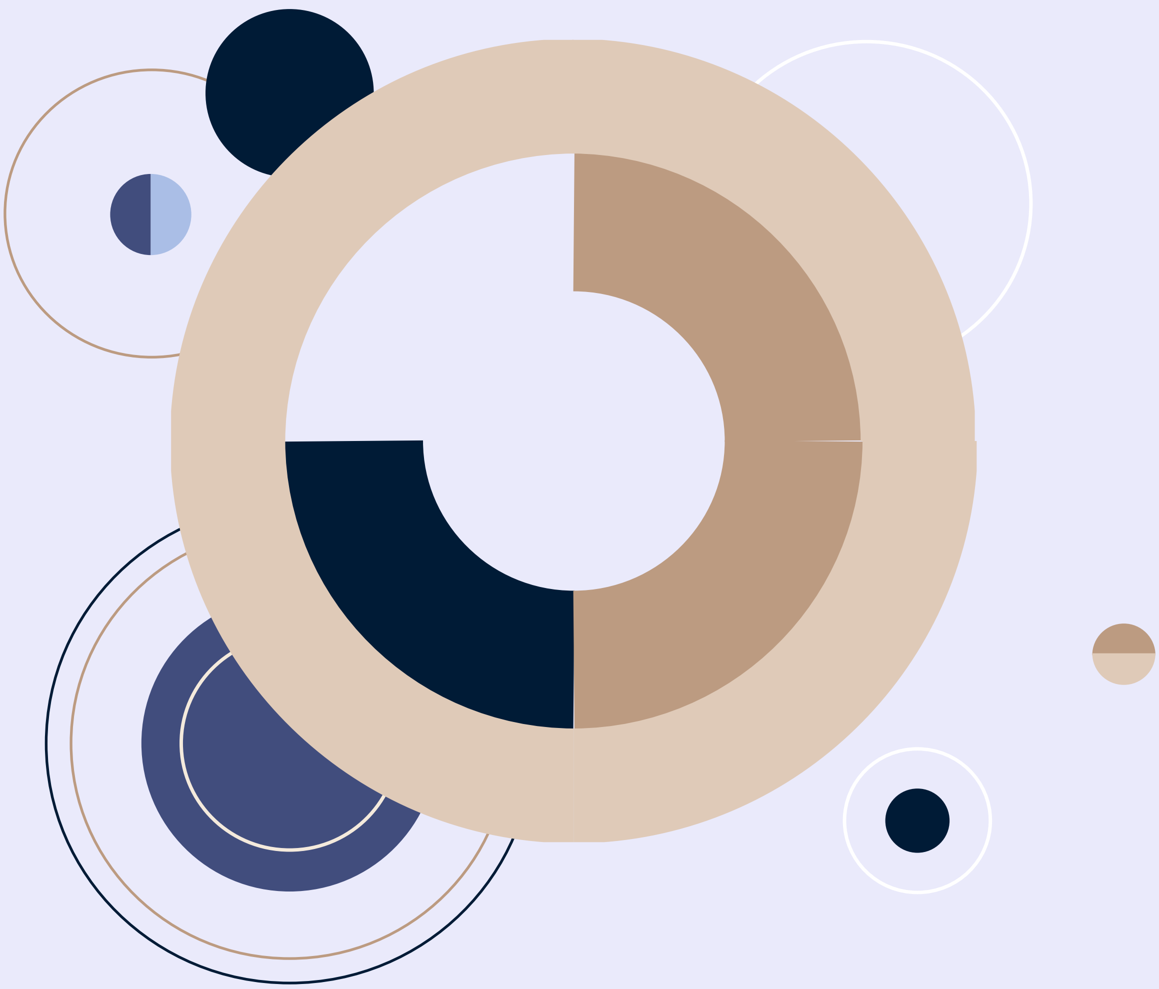
