bonds, public-sector mortgage bonds and ship mortgage bonds according to net present value and its calculation at mortgage credit banks dated 14 July 2005

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

As in the previous year, there were no receivables that exceeded the limits set out in Section 19 (1) of the German Mortgage Bonds Act (PfandBG).

(€ m)		Receivables within the meaning of Section 20 (2) no. 2 PfandBG		Public-sector mortgage bonds
Registered receivables 2021	Equalisation claims	Total	thereof covered debentures	Total
Germany	–	–	–	–
Total	**–**	**–**	**–**	**–**

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

As in the previous year, there were no receivables that exceeded the limits set out in Section 20 (2) of the German Mortgage Bonds Act (PfandBG).

(€ m)		Receivables within the meaning of Section 26 (1) no. 3 PfandBG			Ship mortgage bonds
Registered receivables 2021	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 26 (1) no. 4 PfandBG	Total
Germany	–	–	–	60	60
Total	**–**	**–**	**–**	**60**	**60**

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

As in the previous year, there were no receivables that exceeded the limits set out in Section 26 (1) of the German Mortgage Bonds Act (PfandBG).

The mortgage bonds, public-sector mortgage bonds and ship mortgage bonds in circulation, and the corresponding cover assets, have the following maturity structure:

(€ m)	Mortgage bonds		Cover funds	
Nominal value	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Up to 6 months	1,080	21	327	298
Between 6 and 12 months	10	515	412	352
Between 12 and 18 months	777	1,080	308	350
Between 18 months and 2 years	570	10	466	445
Between 2 years and 3 years	10	1,597	674	648
Between 3 years and 4 years	300	310	342	528
Between 4 years and 5 years	–	350	667	363
Between 5 years and 10 years	500	–	669	1,374
More than 10 years	–	–	1	5
Total	**3,247**	**3,883**	**3,866**	**4,363**

(€ m)	Public-sector mortgage bonds		Cover funds	
Nominal value	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Up to 6 months	124	106	44	37
Between 6 and 12 months	126	27	41	36
Between 12 and 18 months	18	124	11	87
Between 18 months and 2 years	12	126	133	40
Between 2 years and 3 years	35	30	164	122
Between 3 years and 4 years	155	89	15	79
Between 4 years and 5 years	68	154	13	35
Between 5 years and 10 years	201	281	91	141
More than 10 years	163	228	446	692
Total	**902**	**1,165**	**958**	**1,269**

(€ m)	Ship mortgage bonds		Cover funds	
Nominal value	31.12.2021	31.12.2020	31.12.2021	31.12.2021
Up to 6 months	35	30	228	214
Between 6 and 12 months	330	300	333	459
Between 12 and 18 months	273	335	306	201
Between 18 months and 2 years	250	80	258	329
Between 2 years and 3 years	700	523	412	576
Between 3 years and 4 years	250	700	500	254
Between 4 years and 5 years	100	–	224	175
Between 5 years and 10 years	–	–	18	50
More than 10 years	–	–	–	–
Total	**1,938**	**1,968**	**2,279**	**2,258**

The proportion of fixed-interest-bearing cover assets in the corresponding cover funds and the ratios of fixed-interest-bearing bonds to the liabilities to be covered are as follows:

(in %)	Mortgage bonds	
	31.12.2021	31.12.2020
Proportion of fixed interest-bearing cover funds	58	49
Ratio of fixed interest-bearing bonds	91	77

(in %)	Public-sector mortgage bonds	
	31.12.2021	31.12.2020
Proportion of fixed interest-bearing cover funds	85	94
Ratio of fixed interest-bearing bonds	93	92

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

(€ m)	Mortgage bonds	
Foreign currency	31.12.2021	31.12.2020
CHF	1	1
GBP	–	53
SEK	4	6

(€ m)	Public-sector mortgage bonds	
Foreign currency	31.12.2021	31.12.2020
CHF	111	109
JPY	–	24

(€ m)	Ship mortgage bonds	
Foreign currency	31.12.2021	31.12.2020
JPY	–	6
USD	2,333	1,975

The loans and advances used to cover mortgage bonds, public-sector bonds and ship mortgage bonds are broken down by size as follows:

(A) Mortgage bond register

(€ m)	Covering mortgages	
Nominal value	31.12.2021	31.12.2020
Up to € 300,000 €	12	15
Between € 300,000 and € 1 million	35	46
Between € 1 million and € 10 million	739	896
More than € 10 million	2,800	3,251
Total	**3,586**	**4,208**

