Financial Report 2022

Hamburg Commercial Bank AG

Hamburg Commercial Bank

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 Ga-zette and published in the Federal Gazette. In addition, the annual and Group financial statements of Hamburg Com-mercial Bank are available on the Internet at www.hcob-bank.com. The following information in the combined man-agement 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.

Basis of the Group

Business activities

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.

HCOB offers its clients a high level of structuring expertise in real estate financing and has a strong market position in international shipping. The Bank is one of the pioneers in Europe-wide project financing for renewable energies and digital infrastructure. The Bank offers individual financing solutions for international corporate clients, as well as a focused corporates business in Germany. Reliable and timely payment transactions and products for foreign trade round off the Bank's range of services. HCOB ensures its actions are consistent with established ESG criteria.

Segments and locations

Hamburg Commercial Bank's operating business activities are divided into four market-oriented segments, Real Estate, Shipping, Project Finance and Corporates (collectively referred to as "lending units"), 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 48 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". The chapter "Segment results" contains information on the development of results in the segments.

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. 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 HCOB AG, the scope of consolidation for the Group financial statements comprised 14 fully consolidated subsidiaries as at the reporting date (31 December 2021: 13). There were two additions to the group of fully consolidated companies in the reporting period, offset by one disposal.

Two special funds were included in the scope of consolidation as subsidiaries for the first time: the special credit fund Apollo Alster Lending Fund (Lux) SCSp, Luxembourg, as well as special securities fund HI-Hafen Global Fonds, which has its registered office in Frankfurt am Main. HCOB uses these special funds to diversify its activities in the international corporates business. The business purpose of the Luxembourg fund is to invest in receivables from third parties with a focus on North America and western Europe. The primary business purpose of HI-Hafen Global-Fonds is to invest in corporate bonds, again with a regional focus on the North American and European market. The company that left the scope of consolidation is RESPARCS Funding II Limited Partnership, St. Helier. This company, which originally served as a refinancing vehicle for a capital market transaction, was deconsolidated due to its liquidation in the reporting year.

Further details on changes in the scope of consolidation can be found in Note 6 (Scope of consolidation) in the notes 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 (percentages rounded):

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.** (incl. P.S.K. Beteiligungsverwaltung GmbH) Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft	**HCOB** Current and former Management Board Members (who are or were in office from November 2018)
Promontoria Holding 221 B.V. 9.87 %	Promontoria Holding 231 B.V. 13.86 %	Promontoria Holding 233 B.V. 18.69 %	JCF IV Neptun Holdings S.à r.l.	GoldenTree Asset Management Lux S.à r.l.	Chi Centauri LLC		
42.41 %			**34.93 %**	**12.47 %**	**7.48 %**	**2.49 %**	**0.20 %**

Changes in the Management Board of Hamburg Commercial Bank AG

At its meeting on 17 August 2022, the Supervisory Board of Hamburg Commercial Bank AG agreed to comply with Stefan Ermisch's request not to renew his contract as Chief Executive Officer (CEO), which expires at the end of 2023. Mr Ermisch was Chairman of the Management Board and CEO of the Bank until 30 September 2022.

On 1 October 2022, Ian Banwell took over as Chairman of the Bank's Management Board and assumed the role of CEO. Mr Banwell joined HCOB's Management Board as Chief Operating Officer (COO) back in 2019 and had been the Bank's Chief Financial Officer (CFO) since September 2020. The position of CFO was assumed on 1 October 2022 by Marc Ziegner, who was previously responsible for the Bank Steering business unit.

The Management Board of Hamburg Commercial Bank consists of: Ian Banwell (CEO), Ulrik Lackschewitz (Chief Risk Officer, CRO/Deputy CEO), Christopher Brody (Chief Investment Officer, CIO) and Marc Ziegner (CFO). Further information on the members of corporate bodies is set out in Note 61 (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 € 100,000 per Hamburg Commercial Bank AG depositor.

Since 1 January 2022, HCOB 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 clients, subject to the exceptions provided therein. Protected deposits are essentially demand, time and savings deposits that have been accepted at a domestic head office or branch office. In the Deposit Protection Fund, the following protection ceilings per creditor have applied since 1 January 2023:

- For natural persons and foundations with legal capacity, these apply irrespective of the term of the deposit: € 5 million (from 1 January 2025: € 3 million and from 1 January 2030: € 1 million)
- For non-financial companies, non-profit organisations, associations and non-profit professional organisations, and other creditors referred to in Section 6 (3) of the By-laws of the Deposit Protection Fund: € 50 million (from 1 January 2025: € 30 million and from 1 January 2030: € 10 million)
- The maximum amount of the protection ceiling in any event is 15 % (from 1 January 2025: 8.75 %) of the Bank's own funds according to the calculation under the ESF By-laws.

For deposits protected until the end of 31 December 2022, the protection ceilings applicable at that time shall generally continue to apply until the deposit matures, is rolled over or can be cancelled by the client for the first time, or is transferred to a foreign branch or branch office. For deposits established or rolled over after 31 December 2022, the relevant new protection ceilings shall apply as of the above cut-off dates.

The compensation shall be based on the protection ceiling which has been notified to the Bank as the result of the assessment made by the Auditing Association of German Banks *(Prüfungsverband deutscher Banken e.V.)* and which is available on the internet at www.bankenverband.de. The protection ceiling shall be notified to the client by the Bank on request.

Not protected are, in particular, deposits of financial firms, public authorities including regional and local authorities, deposits that have arisen in connection with money laundering or terrorist financing, and bearer bonds. For non-financial companies, non-profit organisations and associations, deposits with a term of more than twelve months and liabilities from promissory notes loans, registered bonds and comparable debt instruments under foreign law shall not be protected.

Liabilities of banks that were protected until the end of 31 December 2022 in accordance with Section 6 of the version of the By-laws of the Deposit Protection Fund registered with the Register of Associations (*Vereinsregister*) on 18 November 2021 shall generally continue to be protected as provided for thereunder. Departing therefrom, liabilities of Hamburg Commercial Bank AG that existed before 1 October 2017 shall not be grandfathered, as the Bank was not a member of the ESF at that point in time. After 31 December 2022, the grandfathered status shall cease to apply as soon as the liability concerned falls due, can be terminated or otherwise reclaimed, or if the liability is transferred by way of singular or universal succession or is transferred to a foreign branch.

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, inflation, 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.

Looking ahead to the coming years, the Bank is aiming to achieve moderate and risk-conscious growth, with continued diversification that extends to its business activities as well as to regions and its earnings structure. In view of the demands placed on the Bank by a dynamically changing banking environment, Hamburg Commercial Bank continues to focus on a business model that is viable and agile in the long run based on the following strategic approaches. Within the strategic approaches, business opportunities that the Bank has identified as part of the opportunity management activities that form part of its strategy process are taken into account. The Bank's opportunity management is based on an analysis of the macroeconomic environment, the competitive conditions in the relevant markets and the banking environment, as well as the assessment of trends that allow business opportunities to be developed:

- **Growth in our core markets:** We use our in-depth asset expertise and comprehensive market knowledge to achieve profitable growth in Germany, as well as selected European and international markets that offer sufficient growth potential. Our focus is on attractive niche segments and financing structures in which we can apply our strengths and expertise in a profitable manner.
- **Focus on individual solutions:** We offer our clients tailor-made products and services and take an entrepreneurial approach to transactions, looking at the entire value chain. This allows us to strengthen long-term and reliable business relationships and support our clients with changing needs and challenges. We operate in key industries of the future and often have decades of experience in these areas, which we contribute in order to provide our clients with the best possible support in their business development.
- **Striving for efficiency:** We are continuously working on optimising our processes, technologies and organisation in order to boost client satisfaction and ensure our Bank's competitive standing. We want to use data-driven decisions and fast implementation as differentiators, both for our clients and for our own operational excellence.
- **Resilient and balanced risk profile:** Our strong capital position provides strategic flexibility. A balanced risk profile, selective portfolio growth and a high degree of diversification between and within asset classes provide resilience and form the basis of our business strategy.

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. 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 optimisation of the liabilities side, taking profitability requirements into account.

Further functional strategies are defined based on the central business strategy, which also forms the basis for the Bank's multi-year corporate planning.

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 and risk-commensurate 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 progress in the area of sustainability in the year under review. 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

Real Estate segment
HCOB is a renowned German real estate financier with strong market and client coverage. In addition to its presence in Germany, international activities are also being expanded with selected experienced and internationally active clients so as to achieve further diversification. The focus here is on European metropolitan regions and selective business in the US. The Real Estate segment mainly comprises the financing of existing properties, refurbishment projects and project developments in the commercial sector. Growth opportunities for HCOB arise, among other things, from supporting real estate clients in their ESG transformation. HCOB's product portfolio in the Real Estate segment is characterised by tailor-made and custom-fit services, with an entrepreneurial eye for deals and transactions that offer value enhancement potential. HCOB has experienced market specialists with in-depth knowledge and a high level of structuring expertise in the field of commercial real estate financing, allowing the Bank to achieve prices that are above the market level despite its risk-conscious orientation.

Shipping segment
HCOB is one of the leading institutions in global ship financing, with a focus on second-hand ship financing. The successful business model in the Shipping segment is based on comparatively short financing terms and high collateralisation ratios. This improves the risk profile on the one hand and ensures that HCOB can react promptly to changing market conditions on the other. The composition of the Shipping portfolio is characterised by a healthy mix of asset-backed and corporate financing. The broadly diversified portfolio mainly comprises the asset classes of container vessels, bulkers and tankers. The Bank operates worldwide in the Shipping segment, with a focus on mostly long-term cooperation with clients with strong

credit ratings from Greece, Germany and other European countries. The Bank is also, however, active in the US and Asia. By providing financing, HCOB consciously supports its clients from the maritime industry in their transition to more sustainable business practices, with ESG criteria playing a key role.

Project Finance segment
In the Project Finance segment, HCOB focuses on financing attractive projects in the areas of infrastructure (including the fast-growing market for digital infrastructure) and energy. The Energy segment comprises the financing of energy projects, mainly for renewable energies, and also includes the topics of energy transition and decarbonisation. The Bank is one of the pioneers in the field of renewable energies and plays a leading role among financing partners. The financing approaches have been adapted to reflect current market conditions and give HCOB significantly more flexibility while taking into account a balanced risk/return profile. Project financing has a positive impact on the Bank's sustainability objectives, and the geographical focus is on the markets in western, northern and southern Europe. In this segment, too, HCOB has a broad and diversified client base on which it generates sustainable business. Clients include project developers, PE/infrastructure funds, manufacturers, contractors, as well as utilities companies and independent power producers.

Corporates segment
In the Corporates segment, HCOB's diversification strategy is implemented through business relationships with national and international corporate clients. On the domestic market, the core region of northern Germany has traditionally been its focal point. The focus of the Bank's business activities is on lending and providing other services for medium-sized, often family-run, companies. HCOB has long-standing and established business relationships with many of these corporate clients. The focus of the Bank's business approach is on a high level of service and structuring expertise. In order to diversify its portfolio, the Bank is increasingly active in international markets in addition to its home market in Germany. The geographical focus of these activities is on western Europe and North America (especially the US). The Bank's international strategy is based not only on geography but also on a high degree of sector diversification and a broad product range. Among other things, indirect financing of North American corporate clients is offered via participation in securitisation transactions (in credit and securities format) and special funds, thus achieving higher granularity of the loan and financial investment portfolio. A highly qualified, lean and transaction-oriented team of experts with a broad network enables the Bank to promptly identify and exploit market opportunities in the international corporate client business.

Treasury & Group Functions segment
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 and the management of the cover pool. 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 2023 is 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 agency Moody's 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

MACROECONOMIC CONDITIONS

2022 was dominated by the Russian invasion of Ukraine, the easing of restrictions associated with the COVID-19 pandemic across the board, except in China, as well as an increase in inflation due to energy prices, which prompted central banks to tighten the monetary policy reins significantly. This sent the global economy on a downward trend.

Major geopolitical developments

On 24 February 2022, Russia invaded Ukraine. The implications of this event have turned the global economic environment completely on its head. Whereas there were increasing signs in previous months that supply chains would return to normal as the threat associated with the COVID-19 pandemic started to wane and inflation gradually fell, the opposite happened to begin with: new supply chain bottlenecks triggered by the war and the sanctions imposed emerged and inflation accelerated.

The EU, the US and their allies reacted to Russia's invasion of Ukraine, which violates international law, by imposing several packages of sanctions. These range from a partial embargo on Russian energy supplies and sanctions against Russian banks to the freezing of foreign exchange reserves held by the Russian central bank with their counterparts in the West. At the same time, Russia imposed counter-sanctions, including a partial ban on natural gas exports to certain EU countries. With the alleged sabotage of the Nordstream 1 and 2 pipelines, responsibility for which has not yet been clarified, the gas infrastructure was also so severely damaged in September that no natural gas will flow through these pipelines until further notice.

In view of the uncertainty hanging over future natural gas supplies from Russia, the EU member states were successful in dramatically increasing their stocks of natural gas, meaning that in the autumn, some stocks in the EU were 100 % full, supported by an exceptionally warm October and effective efforts by industry and private households alike to save gas. This did, however, trigger considerable jumps in natural gas and electricity prices. The latter usually depend on the costs of the natural gas power plants, as they are what are known as the marginal suppliers. After natural gas prices on the Dutch ICE exchange exceeded the € 300 per kWh mark in August, prices have fallen considerably since then, reaching € 77 per kWh at the end of 2022. This is still, however, many times higher than the price of € 15.9 per kWh that formed the average for the period from 2017 to 2021.

Another focus of attention in 2022 was on China's zero-Covid policy, which did not deliver the desired results in the face of the highly contagious Omicron variant, but rather led to repeated lockdowns and had a negative impact on both China's and the global economy. At the beginning of December 2022, the Chinese government began to end its zero-Covid policy despite rising case numbers, likely also in response to the increasing protests by Chinese citizens against this policy. Based on reports from China, 18 % of the population is said to have contracted COVID-19 in the first three weeks of December, which appears to put the country's relatively weak hospital infrastructure at a high risk of being overwhelmed.

Geopolitically, the temporary escalation of the conflict between China and Taiwan also put nerves on edge, as the visit made by the then Speaker of the US House of Representatives, Nancy Pelosi, to Taiwan in August increased tension between the US and China. Public protests against the regime in Iran, which observers say have reached a new level, were also in the public eye.

Economic development by region

The three major economic areas, the US, the eurozone and China, were exposed to the changes in the global environment to varying degrees. The developments are also partly due to region-specific factors. Overall, the pace of growth was found to be much slower than in 2021 and individual economies are likely to have slipped into a recession.

US GDP increased by 2.1 % in 2022. An unusual trend by global standards was observed, as GDP declined in the first half of the year, also due to a massive reduction in inventories, but rose again in the second half. One striking development, however, is the consistent decline in construction activity in the residential sector, where higher interest rates proved to be a burden, while private consumption expanded robustly. The uninterrupted strong increase in employment is also consistent with this trend. Inflation peaked at an increase of 9.1 % (CPI, annual rate) in June before falling again. In December, the inflation rate was still sitting at 6.5 %.

Unlike the US, the **eurozone** showed consistent growth in the first three quarters of the year, which can be explained, among other things, by the fact that the COVID-19 restrictions that dominated 2021 have largely been lifted. Looking at the year as a whole, eurozone GDP is estimated to have expanded by 3.3 %, with growth momentum slowing over the course of the year, held back by the interest-rate-sensitive construction and real estate sectors, among others. Momentum in the service sector (including wholesale and retail, as well as tourism-related industries) also tapered off considerably over the course of 2022. It is possible that the EMU area entered a recession in the fourth quarter. Nevertheless, the feared gas shortage and resulting destabilisation of the economy failed to materialise. Inflation rose up until October, reaching 10.6 % (HICP, annual rate). It then declined and stood at 9.2 % in December.

China's economic growth came to 3 % in 2022, after GDP fell sharply in the second quarter and stagnated in the fourth quarter. This development can be traced back to the government's zero-Covid policy. It led to repeated lockdown measures in view of the highly contagious Omicron variant, but without these measures being able to control the spread of the virus. In addition, the expansion of the Chinese economy was slowed by the over-indebtedness of the real estate sector, as well as by weak global demand – in the second half of the year – that put pressure on the export industry.

In **Germany**, GDP expanded by 1.9 % in 2022. The marked weakness in construction investment was more than offset by a greater propensity to spend among private households. The latter was particularly noticeable in the accommodation and restaurant sector. Here, the fact that virtually all COVID-19 restrictions were lifted led to a particularly strong increase in demand. While consumers in this sector were not deterred by higher prices, the rise in retail inflation translated into a sharp decline in real sales. Given the slowdown in growth momentum over the course of the year, Germany is likely to have stagnated in the fourth quarter of 2022. The inflation rate reached 10.4 % (CPI, annual rate) in October. At the end of the year, it declined to 8.6 %, partly due to December's emergency relief for natural gas customers.

Monetary policy: strong interest rate hikes

Both the US Federal Reserve (Fed) and the European Central Bank (ECB) raised their **base rates** considerably in response to rising inflation, with a further tightening of monetary policy on the cards. The Federal Reserve raised the Fed Funds Rate from between 0 % and 0.25 % to between 4.25 % and 4.5 % in 2022, starting in March. This marks the strongest increase seen within the space of one year since 1980. The ECB started raising interest rates in July, increasing the main refinancing rate from 0 % to 2.5 %. The deposit rate rose accordingly from -0.5 % to 2.0 %. In the wake of these rapid rate hikes, **long-term yields** also increased. Ten-year Bund yields, for example, were still sitting at -0.18 % at the end of 2021, but had already risen to 2.56 % by the end of 2022. The corresponding T-notes yielded 3.88 % at the end of 2022 (end of 2021: 1.52 %), but at times reached a level as high as 4.25 %.

The **stock markets** saw losses in the face of an unexpectedly sharp rise in interest rates, geopolitical uncertainty and supply chain problems. The Dax lost 12.3 % over the course of the year, with the S&P 500 losing as much as 19.4 %. Technology stocks came under particular pressure. The NASDAQ index, for example, which is mainly made up of technology stocks, recorded price losses of 33.1 % over the course of the year.

The **euro** had lost around 13 % of its value against the US dollar in 2022 by the end of September, reaching a low of 0.96 US dollars. This movement was supported by relatively high global risk aversion, which tends to lead many investors to avoid the euro. Since then, however, the euro has been able to regain ground and closed the year at 1.07 US dollars, partly because the financial markets have calmed down somewhat and the search for a safe haven has become less important.

DEVELOPMENT IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK

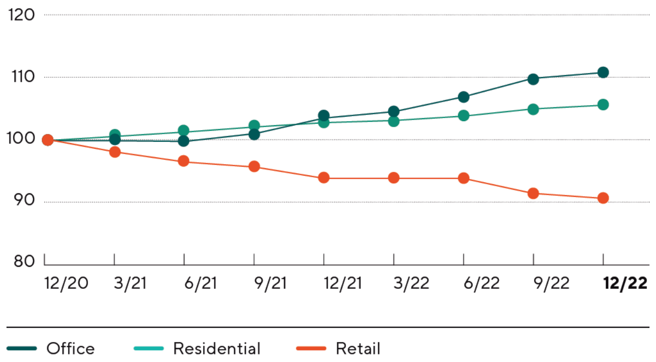
Real estate markets

The German real estate markets showed varied development in 2022 in the investment and letting markets, and also depending on types of use. In the course of the year, the transaction volume on the commercial real estate investment markets, which had still been high until the spring, fell significantly, especially for office and logistics properties, which had previously been highly sought-after. In addition to the increased economic uncertainty due to the war, this was due primarily to the sharp rise in interest rates due to inflation. For investors, the rise in interest rates reduced the relative appeal of real estate investments compared to opportunistic interest rate investments, and for credit-oriented market participants, it made financing more difficult. This reduced the prices that potential buyers were willing to pay. These moved further away from the prices that sellers were asking for, not least project developers, which were also confronted with rising construction costs. Until the end of the year, the investment market remained in a pricing phase marked by fewer transactions, in which investors with strong equity resources were at an advantage and were able to achieve the first noticeable price concessions for commercial properties.

Construction activity was hampered by supply difficulties and price increases for building materials. The development of future projects was also made more difficult due to the higher interest rates, because planned sales prices no longer appeared feasible. As a result, the outlook for project developers and construction companies clouded over significantly. Quite a few projects were postponed or suspended, and some construction contracts were even cancelled completely. On the letting markets, on the other hand, what was initially still a robust economy had a positive impact, despite the inflationary burdens resulting from the war. In particular, the growth in the number of employees, as well as partial consumption catch-up effects, such as in tourism, fuelled a recovery in demand.

Rents

(Indexed market average, 12/2020 = 100)



On the **housing markets**, rentals were stimulated by the noticeable increase in the number of people in employment, nominal income growth and the influx of refugees. With people moving for work and the arrival of refugees, demand in major cities is likely to have increased significantly. This trend was countered by a decline in construction activity. Although this related mainly to the construction of owner-occupied homes affected by subsidy cuts and less to that of multi-storey flats, the additional demand likely exceeded the low supply and resulted in vacancy rates, which were already very low, falling further. Given what are already high housing costs for households and the rent restrictions imposed in many cities, rents excluding utilities nevertheless rose only relatively moderately. Tenants and landlords alike were concerned about the very dramatic increase in energy costs, which leads to significantly higher service charges subject to a time lag. Although significantly lower transaction volumes were observed on the real estate markets, there was still hardly any loss in value, only a noticeable decline in price growth.

The **German office property markets** participated in the increase in the number of office employees, as the service sector continued to hire staff. Demand for space then rose sharply, especially in the country's largest cities, and almost matched the rise in office completions. As a result, vacancy rates, which were still low, barely increased and modern space remained scarce despite a large number of new buildings becoming available. Prime rents in the major cities, in particular, rose sharply. In secondary locations, on the other hand, rental growth remained rather moderate. The market values of office properties, however, declined noticeably due to the rise in interest rates.

Most **European office property markets** benefited from increased demand for space last year. As completions increased at the same time, vacancies often hardly changed and remained slightly elevated. In preferred locations, prime rents nevertheless increased significantly. Due to the rise in interest rates and the continued increased risk aversion shown by investors, market values fell noticeably, with an above-average drop in London, while in the Netherlands, losses remained slightly below the European average.

The **retail property markets** were hit by the very high inflation and the extreme uncertainty among consumers regarding the development of the economy and their incomes. Their sentiment deteriorated drastically and they became more frugal, meaning that retail sales fell in inflation-adjusted terms, and even in nominal terms in online retail. The food retail sector at least still managed to achieve nominal growth. By contrast, some bricks-and-mortar segments that experienced catch-up effects due to the pandemic, such as clothing or the building and furniture markets, achieved significant sales growth. Although nominal shop sales increased, rents fell noticeably in 2022, once again in city centre locations, but also for the first time in suburban locations dominated by retail parks. In view of the rise in interest rates, market values fell significantly yet again, with a marked drop for retail parks, too, for the very first time.

Industry, trade and logistics, infrastructure and renewable energy

German economic output rose by 0.4 % (adjusted to reflect price, seasonal and calendar effects) in the third quarter of 2022 compared to the second quarter of 2022. Compared to the fourth quarter of 2019, i.e. before the start of the COVID-19 crisis, economic output was 0.3 % higher, putting it above the pre-crisis level again for the first time. Over the year as a whole, German gross domestic product (in real terms) increased at a rate of just under 2 % compared to 2021. The Russian invasion of Ukraine in February 2022 and its knock-on effects (particularly the development in energy prices), as well as the ongoing COVID-19 pandemic, which led to lockdowns being imposed on key trade and economic centres in China as part of the government's zero-COVID policy, an approach pursued up until early December 2022, have created very challenging underlying conditions for the German economy. Even before these factors emerged, it was grappling with disrupted supply chains and rising prices. The German economy nevertheless proved to be exceptionally resilient over the year as a whole and the feared "crash" failed to materialise.

In the **manufacturing sector**, the production volume stagnated until into the fourth quarter of the year (January to October) and showed no growth (after calendar and seasonal adjustments); in the previous year, the production volume in this period was still up by 6 %. Trends varied considerably in the major industries in 2022: The food industry was only able to expand its production slightly, whereas the pharmaceutical industry achieved a significant increase in production of around 5 %, roughly on a par with the previous year. The mainstream

construction industry also recorded a higher increase in its production volume of 2.5 %, while in the same period of the previous year, there had only been an expansion of less than 1 %. After a strong first quarter, however, production volumes weakened considerably in the following quarters, almost stagnating year-on-year, and orders fell sharply. Following a weak increase in the previous year, vehicle construction also achieved an increase of around 3 % in the first ten months of 2022; output in the automotive sector, which actually shrank in the previous year, increased by around 2 %. By contrast, the energy-intensive chemicals industry and the metal industry reported declining production volumes, with production in the chemicals sector falling by as much as almost 10 % after having increased by just shy of 7 % in the same period of the previous year.

After reporting revenue growth of 2.0 % in 2021 as a whole, **wholesale** companies reported real growth on a similar level, at 1.9 %, in the first ten months of 2022, which was only slightly weaker than in the same period of the previous year (2.2 %). By contrast, due in particular to the strong upward pressure on prices as a result of the Ukraine war, the retail sector only grew by just under 0.8 % in real terms in the first ten months of 2022, despite measures to contain the pandemic being initially eased and then largely lifted in the course of the year. Growth, however, which was at the same level as in the same period of the previous year, was less dynamic in the second and third quarters. While food sales reported declining sales of almost 4 % in the first ten months due to the stark increase in prices, **retail** sales of textiles, clothing, footwear and leather goods, which had contracted by around 14 % in the first ten months of 2021, increased by around 35 % as against the same period of 2022, further approaching the sort of sales levels seen before the COVID-19 crisis. Non-bricks-and-mortar retail, which had reaped particular benefits from the containment measures during the pandemic and the restrictions on bricks-and-mortar retail, recorded a drop in real sales of around 8 % in the first ten months of 2022 in a year-on-year comparison. In the same period of 2021, sales in this segment were still up by around 14 %.

Revenue in the **logistics sector** showed marked positive development (in real terms) – with increasing momentum – in the first ten months of 2022, increasing by 9.8 % compared to the same period of 2021, when revenue only increased by almost 5 %. The measured business climate in the German logistics industry had already deteriorated sharply in the course of the first half of 2022 and has fallen into negative territory. While at the end of the year, the business climate had improved slightly compared to the previous quarter, the surveyed business outlook remained at a weak level.

The global **project financing** volume increased significantly in the first nine months of 2022 and was up by 9 % on the volume seen in the prior-year period according to the financial market data provider "Refinitiv". This marks the highest volume for the first nine months witnessed since "Refinitiv" started its records. The trend did, however, vary considerably from region to region: the volume in North and South America showed a particularly strong increase (+52 %), with the project volume in the US doubling compared to the previous year. In Asia, on the other hand, the financing volume only increased by 2 %. The transport sector showed exceptionally strong growth (+115 %), making it the most significant growth driver. Bucking the global trend, project financing volumes in the Europe/Middle East/Africa region declined (–10 %).

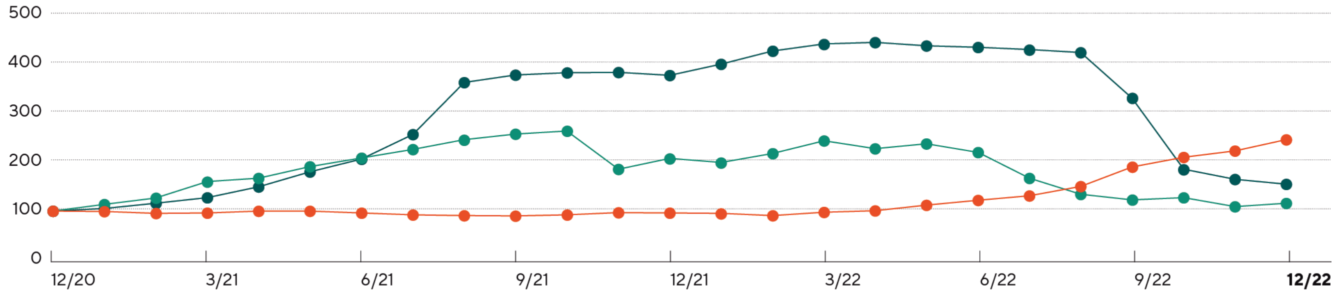
The expansion of **renewable energies** made further progress in both Europe as a whole and Germany at the beginning of 2022. In this context, the considerable slowdown in new wind energy construction (onshore) in Germany observed since 2018 had not yet evolved into any substantial upward momentum in the first nine months of 2022: In terms of installed (gross) capacity, and following a weak start to the year, new construction in the first nine months was 15 % higher than in the same period of 2021, and total installed capacity rose by 1.6 gigawatts (in gross terms) to 57.3 gigawatts. Nevertheless, this rate of expansion is too slow to reliably achieve the (first) interim target of 69 gigawatts set by the amended German Renewable Energies Act (EEG) for 2024. Of the onshore wind turbines in operation at the end of September 2022, 9 % of the installed capacity is now operated outside the EEG subsidy system. The expansion in the solar segment continued dynamically in Europe: In Germany alone, new installations in the photovoltaics segment came to around 5.5 gigawatts in the first ten months of 2022, up by 24 % on the prior-year period and already ahead of the level seen for 2021 as a whole. The need for alternative energy sources following Russia's war of aggression on Ukraine, more ambitious political climate targets and a stronger awareness of climate protection among the population at large are also likely to have a positive effect here in the short and medium term.

Shipping markets

All in all, average earnings on the shipping markets were higher than ever before in the past calendar year. This was due primarily to the consequences of the pandemic and the direct and indirect effects of the Russia-Ukraine war. These factors have made transport logistics more difficult, increasing the need for shipping capacity. For example, sanctions have lengthened the trade routes for many commodities, as EU imports of coal and oil, for example, now have to be sourced from more distant countries. On the other hand, however, the drastic increase in the price of energy put pressure on consumer purchasing power and, as a result, on economic output, which put a damper on demand for commodities and goods. This mixed situation had different consequences for the individual market segments.