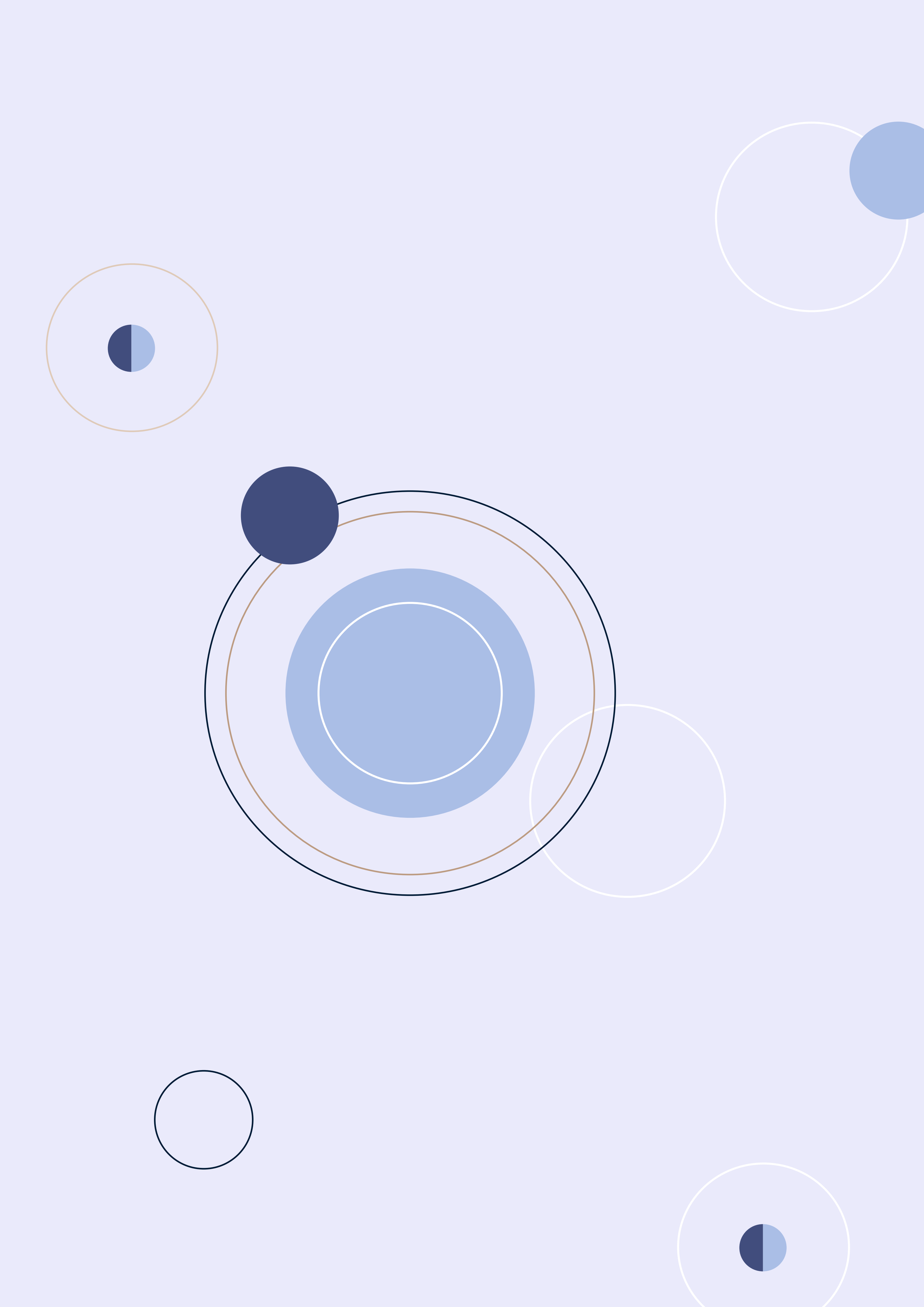
Recurring profitability