(B) Public-sector mortgage bond

(€ m)	Covering mortgages	
Nominal value	31.12.2021	31.12.2020
Up to € 10 million	63	93
Between € 10 million and € 100 million	363	526
More than € 100 million	532	650
Total	**958**	**1,269**

(C) Ship register

(€ m)	Covering mortgages	
Nominal value	31.12.2021	31.12.2020
Up to € 500,000 €	–	1
Between € 500,000 and € 5 million	313	307
More than € 5 million	1,907	1,574
Total	**2,220**	**1,882**

The breakdown of loans and advances used to provide ordinary cover for mortgage bonds by the country in which the mortgaged property is located, as well as the use to which the property is put, is as follows:

(€ m)	31.12.2021	31.12.2020
Used for residential purposes	596	702
Used for commercial purposes	2,990	3,506

(€ m) 2021	Apart-ments	Single and semi-detached dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commer-cial pro-perties	Unfin-ished new buildings	Building plots	Total
Germany	–	3	559	1,105	923	12	610	115	–	3,327
Great Britain/Northern Ire-land/Brit. Channel Islands	–	–	–	–	–	–	–	–	–	–
Netherlands	–	–	13	158	84	–	–	–	–	255
Sweden	–	–	–	–	4	–	–	–	–	4
Total	**–**	**3**	**572**	**1,263**	**1,011**	**12**	**610**	**115**	**–**	**3,586**

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

(€ m)	31.12.2021	31.12.2020
Total of payments at least 90 days in arrears	–	–
Total amount of these receivables provided that the amount in arrears accounts for at least 5% of the receivable	–	–

Other key figures relating to the regular cover assets of the mortgage bonds:

		31.12.2021	31.12.2020
Total amount of receivables that exceed the limits set out in Section 13 (1) PfandBG	€ m	–	–
Volume-weighted average age of the receivables	in years	5	4
Average weighted loan-to-value ratio	in %	57	57

The following tables show the breakdown of the total amount of loans and advances used to cover public-sector mortgage bonds based on the borrowers and the countries in which the borrowers are domiciled.

(€ m)	Country		Regional public authority		Local public		Other		Total	thereof guarantees received for export promotion reasons
2021	owed	guaran-teed	owed	guaran-teed	owed	guaran-teed	owed	guaran-teed		
Germany	–	70	418	12	60	49	9	21	639	70
Belgium	130	–	–	4	–	–	–	–	134	–
Poland	–	–	–	–	–	–	–	–	–	–
Portugal incl. Azores and Madeira	–	83	–	–	–	–	–	–	83	–
Switzerland	–	–	101	–	–	–	–	–	101	–
Total	**130**	**153**	**519**	**16**	**60**	**49**	**9**	**21**	**957**	**70**

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

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

(€ m) 2021	Country	Regional public authority	Local public authority	Other	Total
Total of payments at least 90 days in arrears	–	–	–	–	–
Total amount of these receivables provided that the amount in arrears accounts for at least 5% of the receivable	–	–	–	–	–

(€ m) 2020	Country	Regional public authority	Local public authority	Other	Total
Total of payments at least 90 days in arrears	–	–	–	–	–
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	–	–	–	–	–

The following table shows the breakdown of loans and advances used to cover ship mortgage bonds by the country in which the ships pledged are registered:

(€ m)	31.12.2021		31.12.2020	
	Ocean-going vessels	Inland water vessels	Ocean-going vessels	Inland water vessels
Antigua and Barbuda	5	–	–	–
Bahamas	26	–	20	–
Belgium	–	–	12	–
Germany	231	–	285	–
Denmark	103	–	85	–
Gibraltar	1	–	2	–
Greece	22	–	60	–
Great Britain/Northern Ireland/Brit. Channel Islands	37	–	38	–
Hong Kong	128	–	94	–
Liberia	491	–	358	–
Malta	174	–	143	–
Marshall Islands	539	–	361	–
Panama	196	–	152	–
Singapore	133	–	145	–
Cyprus	136	–	127	–
Total	**2,222**	**–**	**1,882**	**–**

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

(€ m)	31.12.2021	31.12.2020
Total of payments at least 90 days in arrears	**–**	**–**
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	**–**	**–**

The following table shows the number of foreclosures, judicially enforced receiverships and land and ships acquired to prevent losses in relation to the loans and advances used for coverage:

(Number) 2021	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Pending foreclosures and judicially enforced receiverships	–	–	–	–	–
Foreclosures completed	–	–	–	–	–
Land and ships acquired to prevent losses	–	–	–	–	–

(Number) 2020	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Pending foreclosures and judicially enforced receiverships	–	–	–	–	–
Foreclosures completed	–	–	–	–	–
Land and ships acquired to prevent losses	–	–	–	–	–

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

(€ m) 2021	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Total amount of arrears on interest to be paid	–	–	–	–	–

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

Of loans and advances to banks, the amount of € 17 million (previous year: € 20 million) and € 8,756 million of loans and advances to customers (previous year: € 9,944 million) are used to cover debentures issued.

71. Average number of employees

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

	2021			2020		
	Male	Female	Total	Male	Female	Total
Full-time employees	581	215	796	705	254	959
Part-time employees	22	155	177	46	234	280
Total	**603**	**370**	**973**	**751**	**488**	**1,239**
Apprentices/trainees	7	2	9	9	3	12

72. Corporate Governance

Hamburg Commercial Bank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company.

The Management Board and the Supervisory Board of Hamburg Commercial Bank AG have given the Declaration of Conformity pursuant to Section 161 German Stock Corporation Act (AktG) and have made it available to the shareholders. The Declaration of Conformity is published on the website of Hamburg Commercial Bank AG. The Declaration of Conformity does not form part of these explanatory notes.

73. Remuneration paid to members of the Management Board and Supervisory Board

The remuneration of persons in key positions at Hamburg Commercial Bank is based on the German Remuneration 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 Euro 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 Euro is converted into shares in the Bank. 40% of the payment of the cash bonus and the transfer of the shares will be made in the year following the performance period in question, with 60% subject to a deferral period of up to seven years and a review by the Supervisory Board. Before the shares are granted, the beneficiaries have no claim or entitlement to the shares of the share bonus that have not yet been transferred. The portions of the share bonus that have not yet been transferred do not bear interest and do not carry any dividend entitlement. All shares transferred under the share bonus are subject to a holding period of one year from the date of transfer.

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 the notes on equity), 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. The performance-related variable remuneration under the share bonus represents a service received that is recognised as personnel expense in the income statement. The consideration for the service received is recognised in equity. At Hamburg Commercial Bank AG, the consideration is recognised in the Capital reserve item.

As at 31 December 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 the remuneration paid to active and former members of corporate bodies (and their surviving dependants). The amounts for 2020 take into account that, as a sign of solidarity and in view of the enormous social and economic consequences of the COVID-19 crisis in 2020, the Management Board had decided to waive 30% of their variable remuneration for the 2019 financial year.

Total remuneration of active members of corporate bodies comprises short-term benefits, payments to pensions schemes and variable compensation.

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, pension provisions for former members of the Management Board and their surviving dependants amounted to €k 48,703 (previous year: €k 49,590).

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.

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 € 850 thousand. The remuneration is paid pro rata temporis based on the membership in a committee.

An amount of €k 3,213 was paid in financial year 2021 to the members of the Supervisory Board for their activities in the Supervisory Board. 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 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 € 852 thousand.

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:

(€)[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.

74. Seats on supervisory bodies

On the reporting date, the following seats are held on statutorily required supervisory bodies of large corporations or financial institutions:

(a) Members of the Management Board

IAN BANWELL
HCOB Securities S.A., Luxembourg
Chair of the Supervisory Board

CHRISTOPHER BRODY
HCOB Securities S.A., Luxembourg
Member of the Supervisory Board

ULRIK LACKSCHEWITZ
HCOB Securities S.A., Luxembourg
Member of the Supervisory Board

(b) Employees

JUTTA ARLT
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt
Member of the Supervisory Board

PETER AXMANN
Sprinkenhof GmbH, Hamburg
Member of the Supervisory Board

MASHAL BÖSCH
HCOB Securities S.A., Luxembourg
Member of the Supervisory Board

THOMAS JAKOB
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt
Member of the Supervisory Board

KATRIN WÄCHTER
Technosis AG, Hamburg
Member of the Supervisory Board

JAN LÜHRS-BEHNKE
HCOB Securities S.A., Luxembourg
Member of the Supervisory Board

JUAN RODRÍGUEZ INCIARTE
CLH Compania Logistica de Hidrocarburos, Madrid
Member of the Supervisory Board