Time charter rates

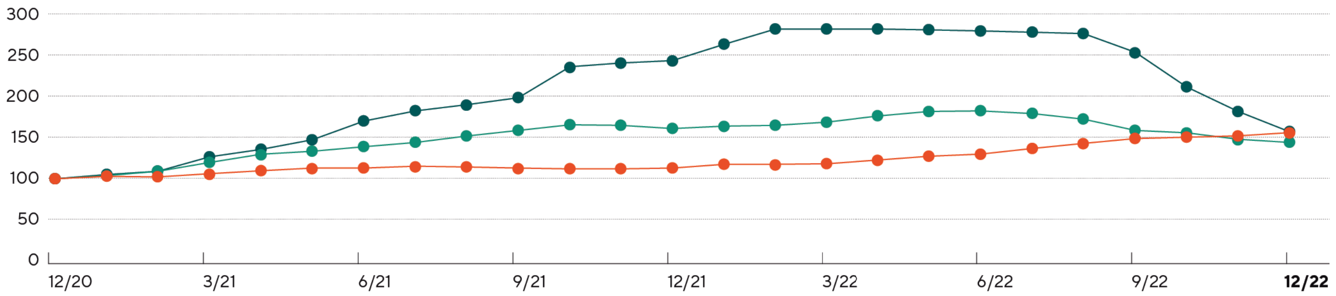
(Indexed market average, 12/2020 = 100)



Container ships Bulk carriers Oil tankers

Secondhand prices

(Indexed market average, 12/2020 = 100)



Container ships Bulk carriers Oil tankers

The boom in the **container vessel** market set new records in 2022, but came to an abrupt end. After charter rates and second-hand prices had risen relentlessly for two years, they fell sharply from September onwards. Whereas it was previously the case that more ships were needed than available due to high transport demand and congested logistics, the pendulum swung due to a massive drop in trade volumes. Especially for the main routes from Asia to Europe and North America, restrained consumption and high inventory levels in destination regions resulted in weaker transport demand. In addition, the situation at the ports, where long queues had previously formed for handling, also eased as utilisation decreased. What is now higher fleet productivity is, at the same time, reducing the demand for ships. Since the shipping lines had stocked up on tonnage for the long term, it proved difficult to put the few ships that were freed up to use of late - and if they were put to use, then this was at significantly lower rates than before. Charter rates fell by more than 60 % from the high points reached, and second-hand prices had fallen by a good 50 % by December. Nevertheless, both remained well above pre-pandemic levels.

At the beginning of the second half of the year, the earnings situation for **bulkers** started to cloud over considerably. Freight rates fell from historically very high levels to long-term averages. Transport demand weakened noticeably, mainly due to the gloomier global economic outlook. High energy prices and the accompanying strong inflation sent steel production, in particular, on a downward trend across the globe. The demand for tonnage, on the other hand, was supported by the fact that the global demand for coal rose in this context, meaning that freed-up transport capacity could be used. However, improved efficiency in the ports and the resulting shorter waiting times ensured that fleet utilisation and, as a result, also the level of freight rates declined overall. The small number of deliveries of new ships, due to a very strong reluctance to place new orders in the past, continued to have a stabilising effect. This slowed fleet growth further despite low scrapping activity.

Oil tankers can look back on a strong 2022. The earnings situation has improved enormously, especially for medium-sized crude oil and product tankers. The dominant issue in the market was the war in Ukraine, which led to ever tougher sanctions being imposed by the EU and the US against Russian oil. It can currently only be sold to more distant markets. At the same time, the distances covered by EU imports also increased, increasing fleet utilisation significantly compared to the previous year. The longer trade routes tie up much more transport capacity, meaning that prices had risen sharply by the turn of the year. At the same time, the restraint in placing new orders was abandoned only very gradually. Moderate fleet growth provided further support to the market. Concerns about the general future of oil as an energy source in the wake of global climate efforts played only a minor role.

BANKING ENVIRONMENT: banking sector facing new challenges

The overall challenging market environment for banks in 2022 had its highlights and lowlights. While the high level of uncertainty regarding the economic implications of the Ukraine war, in particular the increasing inflation momentum and high market volatility, had a negative impact, rising central bank interest rates later in the year had an increasingly positive effect on bank earnings prospects. The highly volatile stock market quotations of banks in 2022 reflected these two poles, with the positive aspects of the rising interest rates outweighing what were gradually somewhat diminishing economic concerns at the end of the year.

Although bank refinancing costs rose at the same time, bank interest income should have already benefited from the new interest rate environment in 2022. At the same time, institutions' risk costs remained within limits despite the gloomy macroeconomic environment. On the one hand, this was because banks were able to draw on their relatively high reserves. In addition, political support measures for companies and households have also helped to keep loan defaults at a comparatively low level so far. The inflation environment, on the other hand, is likely to have a negative impact on bank earnings in the form of rising operating and personnel expenses. The latter are likely to place a particular burden on upcoming modernisation projects for bank IT infrastructures. This will make the road to higher profitability in the long run more of a challenge, especially for German banks.

Looking ahead, the question as to how individual banks will deal with these new 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, in addition to close monitoring with regard to COVID-19 and vulnerability to primary and secondary effects as a result of the war in Ukraine, the ECB once again devoted increased attention to reviewing risk management, with a focus on interest rate change risks. Other core topics addressed by the ECB as part of the SREP process were IT and cybersecurity, not least against the backdrop of the war in Ukraine, as well as sustainability. As far as sustainability is concerned, the focus was on the ECB "Climate Risk Stress Test" and "C&E Thematic Review" initiatives, among others.

Impact of the underlying conditions on the business of Hamburg Commercial Bank

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 2022 financial year.

In the Shipping segment, the Bank continued to benefit from the very positive economic situation in the container vessel and bulker market segments in 2022 as a whole. The good market development in the Shipping segment was reflected, among other things, in the significant increase in the net operating interest margin, a higher after-tax result and further decline in NPE volumes.

Despite the significantly gloomier macroeconomic outlook compared to the end of 2021, the Bank's key risk indicators continued to show positive development in the 2022 financial year. In the reporting year, for example, there were significantly fewer negative rating migrations than assumed in the conservative planning assumptions dating back to the end of 2021. In view of the low level of new defaults and the continued winding-down of risk positions, the NPE volume and the NPE ratio were reduced further during the year. Moderate negative effects resulting from specific loan loss provisions, especially in the Real Estate and Corporates segments, were more than offset by higher net reversals of general loan loss provisions.

On the financial and capital markets, a clear increase in market interest rates, a significant widening of credit spreads, falling prices on the stock markets and the depreciation of the euro against the US dollar were observed in 2022. In the fourth quarter, credit spreads narrowed again somewhat and the stock markets and the euro bounced back slightly. The aforementioned developments, in particular rising interest rates and wider credit spreads, were also reflected in the earnings situation of the HCOB Group according to IFRS. The increased interest rates had a positive effect on net interest income, especially from the fourth quarter onwards. In the result from financial instruments categorised as FVPL, the development in the parameters led to - partly contrary - negative and positive valuation effects, which were, however, moderate overall.

There were also slightly positive effects on IFRS equity (in OCI). This was because the noticeable increase in market interest rates compared to 31 December 2021 led to a significant reduction in the net present value of pension liabilities. The resulting positive effect exceeded the contrary valuation effects on plan assets and financial assets categorised as FVOCI, which were also driven by interest rates and had to be recognised in OCI.

In contrast to the effects according to IFRS, the rising interest rate level put pressure on the Bank's earnings situation in the context of the financial statements of HCOB AG (individual institution) pursuant to the German Commercial Code (HGB). The main reason for this is that under the HGB, the effects from the revaluation of pension provisions and fund assets are not recognised in equity, but rather in the income statement, and pension obligations are discounted at the ten-year average interest rate (instead of the current market interest rate). As a result, the revaluation of the fund assets as well as the valuation of pension provisions had a marked negative impact on the other operating result in the reporting year. In addition, in the HGB financial statements, the increased interest rate level in the context of the application of the strict lower-of-cost-or-market principle meant that write-downs on securities in the liquidity reserve had to be recognised in profit or loss.

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

Business development – significant developments and events in the 2022 reporting year

As explained in more detail in the previous chapter, the 2022 reporting year has been politically and economically dominated, since 24 February, by Russia's devastating war of aggression in Ukraine and its knock-on effects. The war in Ukraine has resulted in much gloomier underlying geopolitical conditions. The situation on the financial markets and economic development in 2022 were characterised by very high inflation rates, a sharp rise in interest rates and commodity prices, energy supply uncertainties and fears of recession/stagflation.

In this challenging and dynamic environment, HCOB's main task in 2022 was to successfully implement its moderate growth course, initiated with the successful completion of its transformation, as an efficient and profitable commercial bank, while at the same time reacting adaptively and proactively to the gloomier market conditions.

Based on the financial ratios at the end of 2022, which were once again very positive, Hamburg Commercial Bank has succeeded in further consolidating its position in the German banking market. The continuation of the increase in operating profitability as well as the further improvement in asset quality are particularly encouraging. In detail, the following developments and events are worth highlighting in the 2022 financial year:

Profitability: 20.8 % RoE after taxes – further increase in net operating interest margin in all market segments
Hamburg Commercial Bank can report a very good Group net result of € 425 million for the 2022 financial year, which corresponds to an RoE after taxes of 20.8 %. One-off effects, also relating to income tax expense, also contributed to the very good net result.

Business development also slightly exceeded expectations in operational terms. Despite slightly lower average total assets, net interest income increased significantly, namely by 19 %, year-on-year, as the net operating interest margin, in particular, increased again in all market segments and the optimisation of asset allocation continued. The steeper yield curve also had a positive impact on net interest income, especially from the fourth quarter onwards.

Risk: further improvement in risk ratios with NPE ratio of 1.2 % – little direct impact of war in Ukraine – risks from second-round effects are being monitored and addressed
Despite the gloomier outlook for the global economy, HCOB once again succeeded in improving its asset quality compared to the end of the previous year, which is reflected primarily in a further reduction in the NPE volume, a decrease in the NPE ratio to 1.2 % and slightly positive total loan loss provisions. Only a small number of new defaults were recorded in the reporting period thanks to the Bank's stringent risk management, as well as the comparatively lower vulnerability of the loan portfolio to the current crises. With the reduction in the NPE ratio, the Bank has also further improved its asset quality positioning in the German and European banking market.

Given that Hamburg Commercial Bank has no significant exposure in Russia or Ukraine, and only has a negligible exposure to the Central and Eastern European countries in the narrower sense of the term (see the explanations and information in the table in the Risk Report in the section entitled "Default risk"), the knock-on effects of the war in Ukraine have only had a limited direct impact on the Bank.

With regard to the indirect impact (and what are known and second-round effects), HCOB identified a limited number of borrowers whose business models could potentially be negatively affected by the impact of the war in Ukraine. The development of these borrowers is being closely monitored using a credit watchlist.

Normalisation of capital resources: the Management Board and Supervisory Board of HCOB AG are proposing to the Annual General Meeting that dividend payments of € 1,500 million be made from the HGB accumulated profit for 2022
In the course of its privatisation and the restructuring of its business model in recent years, HCOB had maintained the necessary capital buffers due to the risk situations prevailing at the time. As already announced in the half-year financial report as at 30 June 2022, HCOB is aiming to normalise these capital buffers once the transformation process has been successfully completed. Initially, the strategic target of a CET1 ratio above 17 %, with simultaneous business growth as assumed in the current corporate plan, applies. The normalisation of these capital buffers is to be achieved by distributing parts of the HGB accumulated profit for the 2022 financial year to the shareholders of HCOB AG in 2023.

In its annual financial statements in accordance with the German Commercial Code (HGB), HCOB AG is reporting net income for the year of € 2,385 million for the 2022 financial year. From the net profit for the year, the Management Board and Supervisory Board of HCOB AG transferred an amount of € 795 million to other retained earnings within the scope of their authority under the Articles of Association, leaving an accumulated HGB profit of € 1,590 million.

The main driver behind the high HGB net income for the year compared to the IFRS net result is the partial reversal of funds for general banking risks. For more detailed information on the earnings situation according to the German Commercial Code (HGB), please refer to the chapter "Comment on the annual financial statements of Hamburg Commercial Bank AG in accordance with the German Commercial Code (HGB)" at the end of this combined management report.

In accordance with the distribution policy adopted in the reporting year, the Management Board and Supervisory Board will propose to the Annual General Meeting scheduled for April 2023 that dividend payments of € 1,500 million (equivalent to € 4.97 per share) be made from the HGB accumulated profit and that the remaining portion be allocated to retained earnings.

Total assets increased as planned – diversification strategy successfully continued

In the 2022 financial year, total assets increased as planned by around 5 % to € 31.8 billion in line with the Bank's moderate growth course. In line with this trend, the exposure at default (EaD) increased by 4 % to € 34.4 billion.

In tandem with growth, the diversification strategy was continued. In addition, short-term liquidity was strengthened with a corresponding increase in the cash reserve. Diversification is reflected in the balance sheet structure itself, but also within the main asset items, loans and advances to customers and financial investments.

In loans and advances to customers, the relative shares attributable to the national Real Estate and Corporates portfolios, as well as the Shipping portfolio, decreased moderately, while the share of the loan book in Corporates International increased. In addition to the active management of conventional client business, "diversifying" products are increasingly contributing to the further development of the loan portfolio. Within loans and advances to customers, these include, in particular, the participations in special loan funds, which were expanded in 2022, as well as investments in contractually linked instruments and what are known as "loan-on-loan" structures, which are each characterised by a high degree of granularity and good to very good asset quality.

The degree of diversification has also increased in the financial investment portfolio. Granular investments in investment-grade securitisation structures (collateralised loan obligations and agency mortgage-backed securities) and, to a lesser extent, investments in special securities funds contributed significantly to this trend.

The Bank is using the aforementioned products within loans and advances to customers and financial investments to increase its exposure to the North American and western European regions and to boost the granularity and sectoral reach of its loan and financial investment portfolio. As at 31 December 2022, the aforementioned products collectively accounted for approximately 9 % of the HCOB Group's total EAD.

Gross new business volume up year-on-year with good level of new business profitability

New business development was satisfactory overall. The gross volume of new business contracted in the 2022 business year amounted to € 5.6 billion, up on the level seen in the previous year (€ 5.4 billion). The positive development in new business profitability was in line with expectations.

In managing its new business, the Bank has proactively responded to changes in the macroeconomic environment and their repercussions on the individual market segments. Key aspects of this adjustment include a reduction in concentration risks in the more cyclical asset classes in favour of further diversification. The biggest adjustments relate to the business volume in the national real estate business. In this area, the Bank has proactively reduced its new business targets in view of the increasing risks, and has weakened the growth momentum in this respect. Nevertheless, gross new business in the Real Estate segment was maintained at the previous year's level. Although demand for shipping transport services remained high in the year under review, loan demand was dampened by the liquidity available in the market, meaning that gross new business in Shipping remained down on the prior year. In the Project Finance segment, loan demand and gross business concluded remained stable at a good level. New business development in the Corporates segment was characterised by the planned increase in gross new business in the high-margin Corporates International segment.

Funding: five benchmark issues with a total volume of € 2.5 billion placed on the capital market

HCOB further strengthened its funding structure in the reporting year, with the scheduled increase in deposits but also funding via the capital market contributing significantly to this development. In the 2022 financial year, five benchmark issues with a total volume of € 2.5 billion were successfully placed on the capital market.

The issues include three mortgage Pfandbriefe, one ship Pfandbrief (the first in benchmark format since privatisation) and one bond in senior non-preferred format. The issues each have a volume of € 500 million and have maturities of two to just over five years.

In connection with the issue of the senior non-preferred bond, investors in an outstanding bond of the same instrument class were offered the opportunity to exchange it for this new bond.

With these five benchmark issues, Hamburg Commercial Bank successfully continued its regular issuing activities even in a difficult capital market environment.

Implementation of strategically important IT projects

The 2022 financial year was also characterised by very intense project activities for HCOB. IT-related projects remained a focus. The milestones achieved in the reporting year include:

- April 2022: Go-live of SAP S4/HANA Banking for Complex Loans (the Bank's central lending system),
- May 2022: Go-live of SEPA payments on the payment transaction system of the new payment transaction provider, Broadridge,
- July 2022: Switch of the general ledger to the new SAP S/4 HANA Finance platform,
- September 2022: Go-live of nCino (cloud-based software for front-to-end process support in the lending business).

In addition to cost advantages, the Bank expects the launches to lead to enhanced (process) efficiency and improved data management, which will strengthen its competitive position, also with regard to digital, timely and efficient interaction with clients. HCOB also expects the payment transaction system changeover to improve its ability to implement its strategic growth targets in the area of payment services. HCOB's ambition is to establish itself, for the long term, as one of the leading institutions in terms of cost efficiency, as measured by corresponding rankings for German and European banks.

Earnings, net assets and financial position

Group key management indicators	Actual figures 2021	Forecast for 2022 (according to 2021 Forecast report)	Actual figures 2022
RoE after taxes (%)[1]	18.4	~11	20.8
CIR (%)	50	46	44
NPE ratio (%)	1.4	1.8	1.2
CET1 ratio (%)	28.9[2]	>20	20.5[3]
LCR (%)	164	>140	197

[1] The RoE after taxes shown is based on standardised regulatory capital backing (average RWA and CET1 ratio of 13 %).
[2] Profits were not included on a voluntary basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.
[3] The proposed dividend payment of € 1.5 billion in 2023 was taken into account with the effect of reducing Common Equity Tier 1 capital; the dividend payment is subject to the approval of the Annual General Meeting.

Group performance significantly ahead of expectations overall

The following aspects, in particular, contributed to development in the Bank's financial ratios that was well ahead of expectations overall in the 2022 financial year:

- The Group net result (net income after taxes) amounted to a very good € 425 million, more than 20 % higher than what was already a good level in the previous year (€ 351 million) despite the challenging external underlying conditions. Based on standardised regulatory capital backing, the return on equity after taxes (**RoE after taxes**) came to 20.8 % (31 December 2021: 18.4 %). This means that the Bank has exceeded its forecast for the after-tax result and RoE after taxes published in the combined management report for the 2021 financial year by a very wide margin. The decisive factors in the Bank's ability to exceed its plan were the profitability improvements in net interest income, one-off effects from taxes and in the other operating result, as well as the positive development in loan loss provisions. The Bank had already considerably raised its expectations for income after taxes to approximately € 350 million by the mid-point of 2022. Given the ongoing positive business development in the second half of the year, with increasing tailwind from the rising interest rate environment, this outlook was also exceeded at the end of 2022. The following significant developments occurred compared to 2021 as a whole: In view of total income that outstripped expectations (€ 673 million, previous year: € 642 million), the encouraging development in net interest income, which was higher than planned, is particularly noteworthy. In line with a further increase in the net operating interest margin, this figure was up by around 19 % on the previous year's level (€ 526 million) at € 627 million. After significant reversals of impairment losses in the last quarter of the reporting year, accompanied by the recovery from what had, to date, been a difficult environment on the capital markets, HCOB reported a moderately positive FVPL result for 2022 as a whole (€ 9 million, previous year: € 37 million). At € 3 million, the result from the disposal of financial assets classified as AC was, as planned, considerably lower than in the previous year, when it still totalled € 37 million, supported by earnings contributions from early repayments and sales of receivables. As in the previous year (€ 32 million), loan loss provisions made a positive contribution of € 11 million to the Group net result. This was helped along by the fact that there were only a small number of new defaults. The moderate net additions to Stage 3 overall, mainly attributable to the Real Estate and Corporates segments, were more than offset by net reversals at Stages 1 and 2 (incl. model overlays), which correlate with improved portfolio quality. Thanks to stringent cost management, expenses (administrative expenses, regulatory expenses and restructuring/transformation expenses) remained stable as against the prior-year period at € 396 million in total (previous year: € 389 million), with additional expenses for projects and investments and despite the general inflationary pressure. At € 75 million, the other operating result was significantly more positive than in the previous year (€ 14 million) thanks to the reversal of provisions and the absence of negative one-off effects. At € 363 million, net income before taxes was around 21 % above the previous year's level (€ 299 million). The increase in net income before taxes is mainly due to a significant increase in sustainable income, especially the 19% increase in net interest income, while the other significant income items (FVPL result, result from the disposal of financial assets classified as AC and other operating result) were almost at the same level as in the previous year. Due to positive one-off effects from taxes for previous years and income from deferred taxes, income tax expense also made a marked positive contribution of € 62 million (previous year: € 52 million) to the Group net result. In the previous year's earnings forecast, a moderate tax expense was assumed. For information on the individual other drivers behind the development of the income statement items, we refer to the explanatory information in the next section of this chapter, "Earnings situation".
- The above-target development in the earnings base (including other operating income), combined with the stable cost base, ensured that the **cost-income ratio (CIR)**, as a measure of cost efficiency, was reduced further. At 44 % as at 31 December 2022, it was 6 percentage points below the 2021 level and also slightly below the previous year's forecast of 46 %.
- Asset quality developed more positively in the 2022 financial year than assumed in the 2021 year-end forecast. This was due to an overall improvement in portfolio quality as well as the low level of new defaults. Despite the challenging macroeconomic environment, the **NPE ratio** was further reduced from 1.4 % at the end of the previous year to a good 1.2 %. This value is consistent with the expectations that had been raised at the half-year point, while the previous year's forecast had still assumed an increase to 1.8 %. The NPE volume decreased by around 13 % year-on-year to € 405 million, with EaD slightly up by 4 % to € 34.4 billion. The reduction in the NPE volume was due primarily to net reductions in NPEs in the Shipping segment. The development set out above underlines the resilience of Hamburg Commercial Bank's loan portfolio.
- The **CET1 ratio** has fallen from the exceptionally high level seen on 31 December 2021 (28.9 %), as announced in the half-year financial report as at 30 June 2022. This can be traced back to the implementation of the Bank's distribution policy, as adopted in 2022, which provides for a normalisation of the capital buffers required until the successful completion of the transformation process now that this process is complete. Against this backdrop, the CET1 ratio remained at the high level of 20.5 % as at 31 December 2022. This value is in line with the Bank's CET1 capital forecast of >17 %, which was updated in the half-year financial report to reflect the previously adopted distribution policy. In detail, the following drivers were decisive for the development in the CET1 ratio: Aggregate RWA increased by € 1.4 billion year-on-year from € 14.0 billion to € 15.4 billion. The increase is based almost exclusively on higher risk-weighted assets for credit risks (increase from € 10.6 billion to € 13.6 billion). As expected, this increase resulted in particular from the change in the rating model landscape, a move that was completed in the reporting period (changeover from IRB-A to the Credit Risk Standardised Approach and IRB-F). To a lesser extent, the depreciation of the euro against the US dollar also led to an increase in RWA for credit risks. The other components of aggregate RWA (market risks, operational risks and other RWA) have not changed significantly in total. CET1 capital decreased significantly from € 4.1 billion to € 3.2 billion, mainly due to the proposed dividend payment and its inclusion in CET1 capital in advance.
- The liquidity position was strengthened in the reporting year in view of the highly uncertain market environment. This is expressed, among other things, by the liquidity ratio **LCR**. As at 31 December 2022, the LCR stood at 197 %, which was considerably higher than the level at the end of the previous year (164 %) and exceeded the Bank's forecast. At the value reported, the LCR remained very clearly 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)	2022	2021	Change in %
Interest income from financial assets categorised as AC and FVOCI	761	586	30
Interest income from other financial instruments	324	303	7
Negative interest on investments categorised as AC and FVOCI	-13	-16	-19
Negative interest on other cash investments and derivatives	-32	-79	-59
Interest expenses	-456	-365	25
Positive interest on borrowings and derivatives	43	97	-56
Net interest income	**627**	**526**	**19**
Net commission income	33	38	-13
Result from hedging	2	1	100
Result from financial instruments categorised as FVPL	9	37	-76
Net income from financial investments	-1	3	>-100
Result from the disposal of financial assets classified as AC	3	37	-92
Total income	**673**	**642**	**5**
Loan loss provisions	11	32	66
Total income after loan loss provisions	**684**	**674**	**1**
Administrative expenses	-332	-328	1
Other operating result	75	14	>100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-30	-32	-6
Net income before restructuring and transformation	**397**	**328**	**21**
Result from restructuring and transformation	-34	-29	-17
Net income before taxes	**363**	**299**	**21**
Income tax expense	62	52	-19
Group net result	**425**	**351**	**21**
Group net result attributable to Hamburg Commercial Bank shareholders	425	351	21

Net interest income up by 19 % year-on-year as a driver of total income
Hamburg Commercial Bank generated total income of € 673 million in the year under review (previous year: € 642 million), well ahead of its annual target for total income. This item was dominated by net interest income, which, at € 627 million, was 19 % higher than in the previous year despite slightly lower average total assets. Net commission income once again made a solid contribution to total income. The FVPL result, which was still negative at the end of the first half of the year, was moderately positive in the fourth quarter after impairment losses were reversed. In line with the Bank's forecasts, the contributions to the total income made by the disposal of financial assets classified as AC were lower than in the previous year. Developments in the individual items making up total income and their causes are presented below:

As a result of the interest rate turnaround initiated by the central banks, **net interest income** was characterised by rising interest income on the assets side and rising funding costs across the board. Hamburg Commercial Bank increased its net interest income considerably in the 2022 financial year to € 627 million, i.e. by € 101 million compared to the previous year (corresponds to around 19 %). The increase is attributable to operating net interest income, i.e. the sustainable net interest income adjusted to reflect certain one-off effects. This was achieved with slightly lower average total assets than in the previous year, as the net operating interest margin was increased again in all lending units. Margin development in the Corporates and Shipping segments was particularly encouraging. In addition, the ongoing optimisation of asset allocation, in the context of which the proportion of the high-margin international corporates business in relation to the loan book increased further, also had a positive effect.

Refinancing via the ECB's TLTRO programmes, the conditions of which were adjusted by way of an ECB decision effective from the end of November 2022, had an impact on net interest income of € -1 million in the reporting year (previous year: € 14 million).

Net commission income amounted to € 33 million (previous year: € 38 million). The slight decrease is due to the drop in net commission income in the lending business, as well as the fees paid to portfolio managers of the fully consolidated special loan funds, which are recognised in commission expenses.

The **result from financial instruments categorised as FVPL amounted to** € 9 million in a challenging and very volatile environment on the capital markets (previous year: € 37 million). The market environment was characterised, in particular, by an increase in interest rates (both in the US dollar and in the euro area), significantly widening credit spreads and a depreciating euro against the US dollar. The development of the aforementioned valuation parameters, the momentum of which slowed in the fourth quarter, led to positive and negative valuation effects in relation to the Bank's assets subject to the FVPL result, with the positive effects dominating in terms of the impact on total comprehensive income.

The interest rate-related positive valuation effects from the reduction of fair value adjustments on client derivatives more than compensated for the valuation losses incurred on FVPL assets, which were moderate due to successful portfolio management. FX effects also had an impact on the FVPL result, although these burdens were more than offset by offsetting effects in net interest income.

The **result from the disposal of financial assets classified as AC** came to € 3 million, much lower than in the previous year (€ 37 million) as was to be expected. The earnings position includes prepayment penalties for early principal repayments. Sales of receivables in the reporting year did not have any effect on earnings.

Loan loss provisions: net reversals at Stages 1 and 2 due to portfolio improvements more than compensate for moderate net additions at Stage 3
Loan loss provisions (income statement) were moderately positive in the reporting year at € 11 million. In the previous year, they contributed € 32 million to the Group net result, supported by recoveries on loans and advances previously written off in the amount of € 26 million.

The development in this item in the 2022 financial year shows that the increasingly weaker economic outlook - as a result of the war in Ukraine and a pandemic that is still not yet fully overcome - only led to loan defaults/negative rating migrations in the Bank's loan book to a very moderate extent. On the other hand, due to the further increase in portfolio quality and in line with a conservative loan loss provisions policy, the Bank had to partially reverse the model overlays that it had recognised.

The result is mainly due to the changes in loan loss provisions on loans and advances to customers/provisions in the lending business totalling € 17 million. The other components of the earnings item amounted to a total of € -6 million.

The change in loan loss provisions of € 17 million resulted from net additions to Stage 3 totalling € 38 million, which were offset by higher net reversals of € 55 million at Stages 1 and 2.

The net additions at Stage 3 were mainly attributable to the Corporates and Real Estate segments. In the latter case, the addition is attributable to a small number of real estate financing transactions in the shopping centre/retail segment.

The drivers for the net reversals at Stages 1 and 2 were improvements in portfolio quality in the Shipping and Real Estate segments, as well as the overall reduction in model overlays. In the Shipping segment, the recovery of charter rates in 2021 and 2022 led to an improvement in ratings. In Real Estate, a reassessment of risk parameters for larger clients led to significant reversals. In addition, a large part of the decrease in loan loss provisions at Stages 1 and 2 was due to reduced model overlays. While overlays were lower for individual assessments of COVID-19-related cases, the hotel sub-portfolio and effects resulting from macroeconomic forecasts, additional overlays were necessary for individual cases related to the Ukraine war and the retail and tanker sub-portfolios. In addition, the overlays that were set up to reflect an adjustment of the Bank's internal credit risk models were reversed once the implementation process was complete.

For further details, particularly on the composition and development of the model overlays, we refer to Note 3 in the notes to the Group financial statements.

Administrative expenses stable, efficiency measures successfully counteracting investments and inflationary pressure
Administrative expenses were stable year-on-year, up by 1 % to € 332 million (previous year: € 328 million). In this context, the Bank's efficiency measures established in the past successfully counteracted the ongoing substantial investments in IT infrastructure/HR, as well as general inflationary pressures.

Personnel expenses, which increased to € 154 million (previous year: € 141 million), reflect, among other things, salary adjustments, new hires in the course of the moderate growth course (also at foreign locations) and the inflation compensation bonus that the Bank paid out to all employees. Information on the development of the number of employees in the Group, as well as other key employee figures can be found in the chapter "Employees of Hamburg Commercial Bank".

The increase in personnel expenses was partially offset in administrative expenses by the decline in operating expenses. Operating expenses (including depreciation of property, plant and equipment and amortisation of intangible assets) amounted to € 178 million in 2022 as against € 187 million in the previous year. The costs of ongoing operations ("run the bank" costs) decreased further from € 134 million to € 125 million, due in particular to lower IT provider costs, which account for about one-third of these costs. The decline demonstrates that the investments made in the transformation of IT systems during the transformation process are increasingly paying off in the form of sustainable cost reductions. The forward-looking "change the bank costs" were on a par with the previous year at € 53 million. They were once again mainly attributable to Hamburg Commercial Bank's IT projects, including the changeover in the payment transaction system.

Other operating result made a marked positive contribution to the Group net result, also due to one-off effects
The other operating result of € 75 million (previous year: € 14 million) made a significantly higher positive contribution to the Group net result than in the previous year, as expected. As in the previous year, the earnings item was supported in particular by income from the reversal of provisions (€ 46 million, of which € 15 million were for litigation risks). The earnings item also includes further one-off effects in the form of net interest income from expected tax refunds (€ 29 million) and income from earn-out agreements in connection with subsidiaries sold in previous financial years (€ 16 million). In contrast to the previous year, there were no significant negative one-off effects. In the prior-year period, such effects arose in the context of deconsolidation losses (€ -16 million) and residual value-related value adjustments on a legacy leasing receivable (€ -13 million).

Further details on the composition of the other operating result can be found in Note 17 of the notes to the Group financial statements.