Annual Report Hamburg Commercial Bank **2023**



Hamburg Commercial Bank



“Hamburg Commercial Bank can look back on a very successful year in 2023, in which it demonstrated a high degree of continuity in a challenging macroeconomic and geopolitical environment. The bank’s results are characterized by a further increase in total income, very solid and profitable new business, a strong capital position, consistent diversification of the portfolio, strict cost control and a stable funding structure combined with high efficiency, which can be seen in the excellent cost-income ratio. One confirmation of the bank’s solid business strategy is the upgrade by the rating agency Moody’s – which we view as an additional incentive to continue working consistently on improvements."

Contents

Recurring profitability

Combined Management Report

Group financial statements

KPI Overview 2019-2023

Profitability / Efficiency

Net income before taxes (in € mn)

2019	2020	2021	2022	2023
77	257	299	363	427

CIR[1] (in %)

2019	2020	2021	2022	2023
69	42	50	44	39

Net interest margin[2] (in bps)

2019	2020	2021	2022	2023
75	117	145	168	204

Capital

CET1[3] ratio (in %)

2019	2020	2021	2022	2023
18.5	27.0	28.9	20.5	19.5

Asset quality

NPE[4] ratio (in %)

2019	2020	2021	2022	2023
1.8	1.8	1.4	1.2	2.3

Rating

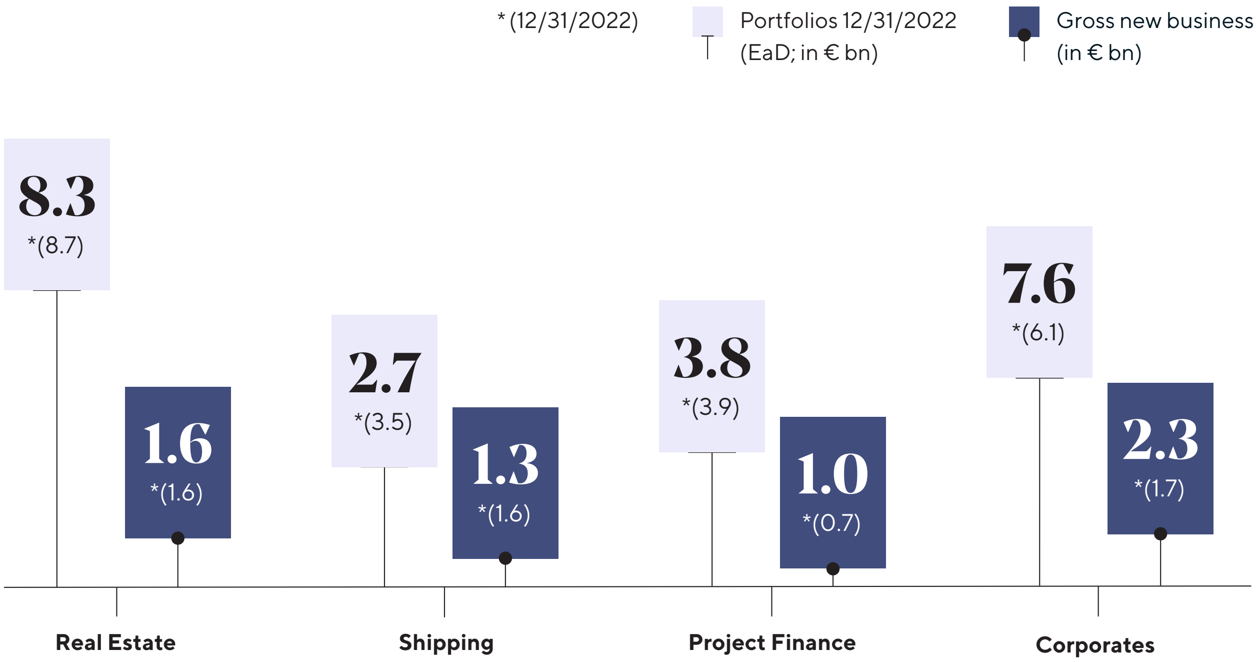
Issuer Rating (Moody's)

2019	2020	2021	2022	2023
Baa2, sta.	Baa2, pos.	Baa1, pos.	Baa1, pos.	A3, sta.