75. The Supervisory Board of Hamburg Commercial Bank AG

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

(a) Members of the Risk Committee

CHAD LEAT
Chairman

BERT EHLERS

FREDERICK HADDAD

STEFAN SCHLATERMUND

MAG. FRIEDRICH SPANDL

MARK WERNER

PETER YORDÁN

(b) Members of the Audit Committee

KLAUS HEINEMANN
Chairman

OLAF BEHM

OLIVER DIRCKS

MANUEL GONZÁLEZ CID

PAULUS DE WILT

(c) Members of the Executive/ Nominating Committee

JUAN RODRÍGUEZ INCIARTE
Chairman

MANUEL GONZÁLEZ CID

SIMONE GRAF

PETER YORDÁN

(d) Members of the Compensation Monitoring Committee

JUAN RODRÍGUEZ INCIARTE
Chairman

KLAUS HEINEMANN

RIEKA MEETZ-SCHAWALLER

STEPHAN WILCKE

(c) Members of the IT Transformation Committee (since 1 July 2021)

JUAN RODRÍGUEZ INCIARTE
Chairman

OLIVER DIRCKS

KLAUS HEINEMANN

CHAD LEAT

DR. ILINCA ROSETTI

MARK WERNER

76. The Management Board of Hamburg Commercial Bank AG

STEFAN ERMISCH
Born in 1966
Chief Executive Officer (CEO)

ULRIK LACKSCHEWITZ
Born in 1968
Chief Risk Officer (CRO)
Deputy CEO

IAN BANWELL
Born in 1963
Chief Financial Officer (CFO)

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)

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 ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Hamburg Commercial Bank AG, Hamburg, which comprise the balance sheet as at 31 December 2021, and the statement of profit and loss for the financial year from 1 January to 31 December 2021 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Hamburg Commercial Bank AG, which is combined with the group management report, for the financial year from 1 January to 31 December 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 annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of its financial performance for the financial year from 1 January to 31 December 2021 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

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 annual financial statements loan receivables amounting to EUR 19,099 million are reported under the "Loans to customers" balance sheet line item. As at 31 December 2021, risk provisions for the loan portfolio consisting of individual and general valuation allowances are reported. The measurement of the risk provisions for the customer lending business is determined in particular by the structure and quality of the loan portfolios, general economic factors and the executive directors' estimates with respect to future loan defaults, among other things also against the background of the expected effects of the ongoing COVID-19 pandemic on the customer lending business. The amount of the individual valuation allowances for customer loans reflects the difference between the outstanding amount of the loan and the lower value assigned to it as at the balance sheet date. Existing collaterals are taken into account. The measurement of general loan loss provisions was done using the IFRS 9 methodology. The calculation of general valuation allowances also takes into account valuation-relevant risk factors in the context of model overlays.
The amounts of the valuation allowances in the customer lending business are highly significant for the assets, liabilities and financial performance of the Company and they involve considerable judgment on the part of the executive directors. Furthermore, the measurement parameters applied, which are subject to material uncertainties also due to the COVID-19 pandemic, have a significant impact on the recognition and the amount of any valuation allowances required. Against this background, this matter was of particular significance during our audit.

② As part of our audit, we initially assessed the the design of 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 individual and general valuation allowances applied (in accordance with IDW RS BFA 7), we evaluated the calculation methodology applied by the Company together with the underlying assumptions and parameters. With the 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 justifiable overall, and that the controls implemented by the Company are appropriate and effective.

③ The Company's disclosures regarding Loans and advances to customers are contained in notes of the financial statement in note 7 ´Valuation allowances and provisions in the lending business (loan loss provisions)´. In addition, the management report contains the relevant disclosures in the report on economic performance (results of operations) and the risk report.

❷ Accounting for litigations

① In the Company's annual financial statements other provisions amounting to EUR 408 million are reported. Of this amount, EUR 119 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 inhouse and external lawyers. Against this background and due to the significance of the amounts in dispute and the underlying assumptions and discretionary judgement of the executive directors, this matter was of particular significance during our audit.

② In accordance with § 249 Abs. 1 Satz 1 HGB, provision must be recognized for uncertain liabilities. For this, there must be an external obligation which was caused legally or economically during the financial year, and a claim must be seriously expected.