Regulatory expenses on a par with prior year
Expenses for regulatory affairs, Deposit Protection Fund and banking associations amounted to € 30 million, almost exactly the same level as in the previous year (€ 32 million). The main component of this item remains the bank levy at € 19 million (previous year: € 25 million). The decline in expenses for the bank levy is offset by higher expenses for the Deposit Protection Fund.

Result from restructuring and transformation dominated by expenses for project activities
As planned, the result from restructuring and transformation once again had a negative impact on earnings in the 2022 financial year amounting to € -34 million (previous year: € -29 million). The result from restructuring in the amount of € 24 million (previous year: € 0 million) includes reversals of restructuring provisions. Expenses from transformation of € 58 million (previous year: € 29 million) mainly related to project activities in the context of the switch to the new payment transaction system and the IT transformation process.

Income taxes made a marked positive contribution to the Group net result due to one-off effects for previous years and income from deferred taxes
Given the above-mentioned developments in the individual line items, net income before taxes amounted to € 363 million in the reporting year (previous year: € 299 million), outstripping the expectations according to the previous year's forecast.

Income taxes again made a clearly positive contribution to the Group net result in the reporting year at € 62 million (previous year: € 52 million). They include expenses from current taxes (€ 28 million), which were clearly offset by income from deferred taxes (€ 90 million).

Current taxes benefited from relief of € 66 million due to income for past assessment periods. This was due to the results of tax audits for the assessment periods from 2012 to 2015 (inclusive). The related interest income is reported in the Bank's other operating result.

Deferred tax income resulted from the change in deferred taxes on temporary differences (€ 127 million). By contrast, there was an expense from the change in deferred taxes on loss carryforwards in the amount of € 37 million, due to the utilisation of loss carryforwards.

Group net result clearly higher than expected
After income tax expense, Hamburg Commercial Bank reported a Group net result of € 425 million for the 2022 financial year (previous year: € 351 million). The earnings trend was characterised first of all by the continued positive trend in net operating interest income, increasingly helped along by rising interest rates. On the other hand, moderate development in loan loss provisions and, in particular, special effects in income tax expense led to Hamburg Commercial Bank clearly exceeding both its original earnings forecast for the year as a whole (> € 250 million) and the outlook as raised at the half-year point (around € 350 million).

Compared to the previous year, the increase in the Group net result by € 74 million results from the increase in the earnings base (total income plus other operating result) by a total of € 92 million. Lower income from disposals and the FVPL result was more than offset by higher net interest income, which now accounts for an increasing proportion of total income, and the other operating result. Overall, costs remained stable compared to 2021 (increase of € 7 million). Both loan loss provisions and income tax expense again had a positive impact on the Group net result, although the total amount was € 11 million lower in 2022.

Net assets and financial position

Material items on the statement of financial position

(€ m)	2022	2021	Change in %
Assets			
Cash reserve	4,974	3,261	53
Loans and advances to banks	777	1,236	-37
Loans and advances to customers	19,592	20,198	-3
Loan loss provisions	-414	-446	-7
Trading assets	441	689	-36
Financial investments	5,490	4,524	21
Non-current assets held for sale and disposal groups	-	10	-100
Deferred tax assets	697	616	13
Remaining assets	261	222[1)]	18
Total assets	**31,818**	**30,310**	**5**
Liabilities			
Liabilities to banks	4,606	5,504	-16
Liabilities to customers	13,243	11,141	19
Securitised liabilities	7,065	6,704	5
Trading liabilities	335	289	16
Provisions	361	493[1)]	-27
Subordinated capital	930	921	1
Equity	5,165	4,717	9
Remaining liabilities	113	541	-79
Total liabilities	**31,818**	**30,310**	**5**

[1)] The previous year's amount was adjusted; for more details please refer to Note 2 to the Group financial statements.

Moderate growth in total assets as planned
The consolidated statement of financial position grew moderately in the 2022 financial year as planned. Consolidated total assets amounted to € 31,818 million at the year-end, around 5 % higher than the level at 31 December 2021 (€ 30,310 million). On the assets side, the increase is attributable to the cash reserve and to financial investments. On the liabilities side, the increase is mainly due to higher liabilities to customers compared to the previous year. In detail, the developments were as follows:

The liquidity positions were strengthened in the reporting year in view of a market environment marred by high levels of uncertainty and volatility. Against this backdrop, and also in view of the dividend payment proposed for 2023, the cash reserve as at the reporting date of 31 December 2022 increased noticeably compared to the reporting date of the previous year and amounted to € 4,974 million (31 December 2021: € 3,261 million).

Loans and advances to banks, on the other hand, declined compared to the end of the previous year, also in the context of lower cash collateral. As at 31 December 2022, these amounted to € 777 million (31 December 2021: € 1,236 million).

The loan book, reflected by the item in the statement of financial position loans and advances to customers, was down slightly as against 31 December 2021. As at the reporting date, the carrying amount of loans and advances to customers was € 19,592 million (31 December 2021: € 20,198 million). In terms of portfolio composition, the Bank's diversification strategy is increasingly making its mark. As planned, the share of loans in the high-margin Corporates International segment increased further, while the relative shares attributable to the national Real Estate and Corporates business, as well as Shipping, decreased moderately.

Total loan loss provisions (for items in the statement of financial position) were down as at 31 December 2022, largely due to utilisation, and amounted to € -414 million (31 December 2021: € -446 million). Within the loan loss provision stages, there was a reduction in loan loss provisions at Stages 1 and 2 and an increase at Stage 3. In conjunction with the slight reduction in the NPE volume, the risk shielding of the NPE portfolio, expressed by the NPE Coverage Ratio AC, increased to a very comfortable 68.9 % (31 December 2021: 55.8 %).

Trading assets were down on the end of the prior-year reporting period, falling by 36 % to € 441 million (31 December 2021: € 689 million). The decrease relates, in particular, to the carrying amount of positive fair values from derivative financial instruments. The market values from interest-related and currency-related transactions developed in opposite directions. The fair values of interest-related transactions decreased. This is because the netting volume on the assets side increased significantly compared to 31 December 2021. Conversely, but to a lesser extent, the positive market values from currency-related transactions increased, predominantly due to the appreciation of the USD against the euro.

Financial investments increased significantly by 21 %. As at 31 December 2022, their carrying amount came to € 5,490 million, compared to € 4,524 million as at the previous year's reporting date. The increase is mainly due to the implementation of the diversification strategy. Please also refer to the comments in the section entitled "Total assets increased as planned – diversification strategy successfully continued" in the chapter on "Business development".

The decrease in the carrying amount of non-current assets held for sale and disposal groups (€ 0 million, 31 December 2021: € 10 million) results from the sale of a customer receivable in the Project Finance segment, which was completed in the first quarter of 2022.

Due to the decrease in deferred tax liabilities combined with an increase in deferred tax assets (both before netting), deferred tax assets increased moderately to € 697 million (31 December 2021: € 616 million).

Within remaining assets (€ 261 million, previous year: € 222 million), current tax assets and, in particular, the balance sheet item other assets increased. The latter is due to the net asset position within plan assets. On the other hand, within remaining assets, there was a marked decline in the positive adjustment item from the portfolio fair value hedge, which showed a negative balance as at the end of 2022.

Liabilities to banks fell by 16 % to € 4,606 million (31 December 2021: € 5,504 million). Borrowings from the ECB under the TLTRO III programmes are also reported within this item, with drawdowns still amounting to € 1.55 billion on reporting date (31 December 2021: € 1.75 billion, nominal amount in each case).

In line with the Bank's funding strategy, which aims to increase the share of organic funding, liabilities to customers account for an increasing share of refinancing. These were up considerably by 19 % year-on-year from € 11,141 million to € 13,243 million. The increase is mainly due to the scheduled increase in deposits from € 7.7 billion to € 9.2 billion.

The development in securitised liabilities was characterised by the new Pfandbrief issues in the financial year under review. The carrying amount of the item increased moderately by 5 % from € 6,704 million to € 7,065 million, due in particular to a higher portfolio of ship Pfandbriefe.

Trading liabilities amounted to € 335 million (31 December 2021: € 289 million). The increase is due primarily to the increase in negative market values of interest-related derivative financial instruments.

Provisions came to € 361 million on the reporting date (31 December 2021: € 493 million). The decrease in this item in the statement of financial position affected all major categories. The trend was most pronounced in provisions for pensions (due to interest rates) and provisions for restructuring. However, provisions in the lending business, for litigation risks and costs, as well as other provisions, also decreased compared to the previous year.

The carrying amount of the subordinated capital increased slightly due to the appreciation of the US dollar and amounted to € 930 million as at 31 December 2022 (31 December 2021: € 921 million).

The Bank's reported equity increased by around 9 % as against the end of the previous year and amounted to € 5,165 million (31 December 2021: € 4,717 million). The increase is mainly based on the very good Group net result for the 2022 financial year. Other comprehensive income contributed to the increase in equity to a minor extent, with offsetting valuation effects for pension liabilities and financial instruments categorised as FVOCI characterised by the rising interest rates. The dividend payment of € 1.5 billion proposed for 2023 was already taken into account in advance in the CET1 capital and, as a result, when determining the CET1 ratio at the end of 2022. In contrast, the effects can only be recognised in the balance sheet at the time the dividend liability arises in legally effective terms, which requires a corresponding resolution by the Annual General Meeting in 2023.

Remaining liabilities decreased significantly compared to 31 December 2021, dropping from € 541 million to € 113 million. The main reason for this was that – in line with the development on the assets side – the negative market values of hedging derivatives (interest rate derivatives on the liabilities side) and, in particular, the negative adjustment item from the portfolio fair value hedge decreased considerably. The adjustment item had a positive balance as at 31 December 2022.

Business volume

While total assets grew moderately as shown above, off-balance sheet business decreased by 9 % compared to the previous year. This is due to the decrease in irrevocable loan commitments by € 506 million to € 3,294 million (31 December 2021: € 3,800 million). This is due in particular to the reduction in loan commitments to real estate and shipping clients. On the other hand, sureties and guarantees increased, albeit only slightly, by € 79 million to € 831 million (31 December 2021: € 752 million). On this basis, the business volume (total assets plus off-balance sheet business) increased at a slower rate than total assets and amounted to € 35,943 million as at 31 December 2022 (31 December 2021: € 34,862 million).

Structure of liabilities by financial instruments

(€ m)	2022		2021	
	Total	of which >1 year	Total	of which >1 year
Secured: Pfandbriefe and asset-based funding	**7,383**	**5,753**	**7,398**	**5,010**
Covered bonds (Pfandbriefe)	4,705	3,141	4,144	2,510
Other secured funding	2,678	2,612	3,254	2,500
Unsecured liabilities (senior preferred)	**15,040**	**4,252**	**13,152**	**5,352**
Unsecured liabilities (senior non-preferred)	**2,491**	**2,011**	**2,799**	**2,436**
Profit participation certificates and other subordinated liabilities	**930**	**930**	**920**	**920**
Total	**25,844**	**12,946**	**24,269**	**13,718**

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 (Pfandbriefe, 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 € 7,383 million as at 31 December 2022 (31 December 2021: € 7,398 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 € 17,531 million as at the reporting date (31 December 2021: € 15,951 million). Call and time deposits are shown together with structured unsecured financial instruments in the "Senior Preferred" category and amounted to € 15,040 million in total (31 December 2021: € 13,152 million). The "Senior Non-Preferred" category mainly consists of bearer and registered bonds that do not have any structured elements and amounts to € 2,491 million as at 31 December 2022 (31 December 2021: € 2,799 million).

Profit participation certificates and other subordinated liabilities (€ 930 million, 31 December 2021: € 920 million) represent subordinated capital.

Capital and funding

RWA, regulatory capital and capital ratios

	31.12.2022[1]	31.12.2021[2]
Risk-weighted assets (RWA) (€ bn)	15.4	14.0
Regulatory capital (€ bn)	4.1	5.0
thereof: CET1 capital (€ bn)	3.2	4.1
Overall capital ratio (%)	26.8	35.7
Tier 1 capital ratio (%)	20.5	28.9
CET1 capital ratio (%)	20.5	28.9
Leverage ratio (%)	9.8	12.7

[1] The proposed dividend payment of € 1.5 billion in 2023 was taken into account with the effect of reducing Common Equity Tier 1 capital; the dividend payment is subject to the approval of the Annual General Meeting.
[2] Profits were not included on a voluntary basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.

Normalised capital ratios remain at a good level
As expected, the CET1 ratio of 20.5 % is down compared to 31 December 2021 (28.9 %). The decrease is mainly due to the inclusion of the proposed dividend payment of € 1.5 billion for 2023 in the Bank's Common Equity Tier 1 capital. The Common Equity Tier 1 capital amounted to € 3.2 billion as at 31 December 2022 (31 December 2021: € 4.1 billion). Due to the implementation of the simplified model landscape, moving from the Advanced IRB to the Foundation IRB and the Credit Risk Standardised Approach, which had been fully completed by the end of the first quarter of 2022, the RWA for credit risks also increased. The Tier 1 capital ratio and the overall capital ratio developed in line with the Common Equity Tier 1 ratio compared with 31 December 2021.

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

The leverage ratio dropped to 9.8 % compared to 31 December 2021 (12.7 %) due to the lower Tier 1 capital. This means, however, that 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 very robust capital position.

Distribution policy
In 2023, the Bank intends to start making dividend payments by paying out a dividend of € 1.5 million in total for the 2022 financial year on the basis of the dividend policy adopted by the Management Board and the Supervisory Board, as explained below.

The Bank maintained necessary capital buffers in the course of its privatisation and the transformation of its business model in recent years to reflect the risk situations at the time, and has proven itself in a difficult global economic environment. Going forward, the Bank aims to normalise its capital buffers, initially to a target of at least 17 % CET1, while achieving business growth at the same time, as assumed in the current business plan.

Following the successful transformation process, Hamburg Commercial Bank has a sustainably profitable business model and is pursuing a strategy of positive business growth that generates shareholder value added (SVA) through sustainable value creation going forward. In its corporate planning, the Bank takes into account specific and measurable financial and non-financial objectives, always aiming to improve profitability as well as to maintain capital buffers so that the business model allows the company to continue as a going concern even under adverse circumstances and creates sustainable value for the Bank's shareholders. All future distributions to the shareholders of Hamburg Commercial Bank should be sustainable and consistent with the preservation of the company's financial strength and capital resources (ICAAP).

The resolutions adopted by the shareholders at the Annual General Meeting and, in preparation for this, resolutions adopted by the Management Board and Supervisory Board regarding the implementation of this dividend policy, must always comply with the applicable statutory provisions. The Management Board and the Supervisory Board are proposing to the Annual General Meeting, within the scope of their responsibilities, the distribution of parts of the HGB accumulated profit of € 1.5 billion as a dividend payment in 2023, which they deem to be appropriate.

The distribution of dividends is a discretionary decision. As a result, the Management Board and the Supervisory Board are free to propose deviations from the dividend policy described above. Given what is currently a very high level of capital and a strong, capital-generating business model, the Management Board will review the dividend policy annually.

Refinancing strengthened significantly with further benchmark issues
The refinancing situation in the reporting year was characterised by very volatile and difficult capital markets. The burden of COVID-19 and the geopolitical crisis situation led to sharply rising inflation, a significant increase in interest rates and rising credit spreads. As the Bank issued mainly Pfandbriefe, which are popular with investors even in this market environment, the deterioration of the capital market environment has had only a minor impact on the Bank's refinancing.

After the first mortgage Pfandbrief in benchmark format was issued back in January, the Bank issued two more mortgage Pfandbriefe with a volume of € 500 million each and a ship Pfandbrief with the same volume during the reporting year. The Bank also successfully placed a senior benchmark bond in the market. The bonds will strengthen the Bank's funding base in the long run and serve to refinance its core business areas. For further details on these issues, please refer to the comments in the chapter entitled "Business development – significant developments and events in the 2022 reporting year".

Fundraising was in line with the Bank's budgeted figures. In total, the Bank raised around € 4.2 billion in long-term funds in the 2022 financial year. The Bank aims to establish itself as a regular issuer on the capital market and is planning further unsecured benchmark issues, as well as mortgage and ship Pfandbrief issues, for the coming years.

In addition, the Bank continues to make use of the long-term funds of the European Central Bank (TLTRO), the amount of which was reduced from € 1.75 billion to € 1.55 billion in the reporting period.

In addition to long-term refinancing, client deposits also contributed to the implementation of the funding strategy. In line with the balance sheet development, deposits were expanded further.

Key liquidity ratios

	31.12.2022[1]	31.12.2021
Total deposits (€ bn)	9.2	7.7
LCR (%)	197	164
NSFR (%)	113	114

[1] NSFR (%): The proposed dividend payment of € 1.5 billion in 2023 was taken into account with the effect of reducing Common Equity Tier 1 capital; the dividend payment is subject to the approval of the Annual General Meeting.

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

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

Moody's ratings

	since 17.02.2023	31.12.2022
Issuer rating (long-term)	A3, stable	Baa1, positive
Current liabilities	P-2	P-2
Stand-alone rating (financial strength)	baa3	ba1
Deposit rating	A3	Baa1
"Preferred" Senior Unsecured Debt	A3	Baa1
"Non-Preferred" Senior Unsecured Debt	Baa2	Baa2
Mortgage Pfandbrief	Aaa	Aa1
Ship Pfandbrief	Aa3	A1

The rating development, which is in line with the Bank's expectations overall, reflects the continuous improvement in financial ratios and Hamburg Commercial Bank's track record as a privatised bank, which now spans a period of several years. For example, Moody's upgraded HCOB's issuer and stand-alone ratings, as well as key instrument ratings, on 17 February 2023: the Bank's issuer, senior preferred and deposit ratings were upgraded from Baa1 to A3 with a stable outlook, while the stand-alone rating improved from ba1 to baa3. The table above provides an overview of Hamburg Commercial Bank AG's ratings awarded by Moody's following the aforementioned rating action on 17 February 2023 and as at 31 December 2022.

The positive rating action from February 2023 follows an upgrade in July 2021 to Baa1/ba1 and represents a further improvement on HCOB's Baa2/ba2 rating at the time of its privatisation in November 2018. The rating agency considers HCOB to be well positioned due to its solid capital position, improved portfolio quality and significantly strengthened sustainable profitability. In addition, the Bank focused its rating strategy and decided to focus on one agency and cancel its S&P rating, given the size of the Bank. On 8 December, S&P confirmed the Bank's BBB rating and then withdrew it.

Information on the sustainability ratings for Hamburg Commercial Bank AG is included in the summarised separate non-financial report (CSR Report) and is available on the Bank's homepage.

Segment results

Segment overview

(€ m)		Real Estate	Shipping	Project Finance	Corpo-rates	Lending Units	Treasury & Group Functions	Reconcili-ation	Group
Total income	**2022**	**175**	**177**	**70**	**125**	**547**	**80**	**46**	**673**
	2021	203	142	74	106	525	136	-19	642
Loan loss provisions (expected loss)	**2022**	**-10**	**-6**	**-6**	**-19**	**-41**	**-**	**52**	**11**[1)]
	2021	-13	-12	-5	-23	-53	-2	87	32[1)]
Administrative expenses & regulatory costs	**2022**	**-80**	**-83**	**-35**	**-58**	**-256**	**-106**	**-**	**-362**
	2021	-93	-59	-38	-57	-247	-113	-	-360
Net income after taxes	**2022**	**74**	**77**	**25**	**42**	**218**	**79**	**128**	**425**
	2021	85	62	27	23	197	5	149	351
RoE after taxes (%)	**2022**	**11.4**	**19.4**	**8.3**	**8.4**	**11.8**	**41.7**		**20.8**
	2021	15.4	18.3	8.5	4.9	11.9	2.3		18.4
Segment assets (€ bn)	**31.12.2022**	**8.1**	**3.5**	**3.4**	**4.6**	**19.6**	**12.2**	**-**	**31.8**
	31.12.2021	8.0	3.7	3.9	3.9	19.5	10.7	0.1	30.3
Loan loss provisions (income statement)	**2022**	**11**	**16**	**-6**	**-12**	**9**	**1**	**1**	**11**
	2021	-43	72	-7	5	27	3	2	32

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

Structure of segment reporting

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. Further, more detailed information on the segments, including their strategic orientation, can be found in the "Strategic direction for the business areas” section of the chapter of the Group management report entitled "Basis of the Group". Further information on the structure and methodology of segment reporting can be found in Note 48 "Segment reporting" in the notes to the Group financial statements.

Business development in the segments

Profitability was further improved across all lending unit segments in 2022: The net income after taxes of the lending units segments increased by 11 % to € 218 million (previous year: € 197 million). The RoE after taxes of 11.8 % was on a par with the previous year (11.9 %). In particular, the portfolio was further diversified with a selective business approach based on clear risk-return criteria in the individual segments and with a view to the macroeconomic environment. This means that, by managing its new business, the Bank has proactively responded to changes in the macroeconomic environment and their repercussions on the individual market segments. Overall, a new business volume of € 5.6 billion (previous year: € 5.4 billion) was concluded, slightly above the level of the previous year.

The **Real Estate segment** reported net income after taxes of € 74 million in 2022 (previous year: € 85 million). The operating business remained characterised by the risk-conscious further development of the portfolio, the aim being to optimise earnings. Due to the de-risking strategy pursued in the previous year, net interest income and net commission income from the operating business decreased, with a corresponding reduction in risk costs and administrative expenses. The growth target was adjusted during the year in view of the challenging developments on the real estate markets, meaning that gross new business remained at the previous year's level at € 1.6 billion (previous year: € 1.6 billion). At € 8.1 billion, segment assets at the end of the year were up slightly on the previous year (€ 8.0 billion). The selective approach was consistently pursued and is reflected in the positive margin development. The decline in RoE (11.4 %; previous year: 15.4 %) is attributable to the higher allocation of equity compared to the previous year due to the change in the rating model landscape in 2022.

In the **Shipping segment**, net income after taxes amounted to € 77 million (previous year: € 62 million). The driver behind the encouraging development in earnings was the increase in total income, which also benefited from net interest income on client deposits on the liabilities side in the context of strong operational development. Lower risk costs also contributed to the improved result. Although demand for shipping transport services remained high in the year under review, loan demand was dampened by the liquidity available in the market, meaning that gross new business in Shipping remained down on the prior year at € 1.6 billion (previous year: € 1.9 billion). Segment assets fell to € 3.5 billion as a result (previous year: € 3.7 billion). Operating profitability, measured in terms of RoE, increased to 19.4 % (previous year: 18.3 %). In addition to the improvement in operating performance, the higher equity allocation compared to the previous year due to the change in the rating model landscape in 2022 had the opposite effect in the Real Estate segment.

The **Project Finance segment** reported net income after taxes of € 25 million (previous year: € 27 million). Total income in this segment fell slightly to € 70 million (previous year: € 74 million). The reason for the lower net result is the lower segment assets of € 3.4 billion (previous year: € 3.9 billion), although new business remained constant compared to the previous year. Overall, gross new business in the Project Finance segment came to € 0.7 billion (previous year: € 0.7 billion). At 8.3 %, the segment’s profitability was down slightly on the previous year (8.5 %).

Net income after taxes in the Corporate segments amounted to € 42 million (previous year: € 23 million) and includes positive earnings development in the Germany and International area. By concentrating on business with a strong risk/return profile, the volume of new business was expanded, especially in the international area. Overall, gross new business in the Corporates segment came to € 1.7 billion (previous year: € 1.2 billion). Segment assets increased to € 4.6 billion (previous year: € 3.9 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 8.4 % in total (previous year: 4.9 %).

The **Treasury & Group Functions segment** generated net income after taxes of € 79 million (previous year: € 5 million). The operating income from positive valuation effects in the context of the management of pension liabilities was able to more than compensate for the valuation losses incurred in asset liability management due to the changes in the interest rate environment. In the strategic investment portfolio, on the other hand, valuation losses in the wake of the rise in credit spreads and increased volatility in the capital market environment due to the crisis were significantly limited through successful portfolio management, and opportunities to diversify the Bank's interest income were exploited. In addition, Treasury secured a comfortable liquidity position through prudent liquidity management, which was also reflected in an increased cash reserve and a corresponding rise in segment assets to € 12.2 billion (previous year: € 10.7 billion). The positive one-off effects in the other operating result, as well as in the income tax position, contributed to the positive result in the TSY & Group Functions segment.

"**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 48 "Segment reporting" in the notes to the Group financial statements.

Final assessment of the situation of Hamburg Commercial Bank

Hamburg Commercial Bank held its own in a challenging and dynamic environment. As explained in greater detail in the section on Group development, the development in the Bank’s financial ratios in the 2022 financial year exceeded expectations by far overall. This was mainly due to continued positive developments in operating profitability in the Bank’s core business and credit quality, as well as one-off effects in HCOB’s other operating result and income tax expense. After successfully completing its transformation process, the Bank’s main focus in 2022 was on initiating a moderate growth course. Given the extremely uncertain geopolitical and macroeconomic situation, the Bank's management has consistently assessed and considered the impact of the various crises on the Bank on an ongoing basis when implementing business strategies and managing the Bank. The following is an assessment of the Bank’s situation as at the reporting date based on the key metrics of profitability, asset quality, capital resources and liquidity position.

In terms of **profitability**, the Bank was able to continue on the development path it has been on since the beginning of the transformation process and further increase its net operating interest margin, a trend that all market segments, as well as the positive development in profitability, contributed to. The loan and financial investment portfolio was diversified considerably. At the same time, concentration risks in the Shipping and Real Estate asset classes, which tend to be more cyclical, were reduced further. Based on business performance in 2022, the Bank is optimistic that the rising interest rates, coupled with the good positioning of the balance sheet structure for this increase, will generally provide further tailwind for the development of net interest income. Despite additional expenses for projects and investments, cost efficiency, measured in terms of CIR, improved further in the reporting year. HCOB considers itself well positioned for the future in this area, too. In its current cost planning, the Bank has conservatively addressed the outstanding project activities in the context of the IT transformation process, the planned initiatives for the targeted balance sheet growth, as well as the increased inflation, and expects to see a moderate increase in administrative costs for 2023. This increase should, however, have a neutral effect on the CIR, taking into account the Bank's ambition to have the earnings base increase by at least the same amount. In the future, lower change-the-bank expenses, in particular, will provide relief and further improve the cost-income ratio.

In terms of **asset quality**, the Bank considers itself to be resilient and robust in the face of the current considerable challenges and also for adverse scenarios as at the balance sheet date. In addition to the stringently pursued risk management approach, the following aspects in particular form the basis for this assessment:

- a comparatively high level of crisis resilience of the loan portfolio (including: no direct exposure to Russia or Ukraine, a moderate volume of risks from second-round effects, small proportion of companies in the corporates portfolio with a business model that has a strong negative correlation with the effects of the energy crisis),
- the NPE portfolio, which was reduced again in 2022, with further winding down planned for 2023,
- the comfortable balance sheet coverage ratios compared to the industry as a whole, both for the NPE portfolio (Stage 3 loan loss provisions) and for the portfolio as a whole (Stage 1 and 2 loan loss provisions), including model overlays of € 144 million,
- the cautious business approach to new business, as well as increasing diversification of the overall portfolio, and
- the absorption capacity for unexpected credit events, which will generally increase as total income rises according to plan.

The **capital ratios** have returned to normal as planned after reaching an exceptionally high level at the end of 2022. With the ratios reported on the reporting date, Hamburg Commercial Bank remains one of the banks with the strongest capital resources in the European banking market. The RWA uplift from the change in the rating model landscape and the dividend payment planned for 2023 have already been fully factored into the ratios, while the Basel IV regulations should provide relief in the future. The increased profitability will serve to strengthen the Bank's equity position and also – in accordance with the principles of the distribution policy adopted in the year under review – enable regular dividend payments to be made to the Bank's owners.

In view of the developments outlined above, including the solid **liquidity** position, which was strengthened in the reporting year, Hamburg Commercial Bank considers itself well positioned overall as at the reporting date to achieve its objectives, even in the current difficult environment. 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

Recruitment initiative to strengthen the team, investment in our employees and implementation of new employer/works council agreement on mobile working

Human resources work in 2022 was characterised by increased recruitment activities, investments in our employees and the switch from the split mode of operation introduced in response to the pandemic to regular mobile working.

After three years of active support for the transformation process, the focus is now on strengthening resources along the entire value chain in terms of quantity and quality. The recruitment activities launched in the first half of the year are already clearly bearing fruit. All business units still face the challenge of achieving their cost targets by maintaining an appropriate cost base. As at 31 December 2022, the number of staff employed by the Hamburg Commercial Bank Group had fallen to 868 full-time employees (FTEs) (31 December 2021: 919). Taking into account the employees who left as planned with effect from the turn of the year 2021/2022, there was an increase in staff of 15 FTEs in the 2022 financial year.

Furthermore, the human resources strategy for the next three years was adopted in the reporting year and a new Long-Term Incentive Programme (LTIP) was introduced for managers and selected senior experts. HCOB's benefits landscape was also reviewed and already partly adapted in 2022 to ensure the Bank is still perceived as an attractive employer in the future.

Protecting the health of our employees in light of the ongoing COVID-19 situation remained a focal point during the reporting period. In the first five months of the reporting year, the Bank operated in split mode. With the lifting of almost all COVID-19-related restrictions within HCOB at the end of May, the central employer/works council agreement on "Mobile working" came into force. Making work organisation more flexible in terms of location provides a significant boost to the appeal of the working environment that the Bank offers.

Employees in the Group

	31.12.2022	31.12.2021
Full-time employees (FTE) in the Group[1]	**868**	**919**
thereof: Women	303	325
thereof: Men	565	594
thereof: Employees in Germany	825	877
thereof: Employees abroad	43	42
Total number of employees in the Group (headcount)	**975**	**1,052**
Key employee figures		
Part-time employees (%)	17.6	17.6
Average age in years	45.7	46.5
Average period of employment (years)	13.7	14.9

[1] Total number of employees excluding trainees and interns.

Dealing with COVID-19 and mobile working at Hamburg Commercial Bank

HCOB had already set up the "coronavirus working group", which addresses COVID-19-related developments on an ongoing basis and then defines corresponding measures for the Bank, back in February 2020 – also from a business continuity management perspective. The working group focuses on protecting the health of employees and continuing to closely monitor the development of the COVID-19 situation in order to ensure the maintenance of banking operations, in particular the processes relevant to emergencies. The working group consists of a member of the Management Board and representatives from Human Resources, Compliance, Business Operations and Communications.

The working group provides all employees with specific instructions and guidance in the form of regularly updated FAQs, and also provides information to managers on a regular basis, for example on how to act in scenarios where employees are, or are suspected of being, infected. On 30 May 2022, all restrictions associated with COVID-19 were lifted within HCOB in line with the statutory requirements. Cases of illness still have to be reported to the "coronavirus working group" to break chains of infection.