[1] Cost-income ratio [2] Operating net interest income divided by average total assets [3] Common Equity Tier 1 (IFRS) [4] Non-performing exposures

New Business / Portfolio in 2023

Gross new business totaling €6.2 bn is divided between the following segments:



Ownership Structure[5]

Several funds initiated by **Cerberus Capital Management, L.P.**			One fund advised by **J.C. Flowers & Co. LLC JCV**	One fund initiated by **GoldenTree Asset Management LP**	**Centaurus Capital LP**	**BAWAG P.S.K.** (inkl. P.S.K. Beteiligungs verwaltung GmbH) Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft	**HCOB** Members of the board and senior management of the Bank (since Nov. 2018; active and inactive members)
Promontoria Holding 221 B.V. 9.44%	Promontoria Holding 231 B.V. 13.26%	Promontoria Holding 233 B.V. 17.89%	JCV IV Neptun Holdings S.à r.l	Golden Tree Asset Management Lux S.à r.l	Chi Centauri LLC		
40.60%			**33.30%**	**11.94%**	**7.13%**	**2.38%**	**4.66%**

[5] As at 12/31/2023; percentages rounded

Ulrik Lackschewitz
Chief Risk Officer and Deputy CEO

Christopher Brody
Chief Investment Officer

Marc Ziegner
Chief Financial Officer

Ian Banwell
Chief Executive Officer

Recurring profitability

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Ladies and Gentlemen,
Hamburg Commercial Bank can look back on a very successful year in which we continued our success story and demonstrated a high degree of continuity in a challenging macroeconomic and geopolitical environment. The bank showed that it is capable of operating profitably on a regular basis and under difficult market conditions. Key elements for this success were our further increase in total income, very solid new business and the consistent diversification of our portfolio, which will continue in the future through the establishment of our new Aviation Finance division. Our diversified and stable funding structure combined with our high level of efficiency are important elements of our success. A focus on strict cost control remains particularly important to the Management Board in an environment characterized by persistent inflation.

> **“A record pre-tax profit, a cost-income ratio of 39% and a CET1 ratio of 19.5% characterize us as a very efficient and conservative bank.”**
>
> —— Ian Banwell, CEO

In 2023, Hamburg Commercial Bank generated consolidated profit before taxes of €427 million, an 18 percent increase on the previous year’s good result. Profit after taxes amounted to €271 million. In the previous year, significant positive tax effects had contributed to the after-tax result of €425 million being higher than the pre-tax result. The further improvement in the cost-income ratio to an outstanding level of 39 percent (2022: 44 percent) clearly demonstrates the bank’s continuous progress in terms of both income and cost efficiency. Our CIR continued to improve despite ongoing investments in our go-to-cloud strategy.

Total income also increased in 2023 and amounted to €762 million, which corresponds to an increase of 13 percent. One particularly pleasing development was that the bank succeeded in widening its net interest margin again, by 36 basis points to 204 basis points. Despite inflation, administrative expenses remained stable at €332 million – proof of our consistent cost control.

The bank’s capital position remains very robust, reflecting a fortress balance sheet. The CET1 ratio was 19.5 percent at the end of 2023, slightly below the previous year’s level (20.5 percent) but well above the regulatory requirements. The group’s total assets decreased slightly year-on-year to €31.5 billion in 2023 (2022: €31.8 billion). The slight decline is partly due to early repayments in our Shipping business, but is also an expression of our deliberately cautious business approach in these uncertain times.

Hamburg Commercial Bank focuses on central business areas in which it has extensive expertise, specifically: Commercial Real Estate, Shipping, Corporate Business and Project Finance. In addition, the Aviation Finance division, which was established in 2023, has contributed to the further diversification of our portfolio. The aviation business is managed by our branch in London, which we opened in May 2023 and which has strengthened our international positioning.