In the context of our audit, we assessed, among others, the process set up by the bank to govern the recognition, risk assessment, and accounting presentation of a legal dispute. This assessment also included a substantive discussion of the material legal risks. Our assessment took into account the information obtained in the course of our regular discussions with the bank's legal department as well as the assessments of the respective outcome of the proceedings provided to us in writing. In addition external lawyers' confirmations were obtained as of the balance sheet date, which support the risk assessments made by the bank. In our view, the estimates and assumptions made by the executive directors underlying the determination of the provisions for litigation are appropriate overall in order to appropriately measure the provisions for litigations.

③ Other provisions are explained in more detail in the notes to the annual financial statements in section 21. ´Provisions´ and section 48 ´Other provisions´. In addition, the risk report within the group management report contains further information on litigations

❸ **Deferred Taxes**

① In the Company's annual financial statements deferred tax assets amounting to EUR 863,3 million and deferred tax liabilities of EUR 13.9 million are reported. The resulting surplus of deferred tax assets amounting to EUR 849.4 million is reported in accordance with the recognition option pursuant to § 274 Abs. 1 Satz 2 HGB. Deferred tax assets are recognized in accordance with the principle of prudence to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses to be realized. For this purpose, insofar as sufficient deferred tax liabilities arising from taxable temporary differences are not available, future taxable profits are projected on the basis of the medium-term business plan including expected effects resulting from the ongoing COVID-19 pandemic prepared by the executive directors, whereby material tax differences are carried forward due to planning assumptions. Tax loss carryforwards are only recognized – in the absence of sufficient deferred tax liabilities – if they can be expected with sufficient certainty on the basis of the projections to be realized within the following five years.

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

② As part of our audit, we assessed, among others, the internal processes and controls for recording tax matters as well as the methodology used for the determination, accounting treatment and measurement of deferred taxes.

We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unused tax losses on the basis of the Company's internal forecasts of its future earnings situation, and the appropriateness of the underlying estimates and assumptions. In this connection so, we also evaluated the assessment of the executive directors regarding the effects of the COVID-19 pandemic on the Company’s business activities and examined how they were taken into account in determining the future earnings situation.

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

③ The Company's disclosures relating to deferred tax assets and tax loss carryforwards are contained in the notes of the financial statement in note 19 ´deferred taxes´.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards) as an unaudited part of the 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 Financial Report – excluding cross-references to external information – with the

exception of the audited annual financial statements, the audited management report and our auditor's report .

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the 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 Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report.

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of

estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the 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 annual financial statements and the management report (hereinafter the "ESEF documents") contained in the electronic file HCOB_AG_JA+LB_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 annual financial statements and the 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 annual financial statements and the 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 annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2021 contained in the "Report on the Audit of the Annual Financial Statements and on the 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 annual financial statements and the 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 "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 annual financial statements and the management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB.
In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

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

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 annual 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 annual financial statements and to the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 19 May 2021. We were engaged by the supervisory board on 14 July 2021. We have been the auditor of the Hamburg Commercial Bank AG, Hamburg, without interruption since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

REFERENCE TO AN OTHER MATTER– USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the 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.

Hamburg, 22 March 2022
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber	Tim Brücken
German Public Auditor	German Public Auditor
[Wirtschaftsprüfer]	[Wirtschaftsprüfer]

Responsibility statement by the Management Board

We hereby affirm that to the best of our knowledge the Annual financial statements have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, financial position and results of operations of the Hamburg Commercial Bank AG and that the Management report presents the course of business, including the results of the business and the Hamburg Commercial Bank AG's situation, in such a manner that it gives a true and fair view and describes the main opportunities and risks for the Hamburg Commercial Bank AG's foreseeable performance.

Hamburg, 22 March 2022

Stefan Ermisch

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Notice

If at times only the masculine form is used for certain terms relating to groups of people, this is not meant in a genderspecic manner, but occurs exclusively for the sake of better readability.

This Financial Report was published on 1 April 2021 and is available for download from **www.hcob-bank.com.**

This is an English translation of the original German version of the Financial Report.

Forward-looking Statements

This Financial Report includes certain forwardlooking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forwardlooking statement involves information that does not simply reflect historical facts, information relating to possible or anticipated future growth and future economic development. Such forwardlooking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are beyond our control.

Therefore actual events may differ from those forecast in the forwardlooking statements. In view of this, you are advised never to rely to an inappropriate degree on forwardlooking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this Financial Report. Furthermore, we are not obliged to update the forwardlooking statements following the publication of this information. In addition, information contained in this Financial Report does not represent any kind of offer for the acquisition or sale of any type of securities of Hamburg Commercial Bank AG.

Hamburg Commercial Bank AG

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