As of 30 May 2022, the central employer/works council agreement on "Mobile working", which was concluded between the Bank and the general works council at the beginning of 2022, came into force. Mobile working plays an important role in attracting and retaining skilled employees. It has been shown that flexibility in work organisation with regard to location is an essential component of an attractive working environment. The Bank's premises remain employees' primary place of work and are seen as an important link between HCOB and employees. Maintaining a sense of workplace community is a top priority.

Corporate culture, further development and young professionals

Continuous development of the corporate culture is a central factor for companies that want to be successful in this changing world of work. The Bank focused on diversity and unconscious bias in the 2022 financial year. The necessary awareness was raised with various campaigns and information addressing these topics, also against the backdrop of the positive business effects. All positions will now be advertised with the option of "job sharing". The Bank also has a mentoring programme to specifically support exceptional employees. This programme has now been launched for the second time. Cross-business unit networking and increasing talent visibility is designed to foster further career development.

The Bank conducted an employee survey in June 2022, as in the previous year. In order to show how things have developed, this followed on from the last survey and expanded the focus to include further aspects following the successful completion of the transformation process.

With its internal seminar programme, the Bank continued to support employees in developing their personal and professional skills. In addition to this, staff can take advantage of external professional training measures if required.

In 2022, the Bank continued to focus on supporting young professionals. A total of 19 trainees started in various business units of the Bank. In addition, five students on sandwich programmes started their hands-on studies with us.

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.

The employee remuneration system, which was further developed with the co-determination bodies in 2021, was implemented in full in 2022 and also contributes to our appeal as an employer.

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 (when the regulatory exemption limits are exceeded) 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 2022, 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. All requirements of the InstitutsVergV 4.0 published in 2021 have been implemented at HCOB.

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)

Hamburg Commercial Bank is continuing to actively address equal opportunities and the promotion of women with the assistance of its equal opportunities officer. These issues are a particularly high priority at Hamburg Commercial Bank. In the reporting year, for example, the Bank made a virtual diversity course available. This gave employees the opportunity to interactively explore their own thought patterns and the impact that these have on diversity within the Bank.

In order to further promote career advancement for women within the Bank, the women's network #networking-women organises regular lectures with internal and external experts providing food for thought, and offers the opportunity for the open exchange of knowledge and experience within this network.

In the reporting year, HCOB again actively organised Girls' and Boys' Day 2022 and offered pupils a hands-on insight into the working world of a commercial enterprise.

In November 2020, Hamburg Commercial Bank 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. This also applies explicitly to the BU level.

Statistics on equal opportunities as at 31 December 2022[1)]

	Number			Ratio	
	Women	Men	Total	Women	Men
BU heads	4	11	15	27 %	73 %
Heads of department	13	38	51	25 %	75 %
Senior positions[2)]	98	238	336	29 %	71 %
Total	**115**	**287**	**402**	**29 %**	**71 %**

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

Pursuant to Section 111 (5) of the German Stock Corporation Act (AktG), the supervisory board of unlisted companies, if they are subject to co-determination, also has to set targets for the proportion of women on the supervisory board and the management board. In June 2022, the Supervisory Board of Hamburg Commercial Bank adopted/confirmed the following targets for the proportion of the underrepresented gender (currently women) on the Management Board and the Supervisory Board. The target figures describe the target share of women in the relevant overall board in its current size, with the percentage figures corresponding to full numbers of persons:

- a target quota of 25 % (one out of currently four members) has been confirmed for the Management Board of Hamburg Commercial Bank.
- for the Supervisory Board of Hamburg Commercial Bank, a target quota of 33 % (six out of currently 18 members) has been adopted (previously: 30 %).

Both target quotas are to be achieved by 30 June 2027 at the latest. There is currently no woman on the Management Board of Hamburg Commercial Bank. The proportion of women on the Supervisory Board of Hamburg Commercial Bank is currently around 17% (three women out of 18 members).

Regarding the proportion of women on the Management Board, the Supervisory Board had adopted a target of 25 % in July 2017 on the basis of what was then the four-member Management Board. This target was to be achieved by 30 June 2022 if possible. Since the adoption of this target, there have been changes within/new appointments to the Management Board. Recruitment to the Management Board was always in accordance with the Rules of Procedure for the Supervisory Board and the regulatory requirements. The Rules of Procedure for the Supervisory Board 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. The composition of the Management Board is always in the best interests of Hamburg Commercial Bank. The Supervisory Board is still seeking to recruit a female member for the Management Board the next time a member is appointed for the first time, provided a suitable candidate is available for the vacant position.

In July 2017, the Supervisory Board confirmed the target quota of 30 % for the proportion of women on the Supervisory Board, based on what was then a 16-member Supervisory Board with parity co-determination. The appointment of Supervisory Board members is a matter for the shareholders and the employees. While the Supervisory Board has the possibility to influence its composition through the election proposals made to the Annual General Meeting, it cannot guarantee such influence.

In its Rules of Procedure, which are in line with regulatory requirements, the Supervisory Board of Hamburg Commercial Bank has stipulated that in the context of proposals for the election of Supervisory Board members to represent the shareholders, the aim is to ensure the equal participation of women.

Forecast, opportunities and risks report

Forecast, opportunities and risks report

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 generally based on assumptions, estimates and conclusions that have been incorporated into HCOB's corporate planning (adopted in December 2022). If there have been significant changes to the aforementioned assumptions, estimates and conclusions based on the information available at the time this combined management report was prepared, this is indicated separately in this forecast report.

The statements are based on a series of assumptions that relate to future events and are incorporated in Hamburg Commercial Bank's corporate planning. The occurrence of future events is subject to uncertainty, risks and other factors, many of which are beyond Hamburg Commercial Bank's control. Actual events may therefore differ considerably from the following forward-looking statements below.

Anticipated underlying conditions

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

ECONOMY AS A WHOLE AND FINANCIAL MARKETS
Global economy: Significant slowdown in growth
2023 is likely to be characterised by lower growth, higher interest rates, diminishing supply chain issues, little noticeable easing in the labour markets, a decline in inflation and continued geopolitical uncertainty. The **global economy** is only expected to expand by 2.1 % (2022: 3.0 %).

In the **US**, tighter monetary policy is expected to cause growth to weaken further. A mild recession is possible. Overall, we expect to see economic growth of 0.5 % and annual average inflation of 3.1 % (PCE).

Now that **China** has abandoned its zero-Covid policy, the country faces a major challenge with an uncertain outcome, at least in the short term. At the moment, a wave of infections is evidently putting the brakes on growth. In our baseline scenario, this wave will subside, meaning that China will catch up considerably in the second half of the year at the latest and grow at a rate of 4.4 % (2022: 3.0 %).

Eurozone GDP is expected to contract slightly in the first half of 2023, mainly due to declining demand for consumer and capital goods. Inflation, which reduces purchasing power, is leaving its mark on private consumption with a certain time lag, while higher refinancing costs are putting pressure on investments. We predict a mild recovery in the second half of the year, when the ECB's base rate has reached its zenith for this year. Overall, we expect to see economic growth of 0.5 % and annual average inflation of 6.3 % in 2023.

For **Germany,** whose industrial sector, a sector more important to the economy than in most countries, is being hit particularly hard by higher energy costs, we expect to see GDP contract by 0.5 % and the average inflation rate to come in at 7.2 %. The unemployment rate is tipped to rise only slightly to 5.6 %.

Monetary policy: interest rates will be raised further for the time being
With inflation rates far from target, both the US Federal Reserve and the European Central Bank will continue to tighten their monetary reins.

With inflation falling but still well above the target of 2.0 %, the US Federal Reserve will raise its **base rate**, putting the Fed Funds Rate at between 4.5 % and 4.75 % by the end of 2023. In addition, the Fed will continue with its policy of quantitative tightening/balance sheet reduction, with a targeted reduction of USD 95 billion per month.

The ECB is expected to raise its main refinancing rate from the current level (31 December 2022) of 2.5 % to 3.5 % (deposit rate: from 2.0 % to 3.0 %) in a quest to curb inflation. At the same time, the ECB announced at its December 2022 meeting that it would start reducing the APP bond portfolio by € 15 billion per month from the beginning of March 2023. The bonds maturing under the PEPP programme will be reinvested until at least the end of 2024. The balance sheet should also decline further because banks have started to repay their TLTRO loans after the ECB retroactively changed the terms of these loans to the banks' detriment. At the end of 2022, € 1.37 trillion or 16 % of the ECB's total assets were still outstanding. The Transmission Protection Instrument (TPI) announced at the ECB's July meeting, which is intended to prevent fragmentation of the EMU area in the event of a sharp rise in risk premiums of individual member states, has not yet been applied, but can be used in principle.

Long-term **government bond yields** have risen sharply in recent months, anticipating further interest rate hikes, and could more or less stay at the current yield levels throughout 2023, both in the US and the eurozone.

In view of what we expect to be a somewhat calmer financial market environment, the **euro**, which has recently gained considerable ground against the US dollar, is likely to continue its positive trend at a slower pace and end up in the region of 1.08 US dollars by the end of the year.

OUTLOOK IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK
Real estate markets
The German real estate markets are likely to be burdened in 2023 by the weak economy with declining economic output, persistently high interest rates and ongoing very high inflation. On the investment markets, the phase characterised by relatively few transactions will last until the second quarter. Market participants are still in the pricing phase to anticipate the higher interest rate environment and increased construction costs. For investors, interest-bearing investments remain an attractive alternative to real estate. In the second half of the year, real estate transactions are likely to pick up again with the onset of a mild economic recovery and interest rates no longer rising. In particular, investors with strong equity resources are likely to push through price concessions vis-à-vis weaker project developers when making purchases. This means that value losses are to be expected for all types of use, with more significant losses for commercial properties and more moderate ones for residential properties. Construction activity will fall significantly following the sharp decline in building permits and orders in the previous year. The number of planned projects is also expected to decrease. Despite the weak economy, the labour market is still predicted to show slight positive development. Any rise in unemployment should remain limited because labour shortages remain virulent and the service sector is still creating jobs, albeit not as many than last year. Nevertheless, with inflation remaining high and real income continuing to fall, households are likely to be reluctant to consume, meaning that consumption is unlikely to grow once catch-up effects have run their course. While this economic impetus is likely to have more of a dampening effect on real estate demand, the influx of refugees should continue to increase demand.

In the **housing markets** of most major cities, demand is likely to continue to grow as a result of people moving there to take up work and the need to accommodate refugees, but in each case at a less pronounced rate than in the previous year. This lower additional demand will be countered by a significant decline in construction activity. This is unlikely to pick up without more incentives and a consolidation in construction costs. Consequently, housing vacancy rates will remain very low. Nevertheless, rental growth in the major cities is likely to remain moderate because housing costs for tenants are already very high and, in some cases, only limited rent increases are permitted by law when re-letting. In addition, tenants are being hit with significantly higher service charges due to energy costs, despite government relief measures. This makes housing more expensive and limits potential increases in rents excluding utilities. Housing prices, on the other hand, are expected to decline slightly in 2023. This is because the significantly higher interest rates mean that threshold households are dropping out of the market as potential builders and buyers.

On the **office property markets in Germany**, declining recruitment is leading to more moderate growth in the demand for space, although it is likely to decline more sharply outside of the country's metropolitan areas. While noticeably fewer completions are also expected there, new construction in Germany's major cities will remain roughly on a par with the previous year's level. Finally, a slight increase in vacancies to a moderate level is to be expected almost across the board. Trends towards more employees working from home, on the other hand, are only likely to put a damper on demand in the medium term. After what were, in some cases, significant increases in the previous year, office rents are likely to remain stable on average in 2023. They are likely to develop better 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 continued high interest rates, growing demand risks in the medium term in terms of demographic labour potential and the use of flexible forms of employment, continued losses in market values are likely. 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 worse thanks to weaker demand, with markets in the Netherlands showing slightly better performance due to stagnating vacancy rates.

The **retail property markets** are likely to be hit by the loss of purchasing power due to inflation, the poor consumer sentiment that will continue for some time, also because of this, as well as the structural change in favour of online retail that is taking hold again. Now that the pandemic-related catch-up effects in consumption will soon have run their course, sales growth in online retail is once again likely to noticeably outstrip that seen in bricks-and-mortar shops. Although nominal sales growth is also expected in bricks-and-mortar retail due to higher inflation, retail rents are likely to remain under pressure as long as retailers maintain their very cautious stance in view of the weak economy. This is likely to affect rents in shopping centres and retail outlets in less attractive city centre locations more than local supply centres in suburban locations close to residential areas. Although investors' risk aversion remains higher for shopping centres than for retail parks, all retail properties will be affected by declining market values due to the interest rate developments.

Industry, trade and logistics, infrastructure and renewable energy

The underlying conditions for German growth have deteriorated significantly with the Russian invasion of Ukraine and the consequences for energy, commodity and food prices. These circumstances are likely – assuming that the conflict continues – to have a continued negative impact at the beginning of 2023. The complete freeze of Russian natural gas deliveries will lead to a recessionary development for the German economy at the beginning of the year. The increasing COVID-19 infection figures in China resulting from the country's surprising break with its zero-COVID policy at the beginning of December 2022 and the potentially negative impact on supply chains in the short and medium term represent a significant element of uncertainty for the global economy and could put additional pressure on the economic and consumer climate in Germany as well. In addition, the upward price trend, which is likely to remain at a high level at the beginning of 2023, is expected to continue to put a damper on the demand side in particular: Private consumption is likely to remain weak for the time being in view of price increases of over 7 %, which will likely continue to weigh on the **retail sector**.

Industry is likely to be hit by the mix of a recession in many countries across the globe, pandemic consequences and the Ukraine war: while supply shortages and sanctions are still likely to dampen production and unit sales in the **manufacturing sector**, high costs are expected to weigh on corporate profits and, as a result, on investment. Interest-sensitive sectors, such as the construction sector or the automotive industry, could also be affected by the more restrictive monetary policy.

Subdued economic development and a continuation of the supply chain problems – in particular due to the uncertainty surrounding the further development of the pandemic in China – also prompt us to expect more mixed development for companies in the **wholesale and foreign trade** segment.

The **logistics sector** is also unlikely to escape a global slowdown unscathed, even if supply chain problems have contributed to a boom in certain sectors (e.g. shipping, air freight). These positive effects should, however, have a weaker impact in 2023.

Given the burdens resulting from bottlenecks for building materials, the sharp rise in construction prices as well as the significant increase in lending rates, **construction output** is likely to move away from its capacity limit and no longer show any substantial expansion.

In the case of **transport infrastructure**, the ongoing considerable need for maintenance should provide positive impetus for investments on the one hand, while on the other, both the marked global growth slowdown in 2023 and the increase in the price of construction materials and other raw materials could have a negative effect, at least temporarily. The significance of institutional investors is likely to continue despite monetary policy measures to end the low interest rate environment.

The prospects for the expansion of **renewable energies** remain rather mixed for 2023 as well, although the ongoing political pressure to act in order to achieve ambitious climate targets and the specific expansion targets set by the German government, as well as the development of alternative energy sources following the reassessment of Russia as an energy supplier, should have a greater impact and increasingly spur on expansion. In addition, sustainability elements at EU level and the European Commission's Climate Change Programme should provide additional growth impetus for renewable energies in Europe in the medium term.

Shipping markets

The earnings situation in the shipping markets is expected to weaken significantly overall in 2023 compared to the record year of 2022. With a normalisation in container vessels, somewhat weaker rates for bulkers and continued substantial revenues for oil tankers, it would, however, still be above average overall. While constraints resulting from the pandemic should largely disappear, high energy prices and increased interest rates could trigger a marked slowdown in global economic activity and dampen transport demand. Expectations for the individual shipping sub-segments are as follows:

The market for **container vessels** is likely to continue its correction in the new year. The outlook for transport demand is clouded by the expected slump in the global economy and, above all, the burden placed on consumers by high energy prices. As a result, container trade is unlikely to grow much in the course of this calendar year. An additional negative factor will be the pronounced increase in deliveries of new ships during the year. A large number of new ships were ordered in the course of the boom. The order book currently comprises almost 30 % of the current fleet capacity. Many of these are likely to be completed in the second half of the year in particular. The supply of tonnage is expected to grow significantly over the year as a result, despite the increasing scrapping of older and more inefficient vessels. Charter rates and ship prices will likely continue to normalise in this environment.

Rates and prices for **bulkers** could also decline further as the year progresses. In the face of a global economy slowdown, weaker steel production is expected in particular. The impact of the Chinese COVID experiment is currently unclear, but indicators suggest that demand for commodities in the Middle Kingdom will weaken in general. The longer trade routes for grain due to the war in Ukraine and the renaissance of coal being witnessed in the wake of the sharp rise in energy prices will continue to have a supporting effect. Port congestion is expected to continue to decline, bringing additional capacity to the market. The fact that new orders were only placed cautiously in recent years, as well as increasing scrapping activity, will slow fleet growth and support the market as a result.

The fundamental situation for **oil tankers** should stabilise after a year of an upswing. Due to the recent further tightening of EU sanctions against Russia, oil no longer enters the European Union by sea, creating a need for additional transport capacity for longer trade routes from the Middle East or the US. Asia is expected to see a robust increase in demand for crude oil and oil products. At the same time, global oil production should increase moderately over the course of the year. Given what is currently a very good earnings situation, the number of new orders should increase, which will not, however, have any negative impact on the market in the short term. The number of scrappings is uncertain. But even with the recent all-time low level, the size of the fleet should increase only marginally.

BANKING ENVIRONMENT

Against the backdrop of the ongoing and foreseeable burdens caused by the war in Ukraine and what remains a volatile capital market, the banking environment will also remain challenging. Even if there is a trend towards an improvement in sector supply bottlenecks, it is apparent, from today's perspective, that the need for loan loss provisions will increase in view of the increased energy costs and the weakening of economic momentum, as the number of problem cases and insolvencies in the corporate sector is likely to increase overall. Consequently, banks will be tasked with holding their own in this complex environment and actively managing their loan portfolios in order to cushion the blow of primary and secondary effects as much as possible. In this context, those institutions whose portfolio composition is comparatively less vulnerable in geographical and sectoral terms should generally find themselves in a more favourable starting position.

In the face of inflationary pressures, banks need to keep an eye on cost discipline, with the scope for cost increases limited to the extent to which they manage to raise their income levels and maintain cost-income ratios in the environment of rising interest rates. On the funding side, capital market participants are likely to pay even greater attention than before to how banks' financial ratios 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 2022	2023 forecast
RoE after taxes (%)[1]	20.8	>11 with net income before taxes of around € 350 million
CIR (%)	44	45
CET1 ratio (%)[2]	20.5	>17
LCR (%)	197	>140
NPE ratio (%)	1.2	1.3
Non-financial key management indicators		
	Actual figures 2022	2023 forecast
Rating	Baa1, positive	A3

[1] The RoE after taxes shown is based on standardised regulatory capital backing (average RWA and CET1 ratio of 13 %).
[2] The proposed dividend payment of € 1.5 billion in 2023 was taken into account with the effect of reducing Common Equity Tier 1 capital; the dividend payment is subject to the approval of the Annual General Meeting.

Key basis for the forecast
In its corporate planning for the 2023-2025 period, the Bank generally assumes, with a high degree of probability (base case), that:

- the expansive interest rate and monetary policy pursued by the Fed and the ECB alike will continue in general for the time being given the current high inflation, although the interest rate differential between the US and the eurozone will likely to narrow in 2023 and the rise in interest rates should be dampened in the medium term by weak economic growth,
- economic growth in the US, the eurozone and Germany will only be weak in the planning period, with slightly negative economic growth expected for Germany in 2023 due to the heavy reliance of its industrial sector on energy prices,
- inflation rates in the eurozone and in Germany will remain at a very high level in 2023 and will only decrease noticeably from 2024 onwards to reach the level targeted by the ECB in 2025,
- total assets will increase slightly to around € 33 billion in 2023,
- as part of return and risk-oriented asset allocation, the shares of the loan portfolios attributable to cyclical asset classes (e.g. in national real estate) will be reduced in favour of stronger asset diversification (in terms of products as well as in geographical and sectoral terms), which will lead, among other things, to larger shares being attributable to the international corporates business, as well as the Project Finance segment,
- the gross new business volume in 2023 will be higher than in the past financial year and will be expanded further in the years that follow, subject to the conservative assumption that margins in new business will be approximately at the level seen in the reporting year or slightly lower across all asset classes,
- total income will continue to rise, which will likely be largely due to rising net interest income (and in 2023 also due to the FVPL result),
- the development in net interest income will be characterised by a gradual increase in the net operating interest margin in the portfolio, positively influenced by the higher interest rates and the aforementioned asset allocation,
- loan loss provisions in the income statement will normalise, with a negative impact averaging 40 basis points being planned subject to conservative assumptions,
- administrative costs will increase moderately in 2023, primarily due to project costs, investments in staff and IT, as well as inflation effects, whereas operating expenses are expected to decrease from the 2024 financial year onwards as a result of lower change-the-bank expenses, and
- income tax expense, which still made a positive contribution to the Group net result in the 2022 and 2021 financial years as a result of changes in deferred taxes/one-off effects from previous years, will normalise from the 2023 financial year onwards.

The overarching goal for 2023 is to continue with the positive development seen in the recent past based on HCOB's successful business model and, in doing so, to extend the Bank's track record. The initiatives and measures envisaged to implement this goal tie in seamlessly with the Bank's tried-and-tested business approach and include the following guidelines:

- Moderate business growth while acting prudently in a difficult macroeconomic environment, strict focus on profitability criteria and increasing diversification on the asset and liability side of the balance sheet;
- Maintaining a competitive and resilient capital position, while at the same time enabling the capital-generating business model to deliver regular distributions to the Bank's owners;
- Further boosting operational efficiency through innovation and continuous optimisation of business processes, technologies and data use;
- Investing in our developing our workforce, which is a key success factor in a dynamic business environment.

Forecast for development in key performance indicators in the 2023 financial year
Taking into account the above-mentioned fundamental aspects, the Bank assumes in its forecast that it will be able to expand its total income moderately in the 2023 financial year. This is likely to be driven by net interest income and - if the capital market environment is less unfavourable - also by the FVPL result. With conservative projected risk costs of around 40 basis points, total income after loan loss provisions should be slightly above the 2022 level. In the context of the reconciliation to net income before taxes, the Bank expects to see a moderate increase in administrative expenses. In addition, a lower other operating result and the absence of any negative effects from the result from restructuring and transformation should more or less cancel each other out. On this basis, the Bank expects to be able to achieve net income before taxes of around € 350 million. Based on income tax expense that has returned to normal, the Bank forecasts net income after taxes (Group net result) of more than € 250 million for the 2023 financial year and, on this basis, an RoE after taxes of above 11 % (calculated on the basis of standardised regulatory capital backing).

The **CIR** in 2023 is tipped to be at a comparable level to 2022 as a whole at around 45 %. The forecast assumes that the expected increase in administrative expenses will be proportionate to the increase in the earnings base.

In the context of the **CET1 ratio** forecast, the Bank assumes that aggregate RWA will have increased significantly by the end of 2023 as a result of business growth and also due to possible negative effects of the macroeconomic environment on the portfolio. The main driver behind this trend is likely to be the planned increase in business volume in Corporates International. CET1 capital should increase again due to the profit expected for the 2023 financial year, reduced by a dividend payment in 2024. The dividend payment proposed for 2023 was already taken into account in CET1 capital, with the effect of reducing the latter, at the end of 2022, meaning that it no longer affects this position in 2023. Based on the expected developments for risk-weighted assets and CET1 capital, the Bank assumes in its forecast that the CET1 ratio will remain above the target level of >17 % as at 31 December 2023.

The Bank expects the **LCR** to remain comfortably above the regulatory requirements at the end of 2023, with a ratio in excess of 140 %.

In the context of the forecast for the **NPE ratio**, the Bank cautiously assumes that there will be a slight increase in the NPE volume in 2023, as the new defaults expected due to model-related factors are likely to slightly exceed the planned disposals in the NPE portfolio - which also provide for the winding-down of the largest single exposure classified as an NPE. In combination with the planned business growth, an NPE ratio of 1.3 % should be achieved at the end of the year.

In principle, the Bank expects the positive trends in operating profitability and asset quality to be reflected in a further improvement in the Bank's **rating position** in the long term. At least for the current financial year, however, the rating is likely to remain at the level achieved, which is also expressed by the stable outlook.

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 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. The bank-specific risk types are then separately explained in the Risk Report.

Opportunities and risks
Overall, the transformation-specific risks for HCOB remaining after the transition to the BdB and ESF have now been completely eliminated. Based on the Bank's current assessment, the most significant opportunities and risks with regard to the forecasts for the key performance indicators presented above arise from future developments in the macroeconomic environment (macroeconomic factors) and the market and competitive conditions in the sectors relevant to HCOB (sector-specific factors). These are presented below in sections A) and B). Further opportunities and risks for HCOB's forecasts are explained in sections C) to G).

A) ECONOMIC FACTORS (BUSINESS CYCLE)
In geopolitical terms, the Russia-Ukraine war will remain a focal point in 2023. Depending on the course that the war takes, the global economy could come under considerable strain. Downside scenarios that cannot be ruled out include the use of nuclear weapons or an MCA affecting a nuclear power plant triggered by shelling. Another increase in energy prices could also weigh on global growth. This could be triggered/exacerbated by temperature shocks, such as a prolonged summer drought or an extremely cold winter. The relationship between China and Taiwan is also relatively tense and could, in principle, result in an open conflict. If, contrary to expectations, COVID-19 variants that potentially cause more severe illness were ultimately to spread

again as China opens up, this would trigger renewed lockdown measures in a large number of countries, which would also put pressure on the global economy. 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 in China subsides more quickly than expected would deliver a boost to economic momentum. Significantly falling energy prices would also have a positive effect.

In the financial markets, there is a general risk of a 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 further sharp rise in long-term government bond yields, due for example to an unexpected continuation in rising inflation or by the tightening of monetary policy to a more pronounced extent than expected. If the aforementioned developments fail to materialise, this would tend to have a stabilising effect on the situation on the financial markets.

B) SECTOR-SPECIFIC FACTORS (MARKETS)

If the pandemic in China lasts longer, and has a heftier impact than hoped for, and if the negative geopolitical tension continues, the current trends towards deglobalisation/onshoring are likely to intensify, with corresponding implications for world trade and, as a result, also for the **shipping markets**. The need to limit the consumption of fossil fuels such as coal, oil and gas is also likely to slow the demand for maritime transport. Should global economic activity be more dynamic than expected, this would have a positive impact on the demand for transport services.

In particular, the export-oriented **German economy** could also suffer more in a scenario characterised by greater deglobalisation and structural change than assumed in the planning. On the other hand, a faster-than-expected improvement in the growth obstacles posed by energy costs and supply chain problems would improve the outlook for the industrial economy in Germany.

If the tight monetary policy that the central banks introduced in 2022 were to become more restrictive and last longer than expected, the associated effects on interest rates would have a greater impact on the development of the **real estate markets** than assumed in the Bank's plans. An even weaker economic trend would also lead to further deterioration. The sub-segment of retail real estate, which has long been affected by the structural shift in favour of online retail, is likely to continue to be hit hard by this. Conversely, were the primary stress factors to show more favourable development than assumed, i.e. in the form of milder economic development, the stabilisation of interest rates and a slowdown in the momentum driving inflation and construction costs, this would improve the market outlook for the sector.

If the development in the economic and sector-specific factors were to be more negative overall than assumed in the Bank's plans, this would tend to exert pressure on loan loss provisions (earnings situation), the NPE volume/ratio (asset quality), as well as RWA and, as a result, the Bank's capital ratios (capital). Furthermore, the earnings situation in the context of the FVPL result could be negatively affected in the event of an unexpectedly marked widening of credit spreads. HCOB considers itself to be fundamentally resilient in terms of loan loss provisions due to its prudent planning assumptions and the high balance sheet coverage ratios. In addition, the increased earnings potential created by the rising interest rate environment should increase the buffer for unexpected credit losses.

Development in the economic and industry-specific factors that is more favourable, on the whole, than assumed in the Bank's plans, which is slightly more likely than not based on the general conditions at the time this combined management report was prepared, would, on the other hand, tend to have a positive impact on the aforementioned earnings figures and ratios.

C) CLIENT BUSINESS

On the earnings side, the fundamental challenge lies in achieving the planned balance sheet growth and the targeted development in operating profitability even in the current macroeconomic environment. The Bank is taking account of the external environment by setting moderate new business targets in the Real Estate and Shipping asset classes, by pursuing a selective and risk-conscious business approach and by increasing diversification. Should the macroeconomic environment and the market and competitive conditions in the markets/sectors relevant to the Bank show more negative development than in the forecast, there is, in addition to the potential effects described in Section A), the fundamental risk that the volume and margin targets used as a basis in the forecast will not be achieved, for example due to weaker customer demand as a result of higher refinancing costs or due to high unscheduled repayments.

Growth opportunities will arise primarily from the increasing need for investment in connection with the ESG transformation process, which is becoming ever more important. This is an area in which HCOB considers itself well positioned for the future, particularly with its product range in the Real Estate, Shipping and Project Finance segments. In addition, HCOB believes that the switch to the new international payment transaction system that was successfully completed in the reporting year will increase the potential for expanding the range of international payment transaction products.

D) HUMAN RESOURCES

Following the initial success of the recruitment activities launched in 2022, the Bank will continue to make strategic new hires in 2023 to support its moderate growth course. The Bank's clear strategic orientation, as well as the increasing external attention paid to the Bank's strong financial ratios in comparison to the industry as a whole, form the basis for HCOB's solid positioning in the employer market. Opportunities to further enhance the Bank's appeal as an employer will arise from the "New Work" initiatives launched in 2022, the further development of the corporate benefits landscape and other measures to promote diversity and equal opportunities. These measures are aimed at making the working environment more attractive. The Bank hopes that the planned new hires will further strengthen its corporate culture, an important asset in the increasingly technology-driven and knowledge-based financial industry.

Nevertheless, developments in the course of 2022 showed that the labour market situation for employers is very challenging in all sectors, but also in the financial industry. This is due not least to demographic development. Against this backdrop, it is generally impossible to rule out a scenario in which the Bank's ambitious staff recruitment goals cannot be achieved to the extent planned, in terms of both quality and quantity. There is also the fundamental operational risk of a loss of key skills due to top performers leaving the Bank unplanned. The Bank has taken mitigating measures and put HR instruments in place for the above-mentioned risks, not least through the ongoing development of the remuneration system and the strengthening of the corporate benefits landscape.

E) OPERATING EXPENSES

With regard to operating expenses, the main challenge facing HCOB is to complete the outstanding project activities as part of the IT transformation process on time, and in line with the required quality standards, while maintaining stringent cost discipline. A delay could lead to the cost benefits that the changes were supposed to bring only being realised at a later point in time than planned, or to temporary redundant costs being incurred (double system operation). From the Bank's point of view, the cost increases expected due to inflation have been adequately reflected in its cost planning (as is also the case with personnel costs).