Overall, the bank concluded a gross new business volume of €6.2 billion in 2023 (2022: €5.6 billion). Of this, €1.6 billion was attributable to the Commercial Real Estate segment. The volume of new business in Shipping amounted to €1.3 billion, the bank generated gross new business of €2.3 billion in the national and international Corporates business and €1 billion in the Project Finance segment.

"The decline in the real estate market anticipated by the bank took place in 2023. It was fortunate that the bank had significantly reduced its real estate portfolio beforehand."

—— Ulrik Lackschewitz, CRO

After the portfolio quality had steadily improved in recent years as measured in terms of potential loan defaults, the market decline anticipated by the bank took place in 2023, including in commercial real estate financing. After the boom years, participants in the real estate sector suffered in 2023 from the increase in inflation following Russia's invasion of Ukraine and the rapid and considerable rise in key interest rates. In view of the significant downturn in the market, it was fortunate that the bank had actively reduced its real estate portfolio at an early stage in the previous years.

The bank's NPE volume increased to €800 million in 2023 (2022: €405 million). More than a quarter of this is attributable to two extensively secured new defaults. First, to the bank's only exposure to the Signa Group, which is secured by a land charge on the building that serves as HCOB's current headquarters in Hamburg. Secondly, a larger loan in the Project Finance segment, which is mainly covered by an export credit guarantee (ECA). The bank's NPE ratio increased for the first time in four years and stood at 2.3 percent (Dec. 31, 2022: 1.2 percent), of which around 0.4 percentage points are attributable to the aforementioned real estate exposure alone.

As in recent years, the bank worked intensively in 2023 on improving its technical infrastructure, including cloud technology. We believe that fast, smooth and efficient processes in conjunction with high-performance IT are a prerequisite for being successful as a bank. We are working on this in a number of areas, including in our Fast & Accurate program, in which the use of artificial intelligence plays a role.

"Particularly in an environment characterized by inflation, it was important to consistently control costs and continue to work on increasing efficiency – and we have successfully done both."

—— Marc Ziegner, CFO

At the same time, we are investing in our highly qualified and motivated workforce, whose exceptional performance makes our great successes possible. After the number of employees at the bank increased by 39 to 907 full-time employees as of December 31, 2023 compared to the previous year, we are planning further new hires for 2024.

The overall strong results in 2023 are impressive proof of the bank's operational strength and its ability to generate sustained profitability in a challenging environment. This earnings strength provides a substantial buffer for adverse scenarios. The bank's resilience was demonstrated in the EU-wide stress tests conducted by the European Central Bank (ECB), in which the bank participated and in which it was ranked among the most resilient and well-capitalized banks in Europe.

> **"In view of the geopolitical and economic uncertainties, we were deliberately cautious in terms of new business, while at the same time pushing ahead with our diversification."**
>
> —— Christopher Brody, CIO

The upgrade by the rating agency Moody's, which raised the bank's key ratings by one notch and thus strengthened our refinancing, can be seen as confirmation of our business strategy. A broader investor base in our market emissions was demonstrated by four capital market issues with a total volume of €2.3 billion over the course of the year. In addition, we successfully continued our diversification strategy on the liability side of the balance sheet through the expansion of customer deposits.

The bank's good key figures for 2023 are a reflection of its conservative risk management and sustainable business strategy. Hamburg Commercial Bank remains both client-focused and one of the most profitable financial institutions in Germany. Our aim is to reinforce and further expand our position in the new 2024 financial year.

Sincerely,

Ian Banwell

Ulrik Lackschewitz

Christopher Brody

Marc Ziegner

Explore the interactive version

The year 2023 in pictures

Jan

In 2023, for the sixth time in a row, HCOB receives the "Fair Trainee Program" seal of approval from the Berlin-based Trendence Institute.