HCOB's "Operations Platform", which was created and gradually expanded as part of the IT transformation process, offers the Bank an opportunity to benefit from economies of scale and, in the process, further increase what is already a solid level of cost efficiency in the medium term.

F) FUNDING AND REFORM OF DEPOSIT PROTECTION FUND

The measures set out in the funding plan, in particular projects involving capital market issues, could be made more difficult by an adverse development in conditions on the financial markets (see also the comments under A). As a result, refinancing costs could be higher than planned, which would have a negative impact on net interest income. If, on the other hand, conditions on the financial markets continue the upward trend seen in the fourth quarter of 2022 and develop more favourably than assumed in the plans, this would tend to have a positive impact on funding costs and net interest income.

On 4 April 2022, the Assembly of Delegates of the Association of German Banks (BdB) adopted the reform of the scope of protection offered by the Deposit Protection Fund, as announced in December 2021. The reform, which affects all members of the Deposit Protection Fund of the Association of German Banks (ESF), entered into force as planned on 1 January 2023. From 2023, upper limits on the scope of protection will apply for the first time. These are based on the depositors' need for protection and will be adjusted in two further steps until the reform is fully implemented in 2030. For further details, please refer to the explanatory information in the "Deposit Protection Fund" section of the chapter "Basis of the Group". The Bank has analysed the potential impact of the change in the scope of protection and taken it into account in its funding plan, also by broadening the investor base and issuing new refinancing instruments. The impact to date from the change in the scope of protection on depositor behaviour vis-à-vis HCOB has been minor. Also against this backdrop, the Bank expects the influence of the aforementioned aspect on the achievement of the Bank's funding targets will remain limited.

G) REGULATORY AND LEGAL ENVIRONMENT

New regulatory initiatives, in particular resulting from the implementation of Basel IV (mandatory initial application expected as of 1 January 2025), will impact the amount of RWA in general. Through the simplification of its model landscape for the risk classification procedures, a process that was implemented in the reporting year, HCOB expects that the implementation of Basel IV will tend to reduce the RWA for credit risks. Against this backdrop, the opportunities tend to outweigh the risks as at the reporting date.

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

For Hamburg Commercial Bank, the first financial year after the successful completion of the transformation process was very positive overall. The Bank was able to hold its own in a challenging and complex external environment and achieved the goals set for the year as a whole, even exceeding them to a significant extent.

Looking ahead to 2023, the Bank is confident that the positive momentum in the development of operating profitability will continue, with the rising interest rates providing tailwind overall. On the risk side, Hamburg Commercial Bank considers itself well positioned to rise to the continued significant challenges posed by the gloomy macroeconomic environment. Primary factors supporting this assessment include the good quality of the loan portfolio, which has proven resilient in the last two global crisis years, as well as the high balance sheet coverage ratios for default risks (including the existing model overlays), but also the continued strong capital position after normalisation.

In summary, and on the basis of the generally encouraging results reported in the IFRS Group financial statements for the 2022 financial year, the Bank is confident, from today's perspective, that it will be able to achieve the targets set for 2023 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 2023 financial year in the amount of more than € 250 million, based on the normalisation of income tax expense.

This forecast rests on the assumption that the existing geopolitical crises and tension, first and foremost the war in Ukraine, do not escalate any further and that no further geopolitical crises with significant adverse economic effects that are not yet foreseeable emerge.

The earnings forecast and future development of Hamburg Commercial Bank are associated with major challenges overall 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.

Determination of 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 ensures compliance with the regulatory requirements.

The SRF contains the risk strategy principles ("tone from the top") as the key guidelines for risk-conscious action and cornerstone of a sustainable risk culture. These provide the framework for the development of the Risk Appetite Statement (RAS) and the risk strategy. The requirements of the SRF are coordinated with the business strategy goals and the Bank's planning.

The RAS is broken down into a financial and non-financial RAS. The Financial RAS consists of a catalogue of quantitative key financial requirements, 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 approved 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 adverse developments at an early stage, to avert them with appropriate countermeasures and to achieve the risk strategy objectives.

Key risk indicators of the Group[1)]

	31.12.2022		Limit		Guideline
ICAAP utilisation from an economic perspective/RBC (%)	68	<	95		–
Economic capital required (in € bn)	2.1	<	2.7		–
of which: for default risks	0.8	<	1.3		–
of which: for market risks	1.0	<	1.3		–
of which: for liquidity risks	0.2	<	0.3		–
NPE ratio (%)	1.2		–	<	3.0
CET1 ratio (%)[2]	20.5	>	13.2		–
T1 ratio (%)[2)]	20.5	>	14.7		–
Overall capital ratio (%)[2)]	26.8	>	16.7		–
MREL ratio (%)[3)]	46.5	>	12.0		–
Leverage ratio (%)[2)]	9.8	>	4.2		–
Liquidity coverage ratio (LCR) (%)	197	>	107		–
Net stable funding ratio (NSFR) (%)	113	>	102		–
Net liquidity position in stress case up to 1 month (in € bn)	3.0	>	0.5		–

[1)] The proposed dividend payment of € 1.5 billion in 2023 was taken into account, thus reducing the CET1 capital; the dividend payment is subject to the approval of the Annual General Meeting.
[2)] In-period calculation view: calculation taking fully into account the balance sheet carrying amounts as at the reporting date, all else being equal.
[3)] In percent of the total risk exposure amount (TREA). As the MREL quota shown is based on provisional values, it may differ from the final ratio.

Organisation of risk management

The organisation of risk management at Hamburg Commercial Bank is primarily aligned to the requirements of the business model while at the same time taking regulatory requirements into account.

Responsibility for risk management at Hamburg Commercial Bank, including the methods and procedures to be applied for measuring, managing and monitoring risk, lies with the Overall Management Board.

The Risk Committee of the Supervisory Board is in particular responsible for reviewing Hamburg Commercial Bank's current and future overall risk tolerance and 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 it 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 Capital Markets Operations department, while risk monitoring is carried out in the Risk Control business unit.

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 regulations on capital market compliance, as well as prevention of money laundering, terrorism financing and other criminal acts in accordance with Section 25h of the German Banking Act (KWG) and compliance with requirements related to financial transactions and embargoes. 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.

Among other things, the Sustainability Committee is responsible for the development and management of the Bank's sustainability strategy. It ensures 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.

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.

The central ICS office, as an independent function in the Information Security & Sourcing Management department, 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. 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 2022 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.

The following table provides an overview of the minimum capital requirements applicable to Hamburg Commercial Bank.

Minimum capital requirements[1]

(%)	31.12.2022	31.12.2021
Pillar 1		
Minimum capital requirement	8.0	8.0
thereof: to be supported by CET1 capital	4.5	4.5
thereof: to be supported by additional Tier 1 (AT1) capital	1.5	1.5
thereof: to be supported by Tier 2 capital	2.0	2.0
Combined buffer requirement - to be supported by CET1 capital	2.7	2.6
Pillar 2		
Pillar 2 requirements (P2R)	2.1	2.8
thereof: to be supported by CET1 capital	1.2	1.5
thereof: to be supported by additional Tier 1 (AT1) capital	0.4	0.5
thereof: to be supported by Tier 2 capital	0.5	0.7
Capital requirements		
CET1 capital	8.4	8.6
Tier 1 capital	10.3	10.6
Total capital	12.8	13.3

[1] Total differences are rounding differences.

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 collateralised by residential property. Thus for 2023, taking into account the Pillar 2 requirement (P2R) that has been reduced to 1.8 %, there are capital requirements of approximately 8.6 % for Common Equity Tier 1 (CET1) capital, 10.5 % for Tier 1 capital and 12.9 % for total capital. In addition, there is a Pillar 2 Guidance (P2G) for CET1 capital of 2.0 %.

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

In the course of the transformation process, Hamburg Commercial Bank deliberately maintained very high capital buffers. As already announced in the 2022 half-year financial report, the Bank aims to normalise these capital buffers in the future. A CET1 capital ratio of at least 17 % is aimed for as a future target and is included in the dividend policy. On the basis of the dividend policy adopted by the Management Board and the Supervisory Board, the Bank intends to make dividend payments of € 1.5 billion in 2023 for the 2022 financial year.

Regulatory capital ratios[1]

(%)	31.12.2022[2]	31.12.2021[3]
Overall capital ratio	26.8	35.7
Tier 1 capital ratio	20.5	28.9
CET1 capital ratio	20.5	28.9

[1] Regulatory Group according to CRR.
[2] The proposed dividend payment of € 1.5 billion in 2023 was taken into account, thus reducing the CET1 capital; the dividend payment is subject to the approval of the Annual General Meeting.
[3] Profits were not included on a voluntary basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.

Regulatory capital[1) 2)]

(€ bn)	31.12.2022[3]	31.12.2021[4]
Regulatory capital	4.1	5.0
thereof: Tier 1 capital	3.2	4.1
thereof: CET1 capital	3.2	4.1
thereof: Additional Tier 1 capital	–	–
thereof: Tier 2 capital	1.0	1.0

[1] Regulatory Group according to CRR.
[2] Total differences are rounding differences.
[3] The proposed dividend payment of € 1.5 billion in 2023 was taken into account, thus reducing the CET1 capital; the dividend payment is subject to the approval of the Annual General Meeting.
[4] Profits were not included on a voluntary basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital.

Risk weighted assets (RWA)[1)2)]

(€ bn)	31.12.2022	31.12.2021
Credit risks	13.6	10.6
Market risks	0.3	0.6
Operational risks	1.1	0.9
Other RWA	0.3	1.9
Total RWA	**15.4**	**14.0**

[1] Regulatory Group according to CRR.
[2] Total differences are rounding differences.

As expected, the CET1 ratio fell compared to 31 December 2021 (28.9 %), but it remains significantly above regulatory requirements at 20.5 %. The decrease is mainly due to the inclusion of the proposed dividend payment of € 1.5 billion for 2023 in the Bank's Common Equity Tier 1 capital. The Common Equity Tier 1 capital amounted to € 3.2 billion as at 31 December 2022 (previous year: € 4.1 billion). The RWA for credit risks also increased due to the implementation of the simplified model landscape, moving from the Advanced IRB to the Foundation IRB and the Credit Risk Standardised Approach, which was completed in full at the end of the first quarter of 2022.

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 20.2 % as at 31 December 2022 (previous year: 25.2 %). The corresponding Tier 1 ratio reached 20.2 % (previous year: 25.2 %), the corresponding overall capital ratio amounted to 26.7 % (previous year: 32.1 %). The capital ratios for the single entity as at 31 December 2022 are also disclosed with the proposed dividend payment of € 1.5 billion taken into account. In anticipation of the potential dividend payment, the ratios for the 2021 financial year are shown without the annual profit for 2021. The single entity (HGB) regulatory requirements for capital ratios were adhered to at all times during the reporting period.

The BRRD (EU Bank Recovery and Resolution Directive) requires banks in EU member states to maintain sufficient loss absorption and recapitalisation capacity in the form of regulatory capital and defined liabilities. To this end, 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. The Bank has complied with the requirements at all times during the reporting period. Hamburg Commercial Bank must comply with requirements of 8 % of the total risk exposure amount (TREA) for 2023. Taking additional regulatory requirements into account, this ratio is approximately 11.6 %. At the same time, the requirement of 3 % of the leverage ratio exposure (LRE) measure must be met.

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 second and final step towards simplification of its model landscape in the first half of 2022. In doing so, the models for mapping counterparty risk were migrated from the Advanced IRB (A-IRB) approach to the Foundation IRB (F-IRB) approach along with the Credit Risk Standardised Approach (CRSA), particularly to eliminate internal loss given default (LGD) estimates. This incorporated 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 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". Mandatory initial application is expected in the 2025 financial year. With the implementation of Basel IV, some of the advantages of internal models will be significantly restricted. 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.

Basel IV[2)]

	31.12.2022
Risk-weighted assets (RWA) (€ bn)[1)]	14.2
Regulatory capital (€ bn)	4.1
thereof: CET1 capital (€ bn)	3.2
Overall capital ratio (%)	29.1
Tier 1 capital ratio (%)	22.2
CET1 capital ratio (%)	22.2

1) The underlying RWA estimate is based on the European Commission's draft version on implementation of the final Basel III requirements dated 27 October 2021, without taking into account privileged risk weights and other transitional regulations on RWA determination and also without taking into account the currently applied support factors for qualified infrastructure financing.
2) The proposed dividend payment of € 1.5 billion in 2023 was taken into account, thus reducing the CET1 capital; the dividend payment is subject to the approval of the Annual General Meeting.

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. Determined on a regular basis, capital adequacy is 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 requirement 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 of hidden reserves and losses from assets and liabilities reported at amortised cost (AC), less the net present value of the operating costs associated with these transactions. In accordance with the requirements of the ICAAP Guide, a positive balance and positive effects associated with the Bank's own credit rating are not taken into account.

As at 31 December 2022, the risk coverage potential amounted to € 3.1 billion (previous year: € 4.0 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 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 € 2.1 billion (previous year: € 1.6 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: € 0.8 billion).

Market risk (Value at Risk, VaR) is scaled up on the basis of the confidence level chosen by the Bank and from a one-day holding period to show the economic capital required for market risk positions for the purpose of managing risk-bearing capacity to a risk horizon of one year. The economic capital required for market risk amounted to € 1.0 billion as at 31 December 2022 (previous year: € 0.6 billion). € 0.6 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 2022, the Liquidity Value at Risk (LVaR), as a measure of the economic capital required for liquidity risk, amounted to € 0.2 billion (previous year: € 0.1 billion). The 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 operational risks are determined on the basis of the most relevant scenarios from the risk scenario assessments using a Monte Carlo simulation. The economic capital required for operational risks amounted to € 0.1 billion as at 31 December 2022 (previous year: € 0.1 billion).

Utilisation of risk coverage potential increased compared to the end of the previous year, and amounted to 68 % as at the reporting date (previous year: 41 %). On the one hand, this is due to the decrease in risk coverage potential through taking into account the proposed dividend payment in 2023. On the other hand, the risk potential increased due to the increased economic capital required for market risk. The primary reasons are the increased market volatility as well as the more restrictive monetary policy by the US central bank (Federal Reserve) and the European Central Bank (ECB). In addition, the Bank adjusted its interest rate position to the changed market environment during the course of 2022.

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

ICAAP/risk-bearing capacity of the Group[1)]

(€ bn)	31.12.2022	31.12.2021
Economic risk coverage potential	**3.1**	**4.0**
Economic capital required	**2.1**	**1.6**
of which: for default risks	0.8	0.8
for market risks	1.0	0.6
Interest rate risks in the banking book (IRRBB)	0.6	0.3
Other market risks	0.4	0.3
for liquidity risks	0.2	0.1
for operational risks	0.1	0.1
Risk coverage potential buffer	**1.0**	**2.3**
Utilisation of risk coverage potential (%)	**68**	**41**

1) Total differences are rounding differences.

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 normative perspective is also assessed in accordance with the ECB Guide for the Internal Capital Adequacy Assessment Process (ICAAP). 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.

Adherence to the regulatory capital requirements, including an internal management buffer, 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 downside scenarios.

Scenario calculations

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 the Ukraine conflict, the energy crisis, inflation and COVID-19, a significant deterioration in the risk parameters is possible. The Bank therefore continuously considers different 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 business unit is responsible for managing credit risk over the entire term of the loan. The Credit Risk Center business 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 business unit, 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 preparing and developing credit standards as well as monitoring compliance therewith, setting ratings and also 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 business unit 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 business unit and Credit Risk Center business unit, 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 operating an early warning system. In addition, in cooperation with the Credit Office and Credit Risk Center, there is 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.

Along with the process descriptions, 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 represents a material risk. 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 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 2022 were in the real estate portfolio, which accounted for 25 % of the overall portfolio, which is slightly below the level seen in the previous year (previous year: 27 %).

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. Further information is provided in the Group management report in the chapter entitled "Business development – significant developments and events in the 2022 reporting year".

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 and reported to the Management Board monthly and to the Risk Committee on a quarterly basis. In order to avoid future counterparty concentrations, the Bank's lending standards define upper limits per borrower.

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

EQUITY HOLDING RISK
Hamburg Commercial Bank has significantly reduced its equity holding portfolio and thereby equity holding risk over recent years, thus successfully bringing it in line with the Bank's strategic realignment. New equity holdings are only acquired if they meet Hamburg Commercial Bank's strategic objectives. Opportunities and risks of a possible equity holding commitment are analysed in detail prior to the conclusion of the transaction.

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

Furthermore, the articles of association and Rules of Procedure are formulated so as to ensure that the most intensive management possible can be exercised for the benefit of Hamburg Commercial Bank.

Hamburg Commercial Bank has issued a hard letter of comfort for two companies in the equity holdings portfolio and is therefore liable for the liabilities of these companies. These letters have so far not given rise to any liability on the part of Hamburg Commercial Bank. Hamburg Commercial Bank has concluded a profit-and-loss transfer agreement with a further two equity holdings.

MANAGEMENT OF THE DEFAULT RISK IN THE PRICING AND RECALCULATION
Hamburg Commercial Bank applies a uniform method across the Bank for the pricing of lending transactions through calculating the present value of the expected losses and the regulatory capital required to cover the unexpected losses arising on default risk positions. In addition to liquidity costs and full costs, the rating, LGD and EAD risk parameters determined internally on an individual transaction basis are incorporated in the pricing by means of the standard risk costs and the regulatory capital backing, which are calculated using the CRSA or F-IRB approach, depending on the transaction.

Similarly, a monthly recalculation (profit-centre calculation) of the transactions takes place, taking into account the above-mentioned cost components. Based on the current risk parameters of the individual transactions, the standard risk costs are determined and incorporated in the contribution margin calculation. 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
Hamburg Commercial Bank continuously and systematically monitors potential effects of the macroeconomic and political environment at the level of sub-portfolios and individual clients. During the reporting period, the focus of macroeconomic risks to the loan portfolio expanded beyond the pandemic and supply chain problems to also include the effects of the war in Ukraine, and it thus incorporates sectors and clients that are directly affected by the war as well as by the knock-on effects in the areas of energy and raw materials supply, inflation and the changing interest rate landscape, which are expected to have adverse effects on their business models. These clients are closely managed and the need for measures to manage credit risk is continuously reviewed.

The total exposure amounted to € 34,429 million as at 31 December 2022 (previous year: € 33,116 million).

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 74 % of the total exposure at the Group level (previous year: 73 %).

Despite the challenging macroeconomic environment, the NPE ratio of 1.2 % decreased compared to the level of 31 December 2021 (1.4 %). The decrease is mainly attributable to successful winding down of NPE and only minor new defaults during the reporting period.

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

	31.12.2022		31.12.2021	
	EAD (€ m)	relative share (%)	EAD (€ m)	relative share (%)
1 (AAAA) to 1 (AA+)	8,801	25.6	6,647	20.1
1 (AA) to 1 (A–)	6,369	18.5	6,903	20.8
2 to 5	10,445	30.3	10,548	31.9
6 to 9	7,702	22.4	7,219	21.8
10 to 12	474	1.4	565	1.7
13 to 15	114	0.3	353	1.1
16 to 18 (default categories)	405	1.2	467	1.4
Other[3)]	119	0.3	414	1.3
Total	**34,429**	**100**	**33,116**	**100**

1) Mean default probabilities (%): 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)]

	31.12.2022		31.12.2021	
	EAD (€ m)	relative share (%)	EAD (€ m)	relative share (%)
Industry	3,604	10.5	4,061	12.3
Shipping	3,225	9.4	3,355	10.1
Trade and transport	1,731	5.0	1,938	5.9
Credit institutions	3,744	10.9	4,706	14.2
Other financial institutions	4,054	11.8	2,403	7.3
Land and buildings	5,962	17.3	6,363	19.2
Other services	4,346	12.6	3,955	11.9
Public sector	7,615	22.1	6,179	18.7
Private households	147	0.4	155	0.5
Other	–	–	–	–
Total	**34,429**	**100**	**33,116**	**100**

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)]

	31.12.2022		31.12.2021	
	EAD (€ m)	relative share (%)	EAD (€ m)	relative share (%)
Up to 3 months	6,516	18.9	2,498	7.5
> 3 months to 6 months	826	2.4	868	2.6
> 6 months to 1 year	2,056	6.0	2,161	6.5
> 1 year to 5 years	13,758	40.0	13,403	40.5
> 5 years to 10 years	6,400	18.6	9,379	28.3
> 10 years	4,873	14.2	4,807	14.5
Total	**34,429**	**100**	**33,116**	**100**

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)]

	31.12.2022		31.12.2021	
	EAD (€ m)	relative share (%)	EAD (€ m)	relative share (%)
Eurozone	25,283	73.4	25,563	77.2
thereof: Germany	15,814	45.9	17,253	52.1
thereof: Greece	–	–	–	–
thereof: Italy	226	0.7	160	0.5
thereof: Portugal	207	0.6	219	0.7
thereof: Spain	427	1.2	253	0.8
Western Europe	3,006	8.7	2,965	9.0
Eastern Europe[2)]	41	0.1	135	0.4
African countries[3)]	511	1.5	501	1.5
North America	3,220	9.4	1,230	3.7
Latin America	415	1.2	833	2.5
Middle East	48	0.1	56	0.2
Asia Pacific region	1,842	5.4	1,766	5.3
International organisations	63	0.2	66	0.2
Total	**34,429**	**100**	**33,116**	**100**

1) No separate disclosure of the "Reconciliation" segment due to low materiality (< € 100 million).
2) Hamburg Commercial Bank has gross exposure in the following Eastern European countries, which were not members of the eurozone as at the reporting date: Bulgaria, Croatia, Poland, Romania, Czech Republic, Turkey and Hungary.
3) The exposure in African countries primarily relates to Liberia, which is relevant as a country of registration for the shipping business, as well as a very low exposure to South Africa.

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.

As part of the geographic diversification of the Hamburg Commercial Bank portfolio, the exposure to North America in particular was increased.

Hamburg Commercial Bank has no gross exposure with Russia, Belarus or Ukraine. As a result of the war between Russia and Ukraine, new business with both countries was prohibited immediately upon the attack of 24 February 2022. In the internal risk perspective, which takes into account the net exposure subject to transfer risk (taking into account the collateral relevant from a country risk perspective), there is only a single exposure that is largely hedged by cover from an Export Credit Agency (ECA). Accounting for the ECA coverage, the Bank's remaining transfer risk related to Russia is in the low single-digit million euro range.

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 partly also to stricter limits. These include Greece and Italy in particular.

Changes in loan loss provisions in the lending business

(€ m)	01.01. - 31.12.2022				
	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	-12	5	–	-5	-12
Project Finance	-1	-5	–	–	-6
Real Estate	-33	44	1	-1	11
Shipping	8	11	-2	-1	16
Treasury & Group Functions	–	–	–	1	1
Reconciliation	–	–	–	1	1
Group	**-38**	**55**	**-1**	**-5**	**11**

[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).

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 to a comprehensive two-step review process every quarter. 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	–	5
Project Finance	3	-9	–	-1	-7
Real Estate	-73	30	-1	1	-43
Shipping	17	44	-4	15	72
Treasury & Group Functions	–	-1	–	4	3
Reconciliation	1	-1	1	1	2
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).

The net additions at Stage 3 were mainly attributable to the Corporates and Real Estate segments. In the latter case, the addition is attributable to a small number of shopping centre/ retail real estate financing arrangements.

The drivers for the net reversals at Stages 1 and 2 were improvements in portfolio quality in the Shipping and Real Estate segments, as well as the overall reduction in model overlays. In the Shipping segment, the recovery of charter rates in 2021 and 2022 led to an improvement in ratings. In Real Estate, a reassessment of risk parameters for larger clients led to significant reversals. In addition, a large part of the decrease in loan loss provisions at Stages 1 and 2 was due to reduced model overlays. While there were reduced overlays for case-by-case analysis of cases related to COVID-19, the hotels sub-portfolio and effects from macroeconomic forecasts, additional overlays were required for individual cases related to the Ukraine war as well as the retail and tankers sub-portfolios. Also, the overlays that were set up to reflect an adjustment of the Bank's internal credit risk models could be largely reversed once these models were successfully implemented.

For further details, particularly on the composition and development of the model overlays, we refer to Note 3 in the notes to the Group financial statements.

Total loan loss provisions

(€ m)	31.12.2022	31.12.2021
Volume of receivables AC	**19,430**	**20,180**
of which: volume of impaired loans (gross carrying amount Stage 3)[1]	387	441
Gross carrying amount (Stage 2)	1,573	2,163
Gross carrying amount (Stage 1)	17,470	17,576
Total loan loss provisions for balance sheet items	**-414**	**-446**
thereof: Total loan loss provisions (Stage 3)[1]	-238	-209
Total loan loss provisions (Stage 2)	-101	-169
Total loan loss provisions (Stage 1)	-75	-68

[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. Total loan loss provisions for balance sheet items determined under IFRS 9 amounted to € -414 million as at 31 December 2022 (previous year: € -446 million). In addition, provisions for off-balance sheet items amounted to € -35 million as at the reporting date (previous year: € -44 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 68.9 % as at the reporting date was significantly above the level of the prior-year end (55.8 %).

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 2.1 % as at 31 December 2022 (previous year: 2.2 %).

Details regarding the total loan loss provisions are presented in Notes 15, 26 and 40 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 the 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. The measurement and management of the pension risk takes place within the framework of market risk management.

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.

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

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 system for measuring and managing market risks is based on the economic daily profit and loss and on a value-at-risk approach (VaR approach per historical simulation). 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 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.

To enable diversified asset backing and to secure the long-term pension liabilities, the Bank implemented a Contractual Trust Agreement (CTA) in 2020. 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. Due to its structure that differs significantly from the rest of the Group, the CTA uses a Cornish-Fisher VaR with a holding period of one year and a confidence level of 99.9 %, which incorporates market data history dating back to 2008 in line with the long-term investment horizon and thereby also includes the period of the financial crisis. With appropriate scaling, this figure is included as an add-on in the Group VaR.

The basis risk is 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.

The monitoring of limit compliance on a daily basis takes place using a VaR limit for the Bank's overall market risk, VaR limits for specific risk types / portfolios and a stop loss limit for the economic result. In addition, the annualised economic capital required for market risk is determined on a monthly basis and compared with the economic capital allocated to market risk by the Management Board. Limits are also imposed on the potential net present value losses that would result from the six interest rate shock scenarios specified in the EBA/GL/2018/02 EBA guidelines. The limitation of net interest income risk will be adjusted in line with the new EBA guidelines (introduction of the supervisory outlier test (SOT) for net interest income risk) that will apply from mid-2023.

There are strict, clearly defined processes in place for limit adjustments and overdrafts.

During the reporting period, the Group limits approved by the Management Board were met at all times. The present value basis used in the measurement of market risk was 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 was 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. F) of Note 8 "Accounting policies", Note 11 "Result from hedging", Note 27 "Hedge accounting" and Note 58 "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.

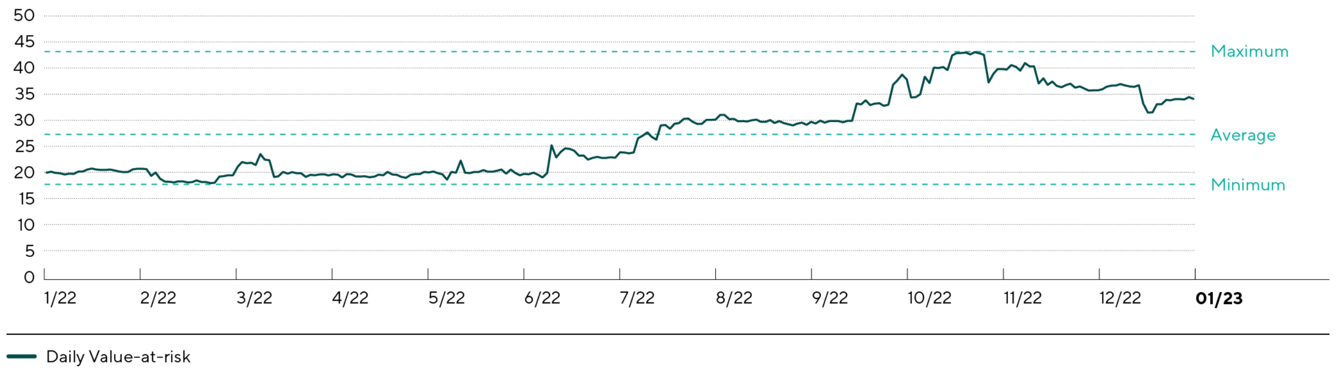
The VaR of Hamburg Commercial Bank also covers both the trading book and banking book. Positions are assigned to the banking and trading books on the basis of clearly defined guidelines, especially with regard to holding periods permitted in the trading book. The assignment of individual positions to 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 material market risks at Hamburg Commercial Bank during the reporting period are particularly interest rate risk and also equity/funds risk as well as credit spread risk. Foreign exchange risk only plays a minor role.

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 2022.

Daily Value-at-risk in the course of 2022

(€ m)



As at 31 December 2022, the daily market risk of the trading book positions was € 3.7 million and that of the banking book positions was € 33.1 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 € 34.3 million. The daily interest rate risk in the banking book (IRRBB) was € 22.2 million, the funds/equity risk was € 7.1 million, the credit spread risk was € 6.6 million and the foreign exchange risk was € 0.8 million.

The following table shows the change in daily VaR in the banking book and the trading book 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]		Foreign exchange risk		Equity/ funds risk		Total[2]	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Average	16.8	13.5	5.6	5.9	1.7	1.1	10.8	7.7	27.3	21.5
Maximum	28.7	23.2	7.4	13.0	4.9	3.2	13.7	10.4	43.2	31.8
Minimum	9.3	9.2	3.7	3.4	0.3	0.3	7.0	4.0	18.3	14.3
Period end value	22.4	13.3	7.0	3.9	2.6	0.4	7.1	9.0	34.3	20.6

[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 2022 includes a VaR add-on at Group level of € 1.8 million for residual risks for corporate bonds, Pfandbriefe, government bonds and collateralised loan obligations (CLO).

For the CTA, there is an add-on to the rest of the Group VaR in the amount of € 6.7 million as at 31 December 2022.

Overall VaR increased during the reporting period compared to the previous year end. The primary reason for the increase in 2022 is the increased volatility in the financial markets in the wake of the Russian invasion of Ukraine along with the significant shift in monetary policy by the US central bank (Federal Reserve) and the European Central Bank (ECB). In addition, the Bank adjusted its interest rate position to the changed market environment during the course of 2022.

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 steering of the daily VaR, the interest rate shock scenarios specified by the EBA are performed along with further stress tests, in order 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 business unit also uses derivative financial instruments to manage market risk arising from loans and advances and liabilities as well as securities. Interest rate swaps and other interest rate or currency swaps are used to hedge the interest rate and foreign exchange risk arising from the underlying transactions. 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.

For the multi-day risk of illiquidity, 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 as well as risk guidelines. 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 Treasury & 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. The stress case forecast 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 liquidity maturity profile for a portfolio ending without new business assumptions. 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 scenario.

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, regular inverse stress tests were performed during the reporting year, to determine if there were events that could have a critical impact on Hamburg Commercial Bank's solvency.

RISK CONCENTRATIONS

Risk concentrations refer to the risk of an unbalanced funding structure in terms of maturities, depositors or currencies.

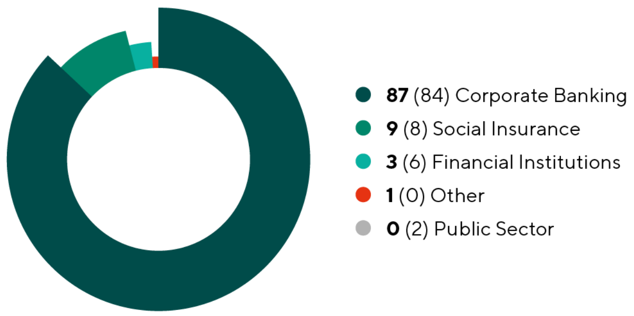
Hamburg Commercial Bank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors) and maturities (original and residual maturities).

In line with the Bank's strategy, the volume of deposits in 2022 increased compared with the previous year. As at 31 December 2022, the total volume amounted to approximately € 9.2 billion (previous year: € 7.7 billion). The counterparty concentrations increased slightly compared with the previous year. The ten largest depositors account for around 18 % of total deposits (previous year: 17 %). Based on the maturity structure, the proportion of deposits payable on demand of 47 % is still high (previous year: 58 %).

The following chart shows the composition of deposits by sector:

Depositor structure as at 31 December 2022

(%, 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 also prepared regularly and sensitivity analyses and US dollar stress tests are performed.

QUANTIFICATION OF LIQUIDITY RISK

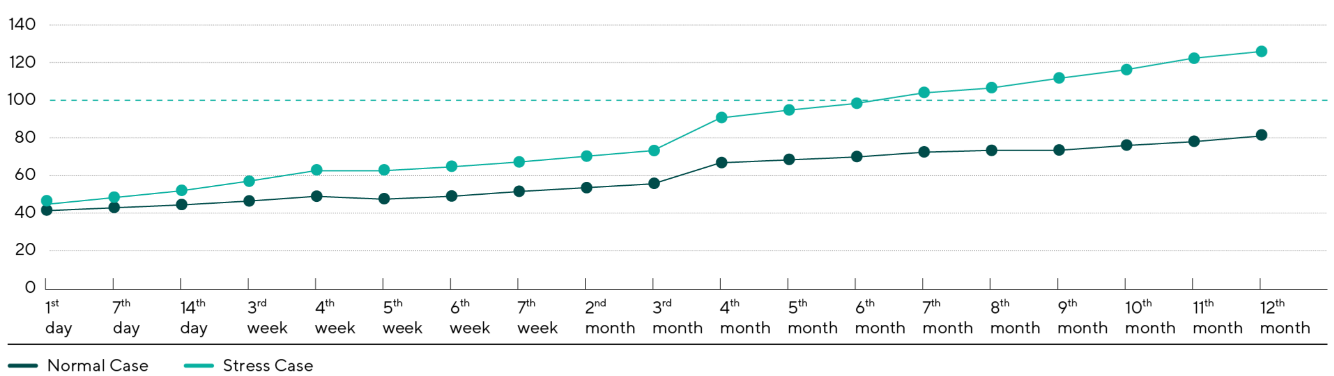
Hamburg Commercial Bank's risk appetite with regard to liquidity risk is reflected, amongst other things, in the definition of a minimum survival period, which describes how long utilisation of a liquidity potential lower than 100 % is to be maintained under the stress cases for the risk of illiquidity.

The utilisation is 82 % 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 2022 stood at over 6 months. Compared to the 2021 year end, utilisation levels have decreased slightly in the normal case and stress case in virtually all maturity bands. The improvements resulted particularly from a changed balance sheet structure. 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 2022.

Utilisation of Liquidity Potential as at 31 December 2022

(%)



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 2022, it amounted to 197 % (previous year: 164 %).

The net stable funding ratio (NSFR) is calculated as the ratio of available stable funding resources across all maturities to the stable funding required. As at 31 December 2022, the Bank's NSFR amounted to 113 % under the CRR (previous year: 114 %) and thus lies above the minimum ratio of 100 % required by the supervisory authorities. The NSFR for 2022 is disclosed with the proposed dividend payment of € 1.5 billion taken into account.

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 nine months as at 31 December 2022.

REFINANCING SITUATION

Hamburg Commercial Bank successfully implemented its funding strategy in the 2022 financial year. The refinancing situation in the reporting year was characterised by very volatile and difficult capital markets. The burden of COVID-19 and the geopolitical crisis situation led to sharply rising inflation, a significant increase in interest rates and rising credit spreads. As the Bank issued mainly Pfandbriefe, which are popular with investors even in this market environment, the deterioration of the capital market environment has had only a minor impact on the Bank's refinancing. In addition to the refinancing via the capital market, deposits from corporates in particular contributed to the refinancing of the business. In order to further strengthen the deposit structure, the focus is on diversifying and expanding the deposits from corporates.

A heightening of existing geopolitical tensions and a deterioration of the macroeconomic environment could make execution of funding measures in the market more difficult. Also, a monetary policy adopted by the central banks, which is more restrictive than currently already anticipated, could limit the refinancing options and potentially further increase funding costs.

The Association of German Banks (BdB) has implemented a reform of the protection of the Deposit Protection Fund (ESF) from 2023 (including transitional periods), which affects all members. Given the changed scope of protection provided in future by the guarantee scheme, there is a fundamental risk of increased liquidity outflows. There are no anomalies in the depositor behaviour to date.

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 low 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 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 behavioural 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.

Behavioural 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 security 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 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 risk types and 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.

In order to quantify the operational risks for the risk-bearing capacity calculation, the unexpected losses of the individual scenarios are calculated and aggregated from the risk scenario assessment using a Monte Carlo simulation. The unexpected loss calculated in this manner 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 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. Specific risk tools are used, by means of which the risks in projects, in line functions and at 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 as well as appropriate procedures to protect personal data. 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 ongoing implementation of the comprehensive transformation of IT into a modern, cost-effective, cloud-based IT architecture. The IT risks that may arise during this IT transformation process are reduced through a step-by-step approach with parallel phases of the old and new system environment, as well as by sustainable partnerships, effective management and independent quality assurance.

As a result of the war of aggression by Russia against Ukraine, the sanctions tightened significantly during the reporting period. Hamburg Commercial Bank fully implements all sanctions and has stepped up the monitoring of current developments.

Moreover, the war in Ukraine has fundamentally increased the general threat of cyber attacks. There was no material increase in the current threat situation facing Hamburg Commercial Bank during the reporting period. The Bank is closely following developments regarding cyber attacks and continuously works to mitigate cyber security risks.

In addition, the 2022 financial year continued to be 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 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 € 110 million (previous year: € 124 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.

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 tax matters that has meanwhile come into effect, appropriate provisions are recognised for the resulting tax risks where necessary. As at the reporting date, the provisions made for back tax payments together with interest on arrears amounted to € 13 million (previous year: € 37 million). On the other hand, appropriate tax receivables have been capitalised for tax refunds that are anticipated.

Summary of risk assessment and outlook

The 2022 financial year was characterised by a volatile market environment with a high degree of uncertainty as a result of Russia’s war of aggression against Ukraine. Despite these underlying conditions, Hamburg Commercial Bank continued to successfully improve its portfolio quality.

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 reports a very high positive net result of € 2,385 million for the 2022 financial year – also in comparison to the IFRS Group net result (previous year: € 109 million). With operating performance that was slightly higher than expected, the net income for the year was clearly characterised by reversals from the funds for general banking risks, as well as reversals of global valuation allowances in the lending business. In addition, there were positive one-off effects in net interest income and in the context of income tax expense, as well as – with the opposite effect – valuation losses resulting from the significant change in interest rates.

At € 917 million, net interest income was about half the level seen in the previous period, which, in addition to a marked increase in net interest income in the operating business, is due in particular to positive effects from the termination of interest rate hedging transactions. The cost base was stable as against the previous year. In a year-on-year comparison, the increase in net income from the trading portfolio largely compensated for more substantial negative effects in the other operating result due to interest-induced valuation losses on the fund assets for pension obligations.

Due to the increase in net interest income, the operating result before loss provisions/valuation rose significantly to € 550 million (previous year: € 259 million).

The result from loan loss provisions/valuation was primarily responsible for the high net income for the year. This amounted to € 1,993 million in the 2022 financial year, after being clearly in the red at € -390 million in the previous year. Reversals from the funds for general banking risks and the positive loan loss provisions in the lending business made a substantial contribution to this result. The latter are mainly the result of the significant reduction in the balance sheet provisions for portfolio risks in the loan book. To a much lesser extent, the changes in the interest rate environment resulted in valuation-related negative effects in the securities business. In the reconciliation to the net result, a moderately negative extraordinary result (€ -35 million) was recorded, as well as income tax expense (€ 123 million) that was characterised by deferred tax expenses and tax refunds for previous years. The composition and year-on-year development of the statement of income can be seen in the following overview.

Statement of Income

(€ m)	2022	2021	Change in %
Net interest income	917	615	49
Income from profit transfers	6	–	>100
Net commission income	34	38	-11
Net income from the trading portfolio	42	13	>100
Administrative expenses	-365	-363	1
thereof: Personnel expenses	-154	-140	10
thereof: Operating expenses	-211	-223	-5
Other operating result	-84	-44	-91
Operating result before loan loss provisions/valuation	**550**	**259**	**>100**
Loan loss provisions/valuation	1,993	-390	>-100
Operating result after loan loss provisions/valuation	**2,543**	**-131**	**>100**
Extraordinary result	-35	-29	-21
Income tax expense	-123	269	>-100
Net result	**2,385**	**109**	**>100**

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

Net interest income amounted to € 917 million and was up significantly on the previous year (€ 615 million), with an increase of € 302 million. One-off effects from the termination of legacy derivatives in the investment portfolio in the course of the continued reduction in the complexity of the derivatives book, made a significant contribution to the increase in the reporting year. These exceeded the one-off effects (from the liquidation of derivatives and the sale of risk-weighted assets) that arose in 2021 by a significant margin. Net interest income from the operating business also, however, increased considerably. Net interest income from the lending and money market business increased by € 98 million compared to 2021 with a largely stable volume of interest-bearing receivables. The decisive factor in this development was the fact that the net operating interest margin was expanded again. In addition, the ongoing optimisation of asset allocation, in the context of which the proportion of the high-margin international corporates business in relation to the loan book increased further, also had a positive effect.

At € 34 million, **net commission income** was down by around 11 % on the previous year (€ 38 million). The drop is due to lower net commission income in the lending business. On the other hand, net commission income from payment transactions and foreign business, as well as documentary business, which accounted for around 46 % of the total position in 2022 (2021: 39 %), increased slightly.

Net income from the trading portfolio was moderately positive and amounted to € 42 million (previous year: € 13 million). This was mainly due to the positive net result from interest rate derivatives of € 40 million. The other components of the net result largely balanced each other out overall. Net income from the trading portfolio does not include any reversals from the fund for general banking risks in accordance with Section 340e HGB (previous year: addition of € 1 million).

Administrative expenses were stable year-on-year at € 365 million (previous year: € 363 million). In this context, the Bank's efficiency measures established in the past successfully counteracted the ongoing substantial investments in IT infrastructure/HR, as well as general inflationary pressures.

Personnel expenses, which increased to € 154 million (previous year: € 140 million), reflect, among other things, salary adjustments, new hires in the course of the moderate growth course (also at foreign locations) and the inflation compensation bonus that the Bank paid out to all employees. The number of employees had decreased by 43 FTEs to 860 FTEs by the end of the year.

The increase in personnel expenses was almost offset by the drop in operating expenses. The latter totalled € 211 million in 2022, compared to € 223 million in the previous year. The costs of ongoing operations ("run the bank" costs) decreased further, due in particular to lower IT provider costs, which account for about one-third of these costs. The decline demonstrates that the investments made in the transformation of IT systems during the transformation process are increasingly paying off in the form of sustainable cost reductions. The forward-looking "change the bank costs", on the other hand, increased slightly. They were once again mainly attributable to Hamburg Commercial Bank's IT projects, including the changeover in the payment transaction system.

Regulatory expenses, the main item of which is the bank levy, remained roughly on a par with the previous year (€ 32 million) at € 30 million.

At € -84 million, the **other operating result** (including other taxes) was more negative than in the previous year (€ -44 million) due to lower income and higher expenses. Other operating income fell by € 22 million to € 101 million (previous year: € 123 million). It mainly includes income from the reversal of provisions, to a lesser extent than in the previous year, as well as interest income from receivables from the revenue authorities. Other operating expenses increased by € 18 million to € 183 million (previous year: € 165 million). The increase results from the significant rise in net expenses from the expenses and income from pension provisions and fund assets to be offset in accordance with Section 246 (2) sentence 2 HGB. These amounted to € 145 million in total (previous year: € 60 million). This was due to the much lower fair value of the fund assets as a result of the interest rate environment. Within other operating expenses, this was partly offset, among other things, by the fact that expenses from additions to provisions and for option trading were € 55 million lower than in the previous year in total. As in the previous year, other taxes amounted to € 2 million.

Operating result before loan loss provisions/valuation up significantly due to higher net interest income

The operating result before loan loss provisions/valuation increased significantly by € 291 million to € 550 million (previous year: € 259 million). This was due to the € 307 million increase in net interest income. The higher net income from the trading portfolio largely compensated for the decline in the other operating result, while administrative expenses remained stable compared to the previous year.

Result from loan loss provisions/valuation characterised by positive one-off effects overall primarily decisive for very high net income for the year

The result from loan loss provisions/valuation, which was characterised by positive one-off effects overall, amounted to € 1,993 million, making it primarily decisive for the very high net income for the year, after having a marked negative impact in the previous year in a total amount of € -390 million. Reversals from the funds for general banking risks and the positive loan loss provisions in the lending business made a substantial contribution to this result.

Hamburg Commercial Bank AG recorded a high positive result of € 498 million for loan loss provisions in the lending business in the reporting period (previous year: € -430 million). This was driven by the significant reduction in the balance sheet provisions for portfolio risks in the loan book, mainly attributable to the holdings added in the previous year. In addition, loan loss provisions include additions to individual valuation allowances (mainly in the Corporates segment), which were moderate in view of the low level of new defaults.

The result in the securities business was negative at € -65 million (previous year: € 32 million). This was due to write-downs (required in line with the strict lower-of-cost-or-market principle) on securities in the liquidity reserve totalling € 116 million (net), mainly as a result of the significant rise in interest rates. In contrast, but to a lesser extent, there were realisation gains from the sale of securities and income from the reversal of 340f reserves. In the previous year, the result was supported by realisation gains from the sale of securities.

In the year under review, the valuation result from equity holdings in non-affiliated companies was balanced at € 0 million (previous year: € 8 million).

Reversals from the funds for general banking risks were made in the amount of € 1,560 million (previous year: € 0 million). The reversal reflects the significantly reduced general banking risks compared to the previous year.

Extraordinary result characterised by transformation expenses as in the previous year

Moderate negative effects, which were roughly on a par with the previous year's level, came from the extraordinary result, which amounted to € -35 million in the 2022 financial year (previous year: € -29 million). The result from restructuring in the amount of € 24 million (previous year: € 0 million) includes reversals of restructuring provisions. Expenses from transformation of € 58 million (previous year: € 29 million) mainly related to project activities in the context of the switch to the new payment transaction system and the IT transformation process.

Income tax expense characterised by deferred tax expense, current taxes relieved by positive special effects for previous years

Net income before taxes came to € 2,508 million (previous year: € -160 million).

Income tax expense amounted to € 123 million (previous year: income of € 269 million). The low income tax rate is mainly due to the fact that the income that plays a decisive role in net income before taxes has no tax effects due to the reversals from the funds for general banking risks. Income tax expense for the reporting period includes current taxes (€ 28 million) and expenses from deferred taxes (€ 95 million). Current taxes benefited from relief of € 66 million due to income for past assessment periods. This was due to the expected results of tax audits for the assessment periods from 2012 to 2015 (inclusive). The expenses from deferred taxes resulted on the one hand from the change in deferred taxes on temporary differences (€ 63 million). This effect was driven by the reversal of global valuation allowances for loans and advances to customers. In addition, deferred taxes on loss carryforwards decreased due to consumption. The expense from the change in deferred taxes on loss carryforwards amounted to € 32 million.

Very high positive net result much higher than expected due to one-off effects

After income tax expense, Hamburg Commercial Bank reported a very high positive net result of € 2,385 million for the

2022 financial year (previous year: € 109 million). In operational terms, the HGB net result was slightly ahead of the Bank's expectations overall. Thanks to the positive effects in the result from loan loss provisions/valuation, but also in net interest income, as described above, the HGB result outstrips the Bank's expectations very significantly.

Net assets and financial position

Balance sheet

(€ m)	2022	2021	Change in %
Assets			
Cash reserve	1	3,261	-100
Loans and advances to banks	5,462	772	>100
Loans and advances to customers	18,954	19,099	-1
Securities	7,134	6,595	8
Trading portfolio	294	564	-48
Equity holdings in non-affiliated companies and interests in affiliated companies	9	6	50
Deferred tax assets	755	863	-13
Remaining assets	929	781	19
Total assets	**33,538**	**31,941**	**5**
Liabilities			
Liabilities to banks	4,569	5,530	-17
Liabilities to customers	13,248	11,112	19
Securitised liabilities	8,341	8,768	-5
Trading portfolio	227	442	-49
Subordinated debt	921	913	1
Fund for general banking risks	808	2,368	-66
Equity	4,217	1,828	>100
Remaining liabilities	1,207	980	23
Total assets	**33,538**	**31,941**	**5**
Contingent liabilities	823	750	10
Other commitments	3,652	3,944	-7
Total off-balance sheet business	**4,475**	**4,694**	**-5**
Business volume	**38,013**	**36,635**	**4**

Moderate growth in total assets as planned
The balance sheet grew moderately in the 2022 financial year as planned. Total assets amounted to € 33,538 million at the 2022 year-end, around 5 % higher than the level at 31 December 2021 (€ 31,941 million). On the assets side, the increase is attributable to loans and advances to banks. On the liabilities side, the increase in total assets is reflected primarily in liabilities to customers, whose share in refinancing has increased at the expense of liabilities to banks. In addition, the development of the liabilities side was characterised by reversals from the funds for general banking risks, with the income from the reversal reflected in a significant increase in equity via the high positive net result. In detail, the developments were as follows:

Liquidity positions were strengthened in the reporting year in view of a market environment that was characterised by high levels of uncertainty and volatility, and also against the backdrop of the proposed dividend payment for 2023. Compared to the end of the previous year, there were opposing developments in the items cash reserve and loans and advances to banks: while the cash reserve decreased compared to the previous year from € 3,261 million to € 1 million, loans and advances to banks increased to € 5,462 million (31 December 2021: € 772 million). As at the reporting date, the latter mainly relate to overnight balances in the deposit facility at Deutsche Bundesbank, which, in contrast to the IFRS reporting, are not reported under the cash reserve under HGB, but rather under loans and advances to banks.

The loan book, reflected by the balance sheet item loans and advances to customers, was on a similar level to 31 December 2021. As at the reporting date, the carrying amount of loans and advances to customers was € 18,954 million (31 December 2021: € 19,099 million). In terms of portfolio composition, the Bank's diversification strategy is increasingly making its mark. As planned, the share of loans in the high-margin Corporates International segment increased further, while the relative shares attributable to the national Real Estate and Corporates business, as well as Shipping, decreased.

The securities position was expanded further, up by 8 % compared to the previous year. As at 31 December 2022, its carrying amount came to € 7,134 million, compared to € 6,595 million as at the previous year's reporting date. The increase is mainly due to the implementation of the diversification strategy. Please also refer to the comments in the chapter on "Business development" (section entitled "Total assets increased as planned – diversification strategy successfully continued").

Trading assets fell further by almost half compared to the end of the previous year's reporting period to € 294 million (31 December 2021: € 564 million). This was mainly due to a lower carrying amount of interest-related derivative financial instruments. The debentures and other fixed-interest securities reported in the trading portfolio increased slightly.

Deferred tax assets decreased to € 755 million (previous year: € 863 million). The drop was due primarily to the reduction in temporary differences on loans and advances to customers.

Remaining assets totalled € 929 million (31 December 2021: € 781 million), above the previous year's level. This item mainly includes other assets (€ 761 million, previous year: € 624 million). The increase in other assets results from receivables from the revenue authorities and the reconciling item from currency translation, which were both higher than at the end of the previous year.

Liabilities to banks fell by 17 % to € 4,569 million (31 December 2021: € 5,530 million). Borrowings from the ECB under the TLTRO III programmes are also reported within this item, with drawdowns still amounting to € 1.55 billion on reporting date (31 December 2021: € 1.75 billion, nominal amount in each case).

In line with the Bank's funding strategy, which aims to increase the share of organic funding, liabilities to customers account for an increasing share of refinancing. These were up considerably by 19 % year-on-year from € 11,112 million to € 13,248 million. The increase was due primarily to the scheduled increase in the deposit portfolio.

With a carrying amount of € 8,341 million, the portfolio of securitised liabilities remained largely stable compared to the end of the previous year (€ 8,768 million). Within this item, other debentures issued decreased, while the portfolio of Pfandbriefe (mortgage and ship Pfandbriefe, as well as public-sector Pfandbriefe) increased slightly.

The carrying amount of the subordinated liabilities increased slightly due to the appreciation of the US dollar and amounted to € 921 million as at 31 December 2022 (31 December 2021: € 913 million).

Amounts of € 1,560 million were reversed from the funds for general banking risks. The amount of € 808 million remaining after the reversals as at 31 December 2022 in accordance with Sections 340g/e German Commercial Code (HGB) represents, according to the Bank's own assessment, an appropriate consideration of the special risks associated with the business of credit institutions (essentially general banking risks).

Due to the very high net income for the year, which was significantly influenced by the aforementioned reversals from the funds for general banking risks, reported equity increased significantly compared to the end of the previous year and amounted to € 4,217 million as at 31 December 2022 (31 December 2021: € 1,828 million). For information on the development of the regulatory capital ratios for the individual institution according to the HGB accounting standards, please refer to the Risk Report in the combined management report of Hamburg Commercial Bank. The dividend payment of € 1.5 billion proposed for 2023 was already taken into account in advance in the CET1 capital and, as a result, when determining the capital ratios at the end of 2022. In contrast, the effects can only be recognised in the balance sheet at the time the dividend liability arises in legally effective terms, which requires a corresponding resolution by the Annual General Meeting in 2023.

Remaining liabilities increased from € 980 million to € 1,207 million. The increase of € 227 million was mainly due to deferred income, which, at € 240 million, was € 148 million higher than at the end of the previous year as a result of higher deferrals for derivatives. Provisions also increased by € 88 million to € 646 million. This was due to the significant increase in provisions for pensions as a result of the lower fair value of the fund assets. At € 308 million, other liabilities were almost on a par with the end of the previous year (€ 316 million).

Business volume
The business volume increased at a slightly slower rate than total assets, namely by 4 % to € 38,013 million (31 December 2021: € 36,635 million), as off-balance-sheet business declined. Contingent liabilities, which essentially comprise guarantees and warranties, increased by around 10 % to € 823 million (31 December 2021: € 750 million). Other commitments, whose essential component is irrevocable loan commitments, decreased significantly. These amounted to € 3,652 million as at 31 December 2022, 7 % lower than as at 31 December 2021 (€ 3,944 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, 14 March 2023

Ian Banwell   Ulrik Lackschewitz

Christopher Brody   Marc Ziegner

Annual financial statements of Hamburg Commercial Bank AG

Balance sheet of Hamburg Commercial Bank AG

as at 31 December 2022

Assets

(€ k)	(Note)				31.12.2022	31.12.2021
1 Cash reserve						
a) Cash on hand				–		1
b) Balances with central banks				689		3,261,353
thereof:					**689**	**3,261,354**
with Deutsche Bundesbank		275				
		(previous year: 3,260,938)				
2 Loans and advances to banks	(6, 7, 24-27)					
a) Payable on demand				101,676		110,711
b) Other loans and advances				5,360,425		661,436
					5,462,101	**772,147**
3 Loans and advances to customers	(6, 7, 24-27)				**18,953,725**	**19,099,126**
thereof:						
secured by mortgages		6,840,390				
		(previous year: 6,807,899)				
public-sector loans		805,294				
		(previous year: 1,209,474)				
secured by ship mortgages		3,192,118				
		(previous year: 3,409,885)				
4 Debentures and other fixed-interest securities	(9, 24-29, 33)					
a) Money market instruments						
aa) from other issuers			–			20,085
				–		
b) Bonds and debentures						
ba) from public-sector issuers			714,597			1,230,806
thereof:						
eligible as collateral at the Deutsche Bundesbank		714,597				
		(previous year: 1,230,806)				
bb) from other issuers			4,745,485			3,129,493
thereof:				5,460,082		
eligible as collateral at the Deutsche Bundesbank		2,701,851				
		(previous year: 2,442,191)				
c) Own debentures				1,126,014		2,028,378
Nominal value		1,124,800			**6,586,096**	**6,408,762**
		(previous year: 2,023,171)				
To be carried forward					**31,002,611**	**29,541,389**

Assets

(€ k)	(Note)			31.12.2022	31.12.2021
	Carried forward			**31,002,611**	**29,541,389**
5 Shares and other non-fixed-interest securities	(9, 28, 29, 33)			**548,241**	**186,426**
6 Trading portfolio	(10, 30)			**293,870**	**563,911**
7 Equity holdings in non-affiliated companies	(16, 28, 33, 65)			**5,652**	**4,002**
thereof:					
in banks		327			
		(previous year: 327)			
8 Interests in affiliated companies	(16, 28, 33, 65)			**2,872**	**2,107**
thereof:					
in banks		–			
		–			
9 Trust assets	(32)			**14,112**	**683**
thereof:					
trust loans		14,112			
		(previous year: 683)			
10 Intangible fixed assets	(17, 33)				
a) Industrial property rights acquired in-house and similar rights and assets			4,044		2,286
b) Licences, industrial property rights and similar rights and assets as well as licenses to use such rights and assets purchased			51,385		32,030
				55,429	**34,316**
11 Tangible fixed assets	(18, 33)			**2,334**	**3,005**
12 Other assets	(34)			**761,157**	**623,770**
13 Prepaid expenses	(6, 20, 35)			**96,693**	**22,403**
14 Deferred tax assets	(19, 36)			**755,498**	**863,267**
15 Asset diffrence from asset offsetting	(39)			**-**	**96,090**
Total assets				**33,538,469**	**31,941,369**

Liabilities

(€ k)	(Note)				31.12.2022	31.12.2021
1 Liabilities to banks	(20, 40-42)					
a) Payable on demand				57,291		72,929
b) With agreed maturities or notice periods				4,511,525		5,457,115
					4,568,816	**5,530,044**
2 Liabilities to customers	(20, 40-42)					
a) Savings deposits						
aa) with agreed notice period of three months			163			780
				163		780
b) Other liabilities						
ba) Payable on demand			4,738,174			4,491,883
bb) With agreed maturities or notice periods			8,509,379			6,619,368
				13,247,553		11,111,251
					13,247,716	**11,112,031**
3 Securitised liabilities	(20, 42,70)					
a) Debentures issued				8,340,580		8,768,513
					8,340,580	**8,768,513**
4 Trading portfolio	(10, 43)				**226,850**	**442,318**
5 Trust liabilities	(44)				**14,112**	**683**
thereof:						
trust loans		14,112				
		(previous year: 683)				
6 Other liabilities	(45)				**307,656**	**316,026**
7 Deferred income	(6, 20, 46)				**239,642**	**92,171**
8 Deferred tax liabilities	(19, 47)				**1,300**	**13,894**
9 Provisions	(21)					
a) Provisions for pensions and similar obligations				207,427		109,022
b) Tax provisions				90,467		40,292
c) Other provisions	(48)			348,169		408,457
					646,063	**557,771**
10 Subordinated debt	(49)				**920,572**	**912,521**
11 Funds for general banking risks	(50)				**807,852**	**2,367,654**
of which special items under Section 340e (4) HGB		57,852				
		(previous year: 57,852)				
To be carried forward					**29,321,159**	**30,113,626**

Liabilities

(€ k)	(Note)			31.12.2022	31.12.2021
	Carried forward			**29,321,159**	**30,113,626**
12 Equity capital	(51)				
a) Subscribed capital					
aa) Share capital		301,822			301,822
			301,822		
b) Capital reserves			1,530,791		1,525,921
c) Retained earnings					-
ca) Other retained earnings		794,899			
			794,899		
c) Accumulated loss			1,589,798		-
				4,217,310	**1,827,743**
Total liabilities				**33,538,469**	**31,941,369**

1 Contingent liabilities	(63)		
a) Liabilities from guarantee and indemnity agreements		**822,912**	**749,686**
2 Other commitments	(63)		
a) Irrevocable loan commitments		**3,652,005**	**3,943,847**

Income statement of Hamburg Commercial Bank AG

for the period 1 January to 31 December 2022 (€ k)	(Note)			2022	2021
1 Interest income from	(52, 53)				
a) lending and money market transactions		1,625,467			1,320,677
negative interest resulting from loan and money market transactions		-36,253	1,589,214		-74,957
b) fixed-interest securities and book-entry securities		77,759			71,835
negative interest resulting from securities and book-entry securities		-	77,759		-
			1,666,973		1,317,555
2 Interest expenses	(53)				
from the banking business		793,841			791,330
positive interest resulting from the banking business		-31,769			-62,603
			762,072		728,727
				904,901	588,828
3 Current income from	(52)				
a) shares and other non-fixed-interest securities			10,510		0
b) equity holdings in non-affiliated companies			104		527
c) Interest in affiliated companies			988		25,223
				11,602	25,750
4 Income from profit pool, profit transfer agreements or partial profit transfer agreements				5,662	293
5 Commission income	(52, 54)		41,041		50,018
6 Commission expenses	(54)		7,505		12,054
				33,536	37,964
7 Net income/Net expenses from the trading portfolio	(52)			42,036	13,479
8 Other operating income	(52, 55)			101,044	123,407
9 General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		131,349			120,100
ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits		22,018			20,101
			153,367		140,201
thereof:					
for retirement pensions	4,786				
	(previous year: 2,355)				
b) Other administrative expenses	(30)		208,605		219,042
				361,972	359,243
10 Depreciation, amortisation and impairments on intangible fixed assets and tangible fixed assets	(33)			2,721	4,239
11 Other operating expenses	(56)			182,249	164,332
12 Depreciation and impairments on loans and advances and certain securities and additions to provisions in the lending business				-	468,464
To be carried forward				551,839	-206,557

(€ k)	(Note)		2022	2021
	Carried forward		551,839	-206,557
13 Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business			404,350	-
14 Income from additions to equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets			29,072	83,455
15 Release from the fund for general banking risks			1,559,801	-
16 Expenses from the transfer of losses			173	4,947
17 Profit on ordinary activities			2,544,889	-128,049
18 Extraordinary income	(57)	23,597		8,021
19 Extraordinary expenses	(57)	58,529		37,128
20 Extraordinary result	(57)		-34,932	-29,107
21 Income tax expenses	(58)	122,821		-268,745
22 Other taxes not shown under item 10		2,439		2,405
			125,260	-266,340
23 Annual net profit/ loss			2,384,697	109,184
24 Loss carried over from the previous year			-	-1,387,546
25 Icome from capital reduction (through cancellation of shares)			-	2,716,402
26 Allocation to capital reserve § 272 (2) No.1 HGB acc.to § 240 (1) AktG			-	-2,716,402
27 Redemption of treasury shares made available free of charge § 272(2) No. 4 HGB			-	-2,716,402
28 Withdrawals from the capital reserve pursuant to 272(2) No. 4 HGB			-	2,716,402
29 Withdrawals from the capital reserve pursuant to §272 (2) Nr. 1-3 HGB			-	1,278,362
30 Transfer to retained earnings			-794,899	-
31 Accumulated profit			2,384,697	-

Notes for the 2022 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 2022 (percentages were rounded):

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.** (incl. P.S.K. Beteiligungsverwaltung GmbH) Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft	**HCOB** Current and former Management Board Members (who are or were in office from November 2018)
Promontoria Holding 221 B.V. 9.87 %	Promontoria Holding 231 B.V. 13.86 %	Promontoria Holding 233 B.V. 18.69 %	JCF IV Neptun Holdings S.à r.l.	GoldenTree Asset Management Lux S.à r.l.	Chi Centauri LLC		
42.41 %			**34.93 %**	**12.47 %**	**7.48 %**	**2.49 %**	**0.20 %**

2. Events after the reporting date

There were no events of material significance after the reporting date.