Feb

Moody's upgrades HCOB's issuer rating to A3. The rating agency recognizes the bank's solid capital position and improved portfolio quality as well as the consistent implementation of its corporate strategy aimed at increasing profitability.

Mar

HCOB reports strong consolidated net income of €425 million after tax for 2022. This success is based on improved profitability and further growth in operational strength.

Apr

HCOB lends its name to various Purchasing Managers Indexes™ (PMI®) from S&P Global.

In April, HCOB also introduces Volunteering Days, which enable employees to get involved in charitable projects.

May

Opening of the London branch. HCOB further expands its proximity to business partners in the UK and international markets and offers them direct access to financing solutions.

Jun

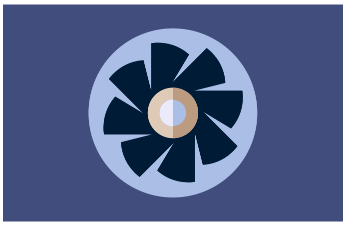
Rebranding - HCOB presents a new brand identity and a clear customer promise: Clarity is capital.

Jul

2021, 2022 and 2023 – for the third time in a row, HCOB takes the top spot in the "Best Performing Bank – Germany" category of the renowned financial magazine *The Banker*.

Aug

HCOB is a partner of the Hamburg European Open for the fourth time in a row. The bank donates €117 to the Hamburger Abendblatt hilft e. V. campaign for every ace served during the tournament. Almost €52,000 is raised.



Sep

HCOB continues its successful diversification strategy and expands its business model to include the new Aviation Finance division.

Oct

HCOB holds a ceremony to mark the launch of its Code of Diversity, which was designed by the bank's employees themselves. The code represents the bank's values, which include diversity, fairness and equal opportunity.

Nov

Together with S&P Global, HCOB presents the new HCOB PMI® Export Conditions Germany, which provides detailed monthly insights into the export prospects of German industry.

Dec

HCOB donates €750,000 to 15 different aid organizations that support projects in Germany and war victims in Ukraine.
A total of €1 million is donated to charity in 2023.

Peter Axmann
Global Head of Commercial Real Estate

“Potential for value appreciation”

High inflation, rising interest rates and the consequences of the Russian invasion of Ukraine shaped the year 2023. How has this affected the commercial real estate market?

Peter Axmann The crisis really hit the real estate sector last year. Interest rates, which have roughly quadrupled since mid-2022, have played a major role in this. Many projects no longer paid off under these conditions, liquidity had to be injected in some cases and the transaction market almost came to a standstill. In 2022, there were already fewer transactions in Germany than in a normal year. In 2023, the number of commercial real estate transactions fell to a third of the previous year – a massive slump. At the same time, market prices declined by 10 to 25 percent.

The supply and demand sides were not matching up?

PA That was the main problem in 2023. Investors were very cautious because they didn’t know whether prices would fall any further – and they had high interest rates to contend with. At the same time, sellers didn’t want to sell at the lower prices.

Are there segments of commercial real estate that have been particularly hard hit by the crisis while others have held their own?

PA Large shopping centers are struggling. There is a structural crisis in this area anyway, as people’s shopping habits have changed. In 2023, the market for office space also came under pressure. Food-based retail, logistics properties and hotels have come through the crisis well so far. The pressure on residential real estate is also not as great because demand for apartments is high.

How important are criteria such as the right location and energy efficiency?

PA Location was and is very important. However, this criterion no longer played such a major role during the real estate boom. That has changed again. Sustainability aspects have become more important, and energy efficiency is also a big issue. It is interesting to note that demand is highest for first-rate, modern office space in prime locations. Now that more employees are working from home, companies are in some cases renting less space, but in high-quality buildings instead. We even expect rents to rise in this top segment.

How did the bank position itself in terms of new business in 2023?