3. Impact of COVID-19 and the war in Ukraine on the annual financial statements of Hamburg Commercial Bank

I. Estimates and discretionary decisions

Uncertainties with regard to future market developments have increased due to the effects of the COVID-19 pandemic, which have not yet been fully overcome, and Russia's invasion of Ukraine. This has an impact on the estimates required in line with impairment provisions. 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. 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 affected by the COVID-19 pandemic or the war in Ukraine. In addition, the risk parameter surcharges applicable in the measurement of the model overlays are reviewed and adjusted on a regular basis.

II. Change in loan loss provisions as at 31 December 2022

The impact of forward-looking information on the credit risk parameters Probability of default (PD) and Loss given default (LGD) is generally determined using statistical procedures and is taken into account when calculating the expected credit losses. In this process, various macroeconomic forecasts (cf. table on "Macroeconomic forecasts for 2023") are taken into account and regular checks are performed to analyse whether alternative macroeconomic developments have a material non-linear impact on the amount of loan loss provisions. Additional information on the calculation of loan loss provisions is provided in Note 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 € 473 million as at 31 December 2022 (previous year: € 517 million). Of this amount, € 144 million (previous year: € 186 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)	2022	2021
Effect of macroeconomic forecasts	47	52
Address and portfolio related adjustments		
Individual cases related to COVID-19 (credit watch list)	27	84
Individual cases of borrowers potentially impacted by the war in Ukraine (credit watch list)	21	-
Hotels sub-portfolio	-	1
Retail sub-portfolio	12	3
Tankers sub-portfolio	29	19
Additions to ECL method	8	27
Total	**144**	**186**

A) EFFECT OF MACROECONOMIC FORECASTS

The after-effects of the COVID-19 pandemic and the impact of the war in Ukraine on Hamburg Commercial Bank's macroeconomic environment in the reporting period were calculated in separate scenarios. For this purpose, the Bank takes into account two weighted scenarios (basis and stress scenario). These scenarios are based on the following macroeconomic forecasts:

Key macroeconomic forecasts for 2023 (as at 31 December 2022)

	Basis Scenario	Stress Scenario
GDP USA (%)	0.5	-0.3
GDP eurozone (%)	0.5	-0.6
GDP Germany (%)	-0.5	-1.4
Fed Funds rate (%)	4.625	3.625
ECB MRO rate (%)	3.50	3.00
3M EURIBOR (%)	3.32	2.60
10Y Bunds (%)	2.61	1.80
EUR/USD exchange rate	1.08	0.90
Unemployment rate Germany (%)	5.60	5.90
Inflation Germany (%)	7.2	8.5

The basis scenario (60% probability of occurrence) represents the expected development, while the stress scenario (40% probability of occurrence) also takes into account additional uncertainties resulting from the pandemic and geopolitical crisis situations, in particular the future effects of the energy embargo on Russia as well as the current high inflation rate and the generally increased interest rate level. Depending on the macroeconomic scenarios for determining the model overlays, the risk parameters (PD and LGD) are adjusted for the entire portfolio. The overall assessment includes the delta between the calculation with the adjusted risk parameters and the original loan loss provisions as a model overlay.

The additional loan loss provisions resulting from the two scenarios amount to € 47 million (previous year: € 52 million). This reflects the slowdown in economic recovery due to a dampened outlook in certain economic sectors, mainly as a result of the effects on the overall economic situation resulting from the war in Ukraine. In addition, the effects of macroeconomic forecasts were taken into account for exposures of HCOB's Loan Fund. As at the reporting date, an amount of € 2 million of the model overlays for effects from macroeconomic forecasts has been formed for these exposures.

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 affected by the consequences of the COVID-19 pandemic, but also customers who can expect their business model to be negatively affected by current macroeconomic or economic policy developments. In addition to the sub-portfolios retail and tankers, this also comprises customers who have to tackle significant challenges because of supply chain, energy or price issues resulting from the war in Ukraine. It should be noted that Hamburg Commercial Bank had no significant direct exposure to Russia or Ukraine as at the reporting date.

For the customers thus identified, the risk parameters (PD and LGD) are adjusted in order to determine the model overlays, and the exposures are transferred to the assessment basis for the increased risk provisioning in accordance with the IFRS 9 methodology. The delta between this calculation and the original loan loss provisions is included in the overall assessment as the model overlay.

HCOB 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. Based on close cooperation between the front and back office, the Bank has identified customers with a medium to strong negative exposure to the pandemic and geopolitical crisis situations; these are closely monitored for credit risks through the credit watch list. This pertains to a total exposure at default (EaD) of € 3,039 million (previous year: € 3,609 million), of which € 2,496 million are attributable to the general loan loss provision as at 31 December 2022 and were taken into account for the calculation of the model overlays in the individual cases. It should be noted that the credit watch list was expanded in the reporting period to include customers potentially negatively affected by the consequences of the ware in Ukraine.

The model overlays for individual borrower risks amounted to € 48 million as at the reporting date (previous year: € 84 million). Of this amount, € 27 million are attributable to cases affected by the aftermath of the COVID-19 pandemic (previous year: € 84 million) and € 21 million (previous year: € 0 million) to individual exposures with a potentially negative impact from the consequences of the war in Ukraine.

The reduction in model overlays related to the COVID-19 pandemic corresponds with a substantial reduction in EaD volume on the credit watch list as well as changes in risk parameters. While at 31 December 2021, the EaD for COVID-19-related address risks had still amounted to € 3,609 million, this amount has decreased very significantly to € 1,316 million as at year-end 2022. This decrease was driven by the fact that for many of the exposures still on the watch list at the end of 2021, the ongoing effects of the COVID-19 pandemic were included in the risk parameters of the internal models in financial year 2022, which led to a reduction in the model overlays for these cases. Further, the impact of the pandemic on the economy as a whole has decreased. Model overlays formed for the first time in financial year 2022 for exposures that may be affected by the war in the Ukraine amount to € 21 million and are based on EaD of € 279 million. Some of this exposure relates to customers who were still included in the individual case assessment for COVID-19 at the end of 2021, but who were transferred to the customer group potentially affected by the war in Ukraine for the measurement of the model overlays on the reporting date due to their business models.

At the portfolio level, retail properties (especially department stores and shopping centres) were identified as a portfolio particularly affected by the aftermath of the COVID-19 pandemic. In total, this pertains to EaD of € 1,634 million (previous year: 1,434 million). Model overlays amount to € 12 million (previous year: € 3 million). The increase of € 8 million mainly relates to exposures that are no longer part of the credit watch list as at the reporting date, but for which the loan loss provisions were nevertheless adjusted by way of the sub-portfolio valuation using model overlays, as the negative effects are expected to last despite the ongoing improvement in the pandemic situation. The model adjustments in the hotel sub-portfolio were released, as the occupancy rate in the hotel industry returned to the pre-crisis level, which means that the corresponding model overlays were no longer necessary (previous year: € 1 million).

Additional model overlays were formed in the shipping portfolio. The market situation remains very volatile, especially in the tankers segment. Despite the current recovery in charter rates and ship values, which was temporarily caused by the oil embargoes against Russia, this development is not expected to be long-term. This is also reflected in the fact that there is no investment in new tankers in the market despite the increase in charter rates. As a result, adjustments to loan loss provisions in the form of overlays of € 29 million (previous year: € 19 million) were made for tanker financing with EaD of € 910 million (31 December 2021: € 764 million). The increase in model overlays is mainly the result of a significant increase in PD shifts in the Shipping segment due to the significant deterioration in forecasts for charter rates and second-hand prices.

C) ADDITIONS TO ECL METHOD

Independently of adjustments to loan loss provisions that are related to either the pandemic or the war in Ukraine, the Bank determines mark-ups for pending adjustments to internal models. As at 31 December 2022, these amount to € 8 million (previous year: 27 million). The reduction of € 19 million is mainly due to the completed transition to the new rating model in the field of domestic real estate and the implementation of new LGD models, which eliminated the basis for the formation of technical adjustments due to weaknesses in the models and uncertainties in the form of model overlays.

D) SENSITIVITY ANALYSIS

If the duration and impact of the COVID-19 crisis as well as the war in Ukraine 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 crises would particularly influence the ratings of borrowers that are expected to be significantly affected by the COVID-19 pandemic or the war in Ukraine in the ECL model. To simulate the potential effects on the loan loss provisions a rating shift of two notches and one notch respectively was simulated.

A rating downgrade for the portfolios affected by two notches would result in an increase in model overlays of € 88 million, while a downgrade by one notch would result in an increase of € 40 million. A rating upgrade by two notches would reduce the model overlays by € 53 million, while an upgrade by one notch would lead to a reduction of € 33 million. A change in the weighting between the basis and stress scenarios of ten percentage points would result in an increase or decrease in the macroeconomic model overlays of € 5 million.

E) OTHER EFFECTS

There were no other modification effects caused by forbearance measures in connection with COVID-19 or the war in Ukraine in the reporting period.

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*)

Hamburg Commercial Bank has left the protection system of the German Savings Banks Finance Group as planned on 31 December 2021, after the completion of the privatisation and the associated transformation process.

Since 1 January 2022, HCOB has been assigned to the Compensation Scheme of German Private Banks (EdB, statutory deposit guarantee fund). 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 all deposits up to EUR 100,000 per HCOB depositor.

Since 1 January 2022, HCOB has also voluntarily participated in the deposit guarantee fund of the Association of German Banks (ESF).

In accordance with its by-laws, the ESF protects deposits of certain HCOB clients, subject to the exceptions provided therein or agreed between the ESF and the HCOB. Protected deposits are essentially demand, time and savings deposits that have been accepted at a domestic head office or branch office. Not protected are, in particular, deposits of financial firms, public authorities including regional and local authorities, deposits that have arisen in connection with money laundering or terrorist financing, and bearer bonds.

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 2022 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 HCOB is a going concern. The Bank's corporate planning forms the basis for the going concern assumption.

6. Cash reserve and Receivables

The cash reserve is recognized at nominal amounts.

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 2022. 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. Essentially, the model overlays take into account uncertainties from macroeconomic forecasts due to the pandemic and geopolitical crisis situations as well as possible effects of economic and economic policy developments on individual counterparties in the bank portfolio.

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 HCOB 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 HCOB. 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 5 and 6) not assigned to the trading portfolio in accordance with the provisions under German commercial law into an investment portfolio and a liquidity reserve, depending on the respective purpose.

Given that securities held in the investment portfolio are intended for long-term investment, we value them at the moderate lower-of-cost-or-market value. When impairments are considered to be temporary, we recognise the corresponding securities at acquisition cost. Impairments are considered to be temporary if they are not considered indications of future disruptions in the servicing of interest and capital payments. This is the case, for example, where impairments are caused by changes in interest rates. We thus avoid reporting performance volatility, which would not be economically justified based on the short-term nature of the value fluctuations. As part of the risk provisioning process for securities, we have defined comprehensive criteria ("trigger events") for identifying possible permanent impairments. These are identified on a quarterly basis. All securities 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 14.

Interest resulting from HCOB'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 13 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 recognises net income resulting from 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 resulting from the trading portfolio. Expenses from the addition to and income from the reversal of the item are stated respectively under the net income or net expenses of the trading portfolio. € 0 million was added to the special item during the past financial year (previous year: € 1 million) from net income from the trading portfolio

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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 67.

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 € 419 million (previous year: € 475 million), interest expense in the amount of € 94 million (previous year: € 284 million), Other operating income of less than € 1 million (previous year: less than € 1 million) and Other operating expenses of less than € 1 million (previous year: € 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)	31.12.2022		31.12.2021	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Assets				
Debentures and other fixed-interest securities	–	2,134,460	–	2,883,937
Liabilities				
Securitised liabilities	–	–	10,134	–
Negative market value of derivatives	–	–	44	–

Hedging instruments

(€ k)	31.12.2022		31.12.2021	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Positive market value of derivatives	–	231,035	54	14,066
Negative market value of derivatives	–	–	–	46,189

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)	31.12.2022				31.12.2021			
	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								
Debentures and other fixed-interest securities	–	–	–	200,844	–	–	19,081	–
Liabilities								
Securitised liabilities	–	–	–	–	–	44	–	–
Derivatives	–	–	–	–	32	–	–	–

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. new version 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 2022.

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 HCOB's IT transformation process, which mainly involves the renewal of IT applications and IT infrastructure, development costs of € 41 million were recognised in the reporting year (previous year: € 30 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 to 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 32.14%, while the overall tax rate assumed for Luxembourg is 24.94%. In accordance with the relevant regulations, deferred taxes are not discounted. Deferred tax assets and deferred tax liabilities are stated in the balance sheet on a gross basis (asset item 14 and liability item 6a).

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

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:

	2022	2021
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 1.78% p.a. (previous year: 1.87% 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 1.44% p.a. (previous year: 1.35% p.a.) amounts to € 49 million as at 31 December 2022 (previous year: € 79 million) (cf. Note 60).

Assets that serve exclusively to fulfil pension obligations and are not accessible to all other creditors (fund assets) are recognised at their fair value of € 767 million (previous year: € 975 million), while amortised cost of the assets amounts to € 841 million (previous year: € 932 million). For the corresponding fund assets, an association called HCOB Trust e.V. ("Trust") was established, which has concluded a bilateral contractual trust agreement (CTA) with HCOB. The CTA is used to build up an insolvency-protected asset fund, which provides additional security for pension liabilities in the event of HCOB's insolvency. This structure enables HCOB to actively manage its pension liabilities 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 liabilities. 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 € 875 million as at 31 December 2022 (previous year: € 882 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 € 158 million (previous year: € 60 million) were offset by income of € 13 million (previous year: € 17 million) from fund assets in the reporting period, leaving net expenses of € 145 million (previous year: € 60 million).

In addition, HCOB Bank AG has contractual rights to reimbursement from the plan assets of the pension benefits already paid. These rights for reimbursement are recognised as receivables under other assets. As at 31 December 2022, the rights for reimbursement amount to € 91 million (previous year: € 61 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, HCOB 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 and (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)	31.12.2022	31.12.2021
Loans and advances to banks	9,799	10,031
Loans and advances to customers	8,419	8,706

25. Non-affiliated companies

As in the previous year, there were no loans and advances to non-affiliated companies as at the reporting date.

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)	31.12.2022	31.12.2021
Loans and advances to customers		
Subordinated loans and advances to customers	6,773	20,383
Debentures and other fixed-interest securities		
Bonds and debentures	224,804	215,740

27. Residual maturities

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

(€ k)	31.12.2022	31.12.2021
Loans and advances to banks		
Other loans and advances		
Up to 3 months	5,010,892	304,750
Between 3 months and 1 year	341,032	346,225
Between 1 year and 5 years	8,500	9,961
More than 5 years	–	500
Loans and advances to customers		
Up to 3 months	1,564,339	1,628,300
Between 3 months and 1 year	2,503,063	2,194,254
Between 1 year and 5 years	10,104,429	9,688,093
More than 5 years	4,781,093	5,585,901
With an indefinite term	800	2,577
Debentures and other fixed-interest securities		
Due in the following year	789,835	901,610

28. Negotiable securities

(€ k)	Listed		Unlisted		Total	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Debentures and other fixed-interest securities	4,879,642	5,846,786	1,706,453	561,976	6,586,095	6,408,762
Shares and other non-fixed-interest securities	–	4,918	902	383	902	5,301
Interests in affiliated companies	–	–	300	300	300	300

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

(€ k)	31.12.2022	31.12.2021
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	1,769,042	582,129
Carrying amount of securities reported above their fair value	913,919	210,724
Market value of securities reported above their fair value	891,681	210,286
Unrealised losses	22,238	438
thereof unrealised losses on securities that are not part of a valuation unit	22,228	438
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	475,404	181,472

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 2022 (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 8).

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):

(€ k)	Rating of the securities	31.12.2022	31.12.2021
No trigger events		**22,228**	**438**
	Investment grade rating or higher	18,792	358
	Investment grade rating or lower	3,436	80
Total		**22,228**	**438**

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)	31.12.2022	31.12.2021
Derivative financial instruments	171,798	506,659
Debentures and other fixed-interest securities	135,599	66,143
Other assets	8	19
Risk discount	-13,535	-8,910
Total	**293,870**	**563,911**

31. Investment assets

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

The shares are reported under asset item 5 “Shares and other non-fixed-interest securities”.

(€ k) 2022 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	245,456	244,286	-1,170	10,506
Apollo Alster Lending Fund (Lux), SCSp, Luxemburg	Investment in corporate loans	229,046	234,287	5,241	–
HI-Hafen Global-Fonds	Investment in corporate loans	72,824	72,824	–	–

Redemption of shares in HPS Elbe Unlevered Direct Lending Fund is subject to a notice period of 3 months. In addition, termination was excluded for one year from the launch of the fund as at September 2021. This blocking period for a termination expired in the financial year.

Redemption of shares in Apollo Alster Lending Fund is subject to a notice period of 3 months. In addition, termination was excluded for one year from the launch of the fund as at April 2022.

The investor may be requested at any time to return the shares in HI-Hafen Fonds. There is no termination period.

Based on the performance to date, there are no triggers for a permanent impairment of the above fund positions. Investment assets in the liquidity reserve are written off in accordance with the strict lower-of-cost-or-market principle to any lower market value of the funds.

32. Trust assets

Trust assets are reported under the following balance sheet items:

(€ k)	31.12.2022	31.12.2021
Loans and advances to customers	14,112	683
Total	**14,112**	**683**

33. Statement of changes in fixed assets

Development of fixed assets

(€ k)	01.01.2022	2022				31.12.2022	31.12.2022	31.12.2022	31.12.2021
	Historical cost of acquisition	Additions	Disposals	Transfers	Exchange rate differences	Historical cost of acquisition	Accumulated deprecia tion	Carrying amount	Carrying amount
Securities	763,601	1,717,243	168,057	–	-68,341	2,244,446	–	2,244,446	763,601
Long-term equity investments	73,512	1,650	–	–	–	75,162	69,510	5,652	4,002
Interests in affiliated companies	351,142	800	335,331	–	–	16,611	13,739	2,872	2,107
Land and buildings	126	–	–	–	–	126	117	9	12
Plant and equipment[1]	29,343	224	9,349	–	–	20,218	17,893	2,325	2,993
Intangible fixed assets[1]	191,586	23,025	154,146	–	–	60,465	5,036	55,429	34,316
Total	**1,409,310**	**1,742,942**	**666,883**	**–**	**-68,341**	**2,417,028**	**106,295**	**2,310,733**	**807,031**

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

Development in depreciation/amortisation

(€ k)	01.01..2022	2022						31.12.2022
	Accumulated deprecia tion	Depreciation in the financial year	Write-ups in the financial year	Change in total depreciation in connection with additions	Change in total depreciation in connection with disposals	Change in total depreciation in connection with transfers	Exchange rate difference	Accumu lated depreciation
Long-term equity investments	69,510	–	–	–	–	–	–	69,510
Interests in affiliated companies	349,035	–	–	–	335,296	–	–	13,739
Land and buildings	114	3	–	–	–	–	–	117
Plant and equipment[1]	26,348	890	–	–	9,345	–	–	17,893
Intangible fixed assets[1]	157,270	1,828	–	–	154,062	–	–	5,036
Total	**602,277**	**2,721**	**–**	**–**	**498,703**	**–**	**–**	**106,295**

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

Like in the previous year, no land and buildings used for HCOB's own business activities are included in the Land and buildings item in the year under review.

The disposals of acquisition costs and amortisation of intangible assets recognised in the reporting year mainly result from disposals of intangible assets already written off as part of the IT migration to SAP-S4HANA.

34. Other assets

The major components of other assets are:

(€ k)	31.12.2022	31.12.2021
Initial and variation margins from OTC derivatives (cf. Note 11)	467,428	584,614
Reimbursement right from plan assets	91.168	-
Adjustment item for currency translation	82,943	1,846
Receivables from fiscal authorities	80,753	13,530
Premiums paid from options trading and from interest limitation agreements	21,767	10,628
Swap deferrals under forward exchange transactions	3,724	-
Receivables from profit and loss transfer agreements and from dividends	162	815
Shares in closed-end real estate funds	6	6

35. Prepaid expenses

The major items disclosed here are:

(€ k)	31.12.2022	31.12.2021
Deferred income from derivatives	71,453	658
Discount accruals from issuing business	12,928	5,163
Discount accruals from liabilities	707	885
Premium accruals from claims	46	50

36. Deferred tax assets

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

(€ k)	31.12.2022	31.12.2021
Assets		
Loans and advances to customers	69,415	237,078
Debentures and other fixed-interest securities	106,143	22,677
Shares and other non-fixed-interest securities	699	-
Long-term equity investments	3,544	3,491
Interests in affiliated companies	1,596	1,596
Tangible fixed assets	2	2
Other assets	45,495	49,932
Deferred income	576	685
Liabilities		
Other liabilities	1,067	1,720
Deferred income	3,056	2,395
Provisions	205,903	193,152
Loss carryforwards	318,002	350,539
Total	**755,498**	**863,267**

The deferred tax assets decreased by € 108 million in the financial year.

Deferred tax assets on loss carryforwards in the amount of approximately € 197 million are attributable to the head office, while € 121 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 € 535 million (previous year: € 503 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 69), 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)	31.12.2022	31.12.2021
Assets transferred as collateral	4,835,844	5,543,236
thereof for		
Liabilities to banks	4,366,124	4,958,622
Liabilities to customers	2,292	-
Trading portfolio (liabilities)	467,428	584,614

39. Difference resulting from asset offsetting

Fund assets according to Section 246 (2) Sentence 2 German Commercial Code (HGB) amount to € 760 million (previous year: € 968 million). The pension liabilities thus covered amount to € 872 million (previous year: € 872 million). On balance, the excess amount after netting is € 0 million (previous year: € 96 million).

Notes on balance sheet liabilities

40. Affiliated companies

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

(€ k)	31.12.2022	31.12.2021
Liabilities to banks	6,782	9,852
Liabilities to customers	14,968	13,673

41. Non-affiliated companies

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

(€ k)	31.12.2022	31.12.2021
Liabilities to customers	2,692	3,492

42. Residual maturities

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

(€ k)	31.12.2022	31.12.2021
Liabilities to banks		
With an agreed maturity or notice period		
Up to 3 months	82,715	761,295
Between 3 months and 1 year	636,086	180,143
Between 1 year and 5 years	1,842,231	2,269,567
More than 5 years	1,950,492	2,246,110
Liabilities to customers		
Other liabilities with an agreed maturity or notice period		
Up to 3 months	2,840,321	1,846,678
Between 3 months and 1 year	2,221,171	1,134,513
Between 1 year and 5 years	1,417,592	984,981
More than 5 years	2,030,295	2,653,196
Securitised liabilities		
Debentures issued		
Due in the following year	2,341,681	2,162,510

43. Trading portfolio (liabilities)

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

(€ k)	31.12.2022	31.12.2021
Derivative financial instruments	226,816	442,265
Other liabilities	34	53
Total	**226,850**	**442,318**

44. Trust liabilities

Trust liabilities are reported under the following balance sheet items:

(€ k)	31.12.2022	31.12.2021
Liabilities to banks	–	34
Liabilities to customers	14,112	649
Total	**14,112**	**683**

45. Other liabilities

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

(€ k)	31.12.2022	31.12.2021
Variation margin OTC derivatives	168,488	109,651
Security deposits for assumption of debts	47,143	47,790
Adjustment item for currency valuation	39,957	108,021
Liabilities to employees	7,191	17,443
Pro rata interest on subordinated debt, profit participation rights and silent participations	4,862	2,348
Tax liabilities	4,567	4,379
Liabilities from profit and loss transfer agreements and from dividends	601	777

46. Deferred income

The major components of deferred income are the following:

(€ k)	31.12.2022	31.12.2021
Deferrals from advance loan fees	78,179	67,461
Deferred income from derivatives	147,725	9,599
Discount deferrals from receivables	4,387	5,319
Premium deferrals from issuing business	8,082	9,049

47. Deferred tax liabilities

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

(€ k)	31.12.2022	31.12.2021
Assets		
Intangible fixed assets	1,300	33
Difference resulting from asset offsetting	–	13,861
Total	**1,300**	**13,894**

The deferred tax liabilities have decreased by approximately € 13 million in the year under review. They relate to intangible assets generated in-house.

Measurement of plan assets for pension provisions, which differs for tax purposes, no longer results in deferred tax liabilities as at the reporting date.

48. Other provisions

Other provisions primarily relate to the following items:

(€ k)	31.12.2022	31.12.2021
Litigation risks and costs	105,126	118,848
Personnel expenses	63,105	49,241
Outstanding invoices	44,563	45,795
Lending business	41,765	52,516
Securities transaction and financial derivatives	24,223	15,153
Restructuring measures	19,556	65,960
Regulatory expenses	15,748	16,014
Transformation expenses	10,685	1,169
Provisions for pending losses	6,018	9,028
Archiving expenses	4,968	4,968
Processing fees for commercial loans	1,196	4,700
Interest on corporate tax and trade tax	1,661	10,663

Provisions for restructuring measures of € 17 million (previous year: € 49 million) refer to personnel expenses and € 3 million (previous year: € 17 million) to operating expenses.

The provisions for restructuring measures were formed in 2018 in connection with the restructuring programmes for the privatisation respectively the transformation of Hamburg Commercial Bank AG. The decrease in this item is mainly due to current utilisations and reversals 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 0.808% p.a. and 6.44% p.a.

Individual items exceeding 9.99% of total subordinated debt:

(€ m)	Currency	Interest rate	Maturity date	Termination rights
134	USD	5.14%	21 March 2031	None
92	EUR	1.88%	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: € 0 million) will mature in less than two years. Interest expense on subordinated debt amounted to € 13 million in the year under review (previous year: € 8 million).

50. Fund for general banking risks

Additions from the net income from the trading portfolio amounted to (previous year: € 1 million). Reversals from the Fund for general banking risks of € 1,560 million (previous year: € 0 million) were made in accordance with Section 340g German Commercial Code (HGB) in the reporting year. These reversals essentially reflect the successful transformation of the Bank's business model and the resulting reduction in general banking risks. The amount of € 808 million remaining after the reversals as at 31 December 2022 in accordance with Sections 340g/e German Commercial Code (HGB) represents, according to HCOB's own assessment, an appropriate consideration of the special risks associated with the business of credit institutions (essentially general banking risks).

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.

Following the restructuring of balance sheet equity carried out in financial year 2021, the share capital of Hamburg Commercial Bank AG is divided into 301,822,453 (registered) no-par value shares, each with a notional share in the share capital of € 1. All outstanding shares are fully paid.

As in the previous year, several funds launched by Cerberus Capital Management L.P., New York, indirectly held a total of 42.41% of the voting rights as at 31 December 2022 via three acquisition companies (Promontoria Holding 221 B.V. 9.87%, Promontoria Holding 231 B.V. 13.86% and Promontoria Holding 233 B.V. 18.69%). Funds advised by J.C. Flowers & Co LLC, New York, indirectly hold a 34.93% 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 12.47% 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 7.48% 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 2.49% and the members of the Managing Board or former members of the Managing Board of HCOB hold a share of 0.20% (previous year: 0.11%).

JCF IV Neptun Holdings S.à r.l., Luxembourg, informed us in November 2018 that it directly owned more than one quarter of the shares of Hamburg Commercial Bank AG pursuant to Section 20 (1) of the German Stock Corporation Act (AktG).

In addition, the following companies and natural persons notified us in November 2018 that they indirectly owned more than one quarter of the shares of Hamburg Commercial Bank AG pursuant to Section 20 (1) sentence 1, sentence 2 in conjunction with Section 16 (4) German Stock Corporation Act (AktG).

- JCF IV Europe S.à r.l.
- J.C. Flowers IV L.P.,
- JCF Associates IV L.P.,
- JCF Associates IV Ltd.,
- Mr. James Christopher Flowers,
- Mr. Stephen A. Feinberg.

Neither Hamburg Commercial Bank AG nor any company dependent on it or majority-owned companies hold treasury stock. There are no cross-shareholdings as defined by Section 19 German Stock Corporation Act (AktG).

The capital reserve includes amounts from share-based compensation of € 16 million (previous year: € 11 million).

From the net profit for the year, the Management Board and Supervisory Board of HCOB AG transferred an amount of € 795 million to other retained earnings within the scope of their authority under the Articles of Association.

A dividend distribution of € 1.5 billion is proposed for 2023. The remaining € 89.9 million are to be allocated to retained profit. However, the two proposals still require a corresponding resolution by the annual general meeting.

Notes on the income statement

52. Breakdown of income items by geographical markets

(€ k)	2022			2021		
	Germany	Rest of Europe	Asia	Germany	Rest of Europe	Asia
Interest income	1,598,439	68,534	–	1,281,520	36,035	–
Current income from share and other non-fixed-interest securities, equity holdings in non-affiliated companies and interests in affiliated companies	108	11,494	–	23,921	1,829	–
Income from profit pooling, profit transfer and partial profit transfer agreements	5,662	–	–	293	–	–
Commission income	37,935	3,107	–	46,244	3,774	–
Net income from the trading portfolio	42,221	– 185	–	13,406	73	–
Other operating income	100,265	779	–	122,138	1,269	–

53. Net interest income

Net interest income includes one-time expenses from the disposal of receivables in the amount of € 0 million (previous year: € 73 million).

54. Net commission income

Net commission income is composed of the following:

(€ k)	2022	2021
Payment transactions and foreign business, documentary business	15,414	14,905
Lending business	12,606	16,915
Guarantee business	5,688	5,796
Securities business	-342	-209
Other	170	557
Total	**33,536**	**37,964**

55. Other operating income

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

(€ k)	2022	2021
Income from the disposal of tangible fixed assets	39	–
Income from the reversal of other provisions	28,467	82,851
Cost allocations and reimbursement of expenses	11,361	11,245
Income from the reversal of provisions for contingent losses from valuation units (cf. Note 13)	778	3,160
Income from legal disputes	–	3,150
Income from reversals of provisions for litigation	14,800	6,521
Interest income from claims against tax authorities	31,042	17,463
Income from option premiums received as well as compensation payments received for options held in the non-trading portfolio	–	20

Other operating income in the reporting year was influenced in particular by income from the reversal of provisions and interest income from taxes.

In the previous year, other operating income had mainly been influenced by the release 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)	2022	2021
Expenses for the compounding of provisions outside the lending business	145,209	59,832
Expenses from additions to other provisions	9,307	24,164
Expenses paid in advance for transaction fees, legal fees, servicing	10,152	8,976
Expenses relating to option premiums paid as well as compensation payments for options held in the investment portfolio	3,208	29,481
Expenses from additions to provisions for litigation risks	6,322	12,372
Interest expenses pursuant to Section 233 AO	1,665	9,472
Loss on exchange from transactions not specifically hedged	779	5,314

Income and expenses from provisions for pensions and similar obligations, and fund assets to be offset in accordance with Section 246 (2) Sentence 2 German Commercial Code (HGB) are reported within the Other operating expenses item as "Net result from provisions for pension obligations and similar obligations, and fund assets". This includes changes in the fair value of fund assets (€ -129 million, previous year: € 7 million), the effect of the change in the ten-year average interest rate (€ -17 million, previous year: € -58 million) and the interest expense from the accrued interest of pension provisions (€ -12 million, € -19 million), netted with income from fund assets of € 13 million (previous year: € 10 million). The significant decrease in the fair value of fund assets in the reporting year is mainly due to the changed interest rate environment.

57. Extraordinary result

The Extraordinary result comprises transformation expenses of € 58 million (previous year: € 29 million). In connection with the successful privatisation on 28 November 2018, Hamburg Commercial Bank initiated a comprehensive restructuring programme, which includes the planned reduction in the number of employees and major projects to support the transformation of the Bank. Restructuring provisions of € 24 million were released in the financial year.

Transformation expenses of € -58 million (previous year: € -29 million) result in particular from follow-up project measures implemented to reach the Bank's strategic goals.

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)	2022	2021
Deferred income taxes	–95,175	282,767
from temporary differences	–62,638	111,562
from losses carried forward	–32,537	171,205
Current income taxes	–27,646	–14,022
Total	**–122,821**	**268,745**

The deferred tax expense in the year under review of € 95 million (previous year: deferred tax assets of € 283 million) results from the deferred tax expense on temporary differences of € 63 million (previous year: deferred tax assets of € 112 million) as well as deferred tax expenses on loss carryforwards of € 32 million (previous year: deferred tax assets of € 171 million). The deferred taxes on temporary differences are almost entirely attributable to the head office. € 80 million of the deferred tax expense on loss carryforwards relates to the head office, while the Luxembourg branch, on the other hand, reported deferred tax assets on loss carryforwards of € 48 million.

Current income taxes of € 94 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 € 66 million, which relates to the expected results of the current tax audit.

59. 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 2022 and carried out the audit of the annual financial statements of HCOB Trust e.V. In addition, the review of the half-year financial report as at 30 June2022, 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.

60. Non-distributable amounts

A total of € 808 million (previous year: € 977 million) of freely available reserves are blocked for distribution. The amount blocked for distribution is made up as follows: € 755 million (previous year: € 867 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 € 49 million (previous year: € 79 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 € 0 million (previous year: € 29 million) and results from the difference between the fair value of the fund assets and their amortised cost less the deferred tax liabilities created for this purpose. As in the previous year, the distribution block of € 3 million (previous year: € 2 million) results from the capitalisation of internally generated intangible assets less the deferred tax liabilities formed for this purpose.

Other disclosures

61. Leasing business

Assets related to the leasing business include € 33 million (previous year: € 36 million) shown under Loans and advances to customers. As in the previous year, there are no liabilities related to the leasing business.

62. 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 € 1,359 million (previous year: € 1,863 million) and to foreign customers with € 2,293 million (previous year: € 2,081 million).

As was the case in the previous year, there were not placement or underwriting commitments as at 31 December 2022.

63. 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.

64. 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 € 7 million result from long-term leases for land and buildings used for business purposes (previous year: € 13 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 € 28 million (previous year: € 44 million) result from leasing agreements for IT services.

The obligation to purchase fund units at the nominal market price that result from the sale of an investment has expired in the reporting year (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 HCOB also has a general liability towards DekaBank 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.

65. 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	2,963,609.01
2	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	33,184.71	–489.73
3	GmbH Altstadt Grundstücksgesellschaft, Hamburg[1][2]	89.90	89.90	EUR	138,695.43	–2,844,609.01
4	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,730,016.07	–45,545.92
5	HCOB Care+Clean GmbH, Hamburg	51.00	51.00	EUR	20,293.28	–4,706.72
6	HCOB Private Equity GmbH, Hamburg[2]	100.00	100.00	EUR	550,000.00	292,877.64
7	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg	56.44	56.44	EUR	–1,422,170.13	–3,482,749.31
8	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	41,858.81	2,726.38

Affiliated companies – other foreign companies

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
9	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong[1]	51.00	51.00	USD	115.00	–
10	Avia Management S.à r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	72,622.12	–97,570.24
11	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	322,772.11	–35,989.97
12	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	4,118,010.00	312,331.00
13	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	2,317,871.83	1,987,871.83
14	HCOB Structured Situations Limited, St. Helier, Jersey[3]	100.00	100.00	USD	347,000.00	551.00
15	Klarphos S.à.r.l., Findel, Luxembourg	100.00	100.00	EUR	541,196.06	166,196.06
16	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong[1]	0.01	100.00	USD	–252,837.00	1,025,539.00

Long-term equity investments

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
17	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	1.33	1.33	EUR	273,601,103.15	14,936,000.00
18	GLB GmbH & Co. OHG, Frankfurt am Main[5]	15.77	15.77	EUR	2,776,785.86	– 61,398.48
19	GLB-Verwaltungs-GmbH, Frankfurt am Main[5]	15.80	15.80	EUR	59,627.58	1,981.74
20	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	2,211,558.49	12,700.86
21	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekte Hamburg und Potsdam KG, Hamburg	5.15	5.16	EUR	4,192,487.55	633,831.37
22	HGA Objekt München GmbH & Co. KG, Hamburg[4]	5.23	5.23	EUR	3,604,658.30	–22,425.57
23	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	8,894,053.10	564,175.76
24	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg	5.10	5.09	EUR	6,350,486.14	483,523.96
25	Hines European Development Fund Limited Partnership, Wilmington, USA[1]	9.90	9.90	EUR	37,419,000.00	–916,000.00
26	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	1,176,541.09	–189,301.35
27	RSU GmbH & Co. KG, Munich	13.60	13.60	EUR	10,678,441.89	985,304.99
28	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T. SCRL), La Hulpe, Belgium	0.03	0.03	EUR	616,152,000.00	52,234,000.00
29	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,535,845.42	–88,366.68
30	Vofü-Fonds I Hamburgische Grundbesitz und Anlage GmbH & Co. KG, Hamburg	5.10	5.09	EUR	2,465,876.62	94,223.07

[1] Indirect holding.
[2] A profit transfer agreement with the company is in place.
[3] Data as at 31 December 2017 is available.
[4] Data as at 31 December 2019 is available.
[5] Data as at 31 December 2020 is available.

Foreign exchange rates for € 1 as at 31 December 2022

USA	USD	1.0666

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.

66. Notes on foreign currencies

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

(€ k)	31.12.2022	31.12.2021
Assets	4,575,437	3,041,266
Liabilities	3,989,334	2,618,380

67. 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)	31.12.2022			31.12.2021		
	Value before netting	Netting	Value after netting	Value before netting	Netting	Value after netting
Trading portfolio (assets)						
thereof derivative financial instruments	214,744	216,410	–1,666	252,480	232,534	19,946
Other assets	238,309	–112,770	351,079	434,716	53,141	381,575
Total assets	**453,053**	**103,640**	**349,413**	**687,196**	**285,675**	**401,521**
Trading portfolio (liabilities)						
thereof derivative financial instruments	23,217	27,176	–3,959	315,381	312,730	2,651
Other liabilities	244,951	76,464	168,487	82,596	–27,055	109,651
Total liabilities	**268,168**	**103,640**	**164,528**	**397,977**	**285,675**	**112,302**

68. 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 € 2,148 million as at 31 December 2022 (previous year: € 1,067 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	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Interest rate swaps	6,122	11,503	342	682	114	322
Swaptions						
Purchases	25	60	–	–	–	–
Sales	7	37	–	1	–	–
Caps, floors	834	1,497	19	11	5	1
Exchange-traded contracts	2	130	–	–	–	–
Other forward interest rate transactions	36	38	11	6	12	7
Interest rate risks	**7,026**	**13,265**	**372**	**700**	**131**	**330**
Interest rate/currency swaps	580	701	3	3	–	2
Interest rate and foreign exchange risk	**580**	**701**	**3**	**3**	**–**	**2**
Forward exchange transactions	154	163	3	2	3	2
Currency options						
Purchases	–	–	–	–	–	–
Sales	–	–	–	–	–	–
Foreign exchange risks	**154**	**163**	**3**	**2**	**3**	**2**
Exchange-traded contracts	–	1	–	–	–	–
Equity and other price risks	**–**	**1**	**–**	**–**	**–**	**–**
Collateral taker	–	–	–	–	–	–
Credit derivatives	**195**	**–**	**3**	**–**	**–**	**–**
Structured products	**426**	**538**	**7**	**34**	**15**	**37**
Total	**8,381**	**14,668**	**388**	**739**	**149**	**371**

Non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Interest rate swaps	14,594	3,046	147	104	675	314
Swaptions						
Purchases	–	–	–	–	–	–
Sales	–	–	–	–	–	–
Caps, floors	3,068	1,487	36	3	37	3
Exchange-traded contracts	–	–	–	–	–	–
Other forward interest rate transactions	47	–	–	–	–	–
Interest rate risks	**17,709**	**4,533**	**183**	**107**	**712**	**317**
Interest rate/currency swaps	42	42	–	–	26	27
Interest rate and foreign exchange risk	**42**	**42**	**–**	**–**	**26**	**27**
Forward exchange transactions	4,461	3,093	98	4	22	82
Foreign exchange risks	**4,461**	**3,093**	**98**	**4**	**22**	**82**
Equity options						
Purchases	–	–	–	–	–	–
Equity/index-based swaps	–	2	–	1	–	–
Equity and other price risks	**–**	**2**	**–**	**1**	**–**	**–**
Collateral provider	–	–	–	–	–	–
Collateral taker	–	–	–	–	–	–
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Structured products	**254**	**310**	**2**	**13**	**31**	**27**
Total	**22,466**	**7,980**	**283**	**125**	**791**	**453**

II. Counterparty classification

Trading and non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
OECD banks	24,052	15,242	489	337	732	748
Non-OECD banks	–	5	–	1	–	–
Non-banks (incl. stock exchanges)	6,731	7,329	180	520	205	65
Public authorities	64	72	2	6	3	11
Total	**30,847**	**22,648**	**671**	**864**	**940**	**824**

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	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Residual maturity										
Up to 3 months	136	429	–	–	4,521	1,926	–	3	–	6
Up to 1 year	2,253	2,357	–	–	82	1,318	–	–	–	30
Up to 5 years	18,049	8,730	195	–	12	12	–	–	158	127
Over 5 years	4,919	7,025	–	–	–	–	–	–	522	685
Total	**25,357**	**18,541**	**195**	**–**	**4,615**	**3,256**	**–**	**3**	**680**	**848**

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 2022, the net amount of reconciliation items shown under Other assets amounted to € 83 million (previous year: € 2 million) and the reconciliation items shown under Other liabilities amounted to € 40 million (previous year: € 108 million).

(€ m)	Option premiums paid		Option premiums received	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Interest rate contracts	14	3	13	2
Equity and other contracts	8	8	–	–
Total	**22**	**11**	**13**	**2**

We have created provisions for contingent losses in the amount of € 19 million (previous year: € 8 million) for derivative financial instruments held outside the trading portfolio with regard to which an effective hedging relationship could not be shown.

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

The total amounts of mortgage bonds, public-sector mortgage 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	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Mortgage bonds	3,267	3,247	3,096	3,284	2,939	3,227
Cover funds	4,038	3,866	4,050	4,106	3,793	4,022
thereof: Derivatives	–	–	–	–	–	–
Surplus coverage	**771**	**619**	**954**	**822**	**854**	**795**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Public-sector mortgage bonds	657	902	703	1,083	642	1,032
Cover funds	791	958	849	1,235	732	1,132
thereof: derivatives	–	–	–	–	–	–
Surplus coverage	**134**	**56**	**146**	**152**	**90**	**100**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Ship mortgage bonds	1,873	1,938	1,868	1,962	1,842	1,956
Cover funds	2,507	2,279	2,556	2,432	2,171	2,238
thereof: Derivatives	–	–	–	–	–	–
Surplus coverage	**634**	**341**	**688**	**470**	**329**	**282**

Composition of the additional cover assets(€ m)		Receivables within the meaning of Sec. 19 (1) p.1 no. 2a) & b) no. 2 b) PfandBG		Receivables within the meaning of Sec. 19 (1) p.1 no. 3a) to c) PfandBG		Mortgage bonds
Sec. 28 (1) no. 8,9 and 10 PfandBG registered receivables 2022	Total	Total	thereof covered debentures	Total	thereof covered debentures	Receivables within the meaning of Sec. 19 (1) no. 4 PfandBG
Germany	84	64	64	20	20	–
Belgium	39	–	–	39	39	–
Netherlands	45	45	45	–	–	–
Sweden	14	14	14	–	–	–
USA	277	–	–	–	–	277
Total	**459**	**123**	**123**	**59**	**59**	**277**

[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 according to Section 19 (1) no. 2 PfandBG				Mortgage bonds
Registered receivables 2021	Equalisation claims	Total	thereof covered debentures	Receivables according to Section 19 (1) no. 3 PfandBG	Total
Germany	–	5	–	275	280
Total	**–**	**5**	**–**	**275**	**280**

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 according to Section 20 (2) no. 2 PfandBG			Public-sector mortgage bonds
Registered receivables 2022	Equalisation claims	Total	thereof covered debentures	Total
Germany	–	–	–	–
Total	**–**	**–**	**–**	**–**

(€ m)	Receivables according to Section 20 (2) no. 2 PfandBG			Public-sector mortgage bonds
Registered receivables 2021	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 according to Sec. 26 (1) p. 1 no. 3 PfandBG		Receivables within the meaning of Sec. 26 (1) p. 1 no. 4 PfandBG		Ship mortgage bonds
Sec. 28 (1) no. 8,9 and 10 PfandBG registered receivables 2022	Total	Total	thereof covered debentures	Total	thereof covered debentures	Receivables according to Sec. 26 (1) p. 1 no. 5 PfandBG
Germany	61	18	–	–	–	43
EU institutions	13	–	–	–	–	13
USA	130	–	–	–	–	130
Total	**204**	**18**	**–**	**–**	**–**	**186**

(€ m)	Receivables according to 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**

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	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Up to 6 months	686	1,080	377	327
Between 6 and 12 months	570	10	581	412
Between 12 and 18 months	11	777	431	308
Between 18 months and 2 years	–	570	320	466
Between 2 years and 3 years	–	10	382	674
Between 3 years and 4 years	500	300	800	342
Between 4 years and 5 years	1,000	0	472	667
Between 5 years and 10 years	500	500	398	669
More than 10 years	–	–	277	1
Total	**3,267**	**3,247**	**4,038**	**3,866**

(€ m)	Public-sector mortgage bonds		Cover funds	
Nominal value	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Up to 6 months	18	124	16	44
Between 6 and 12 months	12	126	81	41
Between 12 and 18 months	10	18	9	11
Between 18 months and 2 years	26	12	160	133
Between 2 years and 3 years	156	35	15	164
Between 3 years and 4 years	69	155	13	15
Between 4 years and 5 years	99	68	52	13
Between 5 years and 10 years	154	201	45	91
More than 10 years	113	163	400	446
Total	**657**	**902**	**791**	**958**

(€ m)	Ship mortgage bonds		Cover funds	
Nominal value	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Up to 6 months	23	35	315	228
Between 6 and 12 months	300	330	284	333
Between 12 and 18 months	400	273	310	306
Between 18 months and 2 years	300	250	224	258
Between 2 years and 3 years	750	700	610	412
Between 3 years and 4 years	100	250	417	500
Between 4 years and 5 years	–	100	154	224
Between 5 years and 10 years	–	–	63	18
More than 10 years	–	–	130	–
Total	**1,873**	**1,938**	**2,507**	**2,279**

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	
	31.12.2022	31.12.2021
Proportion of fixed interest-bearing cover funds	63	58
Ratio of fixed interest-bearing bonds	100	91

(in %)	Public-sector mortgage bonds	
	31.12.2022	31.12.2021
Proportion of fixed interest-bearing cover funds	82	85
Ratio of fixed interest-bearing bonds	91	93

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

(€ m)	Mortgage bonds	
Foreign currency	31.12.2022	31.12.2021
CHF	–	1
USD	259	–
SEK	2	4

(€ m)	Public-sector mortgage bonds	
Foreign currency	31.12.2022	31.12.2021
CHF	109	111
USD	53	–

(€ m)	Ship mortgage bonds	
Foreign currency	31.12.2022	31.12.2021
USD	2,221	2,333

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

(A) Mortgage bond register

(€ m)	Covering mortgages	
Nominal value	31.12.2022	31.12.2021
Up to € 300,000 €	11	12
Between € 300,000 and € 1 million	31	35
Between € 1 million and € 10 million	614	739
More than € 10 million	2,629	2,800
Total	**3,285**	**3,586**

(B) Public-sector mortgage bonds

(€ m)	Covering mortgages	
Nominal value	31.12.2022	31.12.2021
Up to € 10 million	42	63
Between € 10 million and € 100 million	342	363
More than € 100 million	407	532
Total	**791**	**958**

(C) Ship register

(€ m)	Covering mortgages	
Nominal value	31.12.2022	31.12.2021
Up to € 500,000 €	–	–
Between € 500,000 and € 5 million	267	313
More than € 5 million	1,919	1,907
Total	**2,186**	**2,220**

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)	31.12.2022	31.12.2021
Used for residential purposes	563	596
Used for commercial purposes	2,722	2,990

(€ m) 2022	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	–	5	524	902	902	–	552	118	29	3,032
Netherlands	–	–	13	154	84	–	–	–	–	251
Sweden	–	–	–	–	2	–	–	–	–	2
Total	**–**	**5**	**537**	**1,056**	**988**	**–**	**552**	**118**	**29**	**3,285**

(€ 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
Netherlands	–	–	13	158	84	–	–	–	–	255
Sweden	–	–	–	–	4	–	–	–	–	4
Total	**–**	**3**	**572**	**1,263**	**1,011**	**12**	**610**	**115**	**–**	**3,586**

(€ m)	31.12.2022	31.12.2021
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:

		31.12.2022	31.12.2021
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	5
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
2022	owed	guaran-teed	owed	guaran-teed	owed	guaran-teed	owed	guaran-teed		
Germany	–	60	332	10	46	44	–	20	512	–
Belgium	30	–	–	3	–	–	–	–	33	–
Poland	–	–	–	–	–	–	–	–	–	–
Portugal incl. Azores and Madeira	–	83	–	–	–	–	–	–	83	–
Switzerland	–	–	107	–	–	–	–	–	107	–
	–	–	–	–	–	–	–	–	–	–
USA	–	56	–	–	–	–	–	–	56	–
Total	**30**	**199**	**439**	**13**	**46**	**44**	**–**	**20**	**791**	**–**

(€ 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	–
Portugal incl. Azores and Madeira	–	83	–	–	–	–	–	–	83	–
Switzerland	–	–	101	–	–	–	–	–	101	–
Total	**130**	**153**	**519**	**16**	**60**	**49**	**9**	**21**	**957**	**70**

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

(€ m) 2022	Country	Regional public authority	Local public authority	Other	Total
Total of payments at least 90 days in arrears	1	–	–	–	1
Total amount of these receivables provided that the amount in arrears accounts for at least 5% of the receivable	2	–	–	–	2

(€ 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	–	–	–	–	–

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)	31.12.2022		31.12.2021	
	Ocean-going vessels	Inland water vessels	Ocean-going vessels	Inland water vessels
Antigua and Barbuda	4	–	5	–
Bahamas	24	–	26	–
Belgium	10	–	–	–
Germany	199	–	231	–
Denmark	89	–	103	–
Gibraltar	–	–	1	–
Greece	20	–	22	–
Great Britain/Northern Ireland/Brit. Channel Islands	34	–	37	–
Hong Kong	68	–	128	–
Liberia	526	–	491	–
Malta	186	–	174	–
Marshall Islands	631	–	539	–
Panama	236	–	196	–
Singapore	86	–	133	–
Cyprus	73	–	136	–
Total	**2,186**	**–**	**2,222**	**–**

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

(€ m)	31.12.2022	31.12.2021
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 receiva-ble	**–**	**–**

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) 2022	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) 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	–	–	–	–	–

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

(€ m) 2022	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Total amount of arrears on interest to be paid	–	–	–	–	–

(€ m) 2021	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 € 10 million (previous year: € 17 million) and € 8,461 million of loans and advances to customers (previous year: € 8,756 million) are used to cover debentures issued.

70. 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:

	2022			2021		
	Male	Female	Total	Male	Female	Total
Full-time employees	538	201	739	581	215	796
Part-time employees	22	137	159	22	155	177
Total	**560**	**338**	**898**	**603**	**370**	**973**
Apprentices/trainees	6	4	10	7	2	9

71. 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.

72. 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 annual 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 extent to which the annual targets were achieved as well as, taking into account the multi-year assessment basis for the variable remuneration component, the overall degree of target achievement and the resulting cash bonus and share bonus in euros for the respective performance year. HCOB's Supervisory Board uses an independent valuation for each performance year to determine the price at which the share bonus earned in euros is converted into shares in the Bank. In the transfer of shares (like in the payment of the cash bonus), 40% are paid in the year following the respective performance year, while 60% is subject to a deferral period of usually five years, but up to seven years for new Management Board members, during which the payment of the retained component is made annually in equal pro rata tranches. The Supervisory Board carries out a review during the retention period, with the variable remuneration components being subject to a clawback provision until two years after payment of the last tranche. Before the retained portion of the cash bonus and the shares from the share bonus are granted, the beneficiaries have no claim or entitlement to those portions of the cash bonus and the share bonus that have not yet been transferred. The shares not yet transferred do not bear any interest and the retained portion in the share bonus does not entitle the beneficiary to a dividend. 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 to 2021, 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 2022, a total of 254,207 shares were transferred to eligible persons under the share bonus programme (previous year: 188,634 shares). Until 31 December 2022, a total of 603,960 shares have been transferred under the share bonus programme, which corresponds to a share of 0.20% in the share capital (until 31 December 2021: 349,753 shares).

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 2022, the capital reserve includes an amount of € 16 million for share-based remuneration (€ 5 million increase in 2022). This includes an amount of € 5 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).

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

Remuneration of corporate bodies

(€ k)	2022	2021
Total remuneration of all active members of corporate bodies		
Management Board	27,650	22,058
Supervisory Board	4,335	4,297
Total	**31,985**	**26,355**
Total remuneration of former members of corporate bodies and their surviving dependants		
Management Board	5,894	4,588

As at 31 December 2022, pension provisions for former members of the Management Board and their surviving dependants amounted to €k 48,436 (previous year: €k 48,703) was added to provisions for pension liabilities relating to former members of the Management Board and their surviving dependants.

As at the reporting date of the previous year, there were no advances, loans or other contingent liabilities to members of the Management Board or the Supervisory Board as at 31 December 2022.

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.

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 3,251 was paid to the members of the Supervisory Board for their activities in the Supervisory Board in financial year 2022. For the portion of Supervisory Board remuneration for financial year 2022 (fourth quarter) paid out at the beginning of 2023, a provision of €k 1,084 was recognised as at 31 December 2022.

For this purpose, a provision of €k 1,084 had been formed as at 31 December 2021 for the Supervisory Board remuneration for the fourth quarter of 2021. The amount paid out to the members of the Supervisory Board for this purpose in the 2022 financial year amounted to €k 1,084.

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

The remuneration for financial year 2022 paid to the members of the Supervisory Board in 2022 and at the beginning of 2023 breaks down as follows:

Members of the Supervisory Board

(€)	Fixed remuneration		Total	
Members of the Supervisory Board	2022	2021	2022	2021
Juan Rodríguez Inciarte, Chair	850,000	850,000	850,000	850,000
Olaf Behm, Vice Chair from 17 January 2022	215,000	215,000	215,000	215,000
Simone Graf, Vice Chair until 16 January 2022	215,000	215,000	215,000	215,000
Oliver Dircks	230,000	222,500	230,000	222,500
Bert Ehlers	215,000	215,000	215,000	215,000
Manuel González Cid[1]	–	–	–	–
Frederick Haddad	215,000	215,000	215,000	215,000
Klaus Heinemann	445,000	437,500	445,000	437,500
Chad Leat	430,000	422,500	430,000	422,500
Rieka Meetz-Schawaller	215,000	215,000	215,000	215,000
Mark Neporent[1]	–	–	–	–
Dr Ilinca Rosetti	215,000	207,500	215,000	207,500
Stefan Schlatermund	215,000	215,000	215,000	215,000
Mag. Friedrich Spandl (from 1 January 2021)	215,000	214,583	215,000	214,583
Mark Werner	230,000	222,500	230,000	222,500
Stephan Wilcke	215,000	215,000	215,000	215,000
Paulus de Wilt	215,000	215,000	215,000	215,000
Peter Yordán[1]	–	–	–	–
Total	**4,335,000**	**4,297,083**	**4,335,000**	**4,297,083**

[1] Supervisory Board remuneration waived.

The members of the Supervisory Board have not provided any advisory and brokerage services or any other personal services to the Bank in 2022. Accordingly, no additional remunerations were granted.

73. 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

In contrast to the previous year, members of the Management Board held no seats in statutory supervisory bodies of major corporations or financial institutions as at the reporting date.

(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

JENS THIELE
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt
Member of the Supervisory Board

KATRIN WÄCHTER
Technosis AG, Hamburg
Member of the Supervisory Board

VOLKER KIESCHKE
Kabel Premium Pulp&Paper GmbH, Hagen
Member of the Supervisory Board

74. 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
Chair

BERT EHLERS

FREDERICK HADDAD

STEFAN SCHLATERMUND

MAG. FRIEDRICH SPANDL

MARK WERNER

PETER YORDÁN

(b) Members of the Audit Committee

KLAUS HEINEMANN
Chair

OLAF BEHM

OLIVER DIRCKS

MANUEL GONZÁLEZ CID

PAULUS DE WILT

(c) Members of the Executive/ Nominating Committee

JUAN RODRÍGUEZ INCIARTE
Chair

MANUEL GONZÁLEZ CID

SIMONE GRAF

PETER YORDÁN

(d) Members of the Compensation Monitoring Committee

JUAN RODRÍGUEZ INCIARTE
Chair

KLAUS HEINEMANN

RIEKA MEETZ-SCHAWALLER

STEPHAN WILCKE

(e) Members of the IT-Transformation Committee

JUAN RODRÍGUEZ INCIARTE
Chair

OLIVER DIRCKS

KLAUS HEINEMANN

CHAD LEAT

DR ILINCA ROSETTI

MARK WERNER

75. The Management Board of Hamburg Commercial Bank AG

IAN BANWELL
Born in 1963
Chief Excecutive Officer (CEO)
(since 1 October 2022)
Chief Financial Officer (CFO)
(until 30 September 2022)

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

CHRISTOPHER BRODY
Born in 1968
Chief Investment Officer (CIO)

MARC ZIEGNER
Born in 1975
Chief Financial Officer (CFO)
(since 1 October 2022)

STEFAN ERMISCH
Born in 1966
Chief Executive Officer (CEO)
(until 30 September 2022)

Hamburg, 14 March 2023

Ian Banwell Ulrik Lackschewitz

Christopher Brody Marc Ziegner

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

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 2022, and the statement of profit and loss for the financial year from 1 January to 31 December 2022 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 2022. 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 2022 and of its financial performance for the financial year from 1 January to 31 December 2022 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 2022. 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 18,954 million are reported under the "Loans to customers" balance sheet line item. As at 31 December 2022, 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 current macroeconomic environment 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 current macroeconomic environment, 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 current macroeconomic environment 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 348 million are reported. Of this amount, EUR 105 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 755 million and deferred tax liabilities of EUR 1 million are reported. The resulting surplus of deferred tax assets amounting to EUR 754 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 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 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. 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 to comply with §§ 289b to 289e HGB and with §§ 315b to 315c 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 (i.e., fraudulent financial reporting and misappropriation of assets) 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, actions taken to eliminate threats or safeguards applied.

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-2022-12-31.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 2022 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 (06.2022)) 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 18 May 2022. We were engaged by the supervisory board on 17 June 2022. 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 filed in the company register – 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.

Responsibility statement by the Management Board

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

Hamburg, 14 March 2023

Ian Banwell Ulrik Lackschewitz

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Notice

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

This annual report was published on 30 March 2023 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

Financial Report Hamburg Commercial Bank AG **2022**