PA We were deliberately cautious and concluded a new business volume of around € 1.6 billion. We’re satisfied with this outcome, given the difficult market environment and low transaction volume overall. One focus of our new business was on projects in the logistics sector. The modest new business volume had hardly any impact on our portfolio of around € 8 billion, as there were few unscheduled repayments.

How much new business is the bank planning in the Commercial Real Estate segment in 2024?

PA 2024 will probably be a year of transition, which is why we are planning for new business comparable to 2023. If the market picks up more than expected, we’re prepared. We have the equity, the liquidity and the necessary resources – so we’re ready.

We believe more good business opportunities will be available again by 2025 at the latest. However, properties can already be purchased today at prices that are significantly lower than three years ago. This naturally offers potential for value appreciation.

“Another good year for many asset classes”

Jan-Philipp Rohr
Global Head of Shipping

How did 2023 go for the shipping industry?
Jan-Philipp Rohr 2023 was another good year for many asset classes. In the tanker sector, we saw the best results in ten years. Although there were slight declines in the container sector, rates remained at an adequate level. This also applies to bulkers. Overall, the rates were very favorable. Our customers enjoyed this situation and so did we.

Shipping is considered cyclical. Good years are often followed by bad ones because many ships are ordered during the boom. Is that still the case?
JPR My impression is that this mechanism has at least been partially interrupted. There is quite a large order book in the container sector. We'll see how the markets react to this. But in the other asset classes, the order book is not as large. We believe that the orders for tankers and bulkers will primarily serve to replace ships that will disappear from the market due to their advanced age.

To what extent has the rise in interest rates had an impact on shipping?
JPR Our customers have felt the significant rise in interest rates, but many had hedged against this. At the same time, many shipowners have done so well in recent years that the increased interest rates are not a problem. They have a good cushion. Some are using it to repay loans early, which has led to a slight reduction in our loan book to € 2.7 billion.

What role do international political crises play for the shipping industry?
JPR The shipping industry often benefits from crises. Covid meant that we had three excellent years in the container sector. Crises often mean that more capacity is needed because ships have to take longer routes. This ties up capacity and rates rise.

How did new business go for the bank in 2023 in Shipping?
JPR We concluded a total volume of € 1.3 billion in Shipping. Given the tense economic and political situation worldwide, we are very satisfied with this result.

Which ship classes did best?
JPR In 2023, we did around 50 percent of our new business with tankers. Our focus was on product and chemical tankers. The remaining 50 percent was largely split between bulkers and containers.

In which countries did most of the new business take place?
JPR Greece is a core market for us. In 2023, we concluded around 50 percent of our new business there. Greece is a very strong shipping nation with a high share of the global fleet. The remaining 50 percent is split between the rest of Europe and North America.

What is the outlook for 2024?
JPR Our aim is to generate slightly more new business this year than in 2023. We believe that the markets will develop positively. The shipping industry is facing a transformation, many investments are necessary and there will continue to be good business opportunities. The global fleet consists of around 100,000 ships. They will gradually have to be replaced. There is no alternative, because global trade is inconceivable without shipping.

“We’re focusing on good diversification”

Jens Thiele
Global Head of Project Finance & Corporates
and General Representative

The bank recently made its Corporates business much more international. Did this trend continue in 2023?
Jens Thiele You could say that. At € 1.6 billion, we once again concluded more new business abroad than in Germany, where the figure was € 700 million, a good € 300 million more than in the previous year.

Which business areas are particularly attractive for the bank internationally?
JT We have deliberately chosen to be active in various sectors, and we're focusing on broad diversification. In general, we're interested in financing business areas that are less dependent on economic trends. Moreover, the companies should have sufficient free cash flow to compensate for interest rate increases or economic downturns, for example. It was our strategy from the outset to do precisely this type of business, and it has proved to be the right approach. Since we started Corporates International in 2020, not a single customer has failed or defaulted – and that in turbulent times which have included Covid, rising interest rates and geopolitical tensions.

Last year, for example, we concluded transactions in the healthcare sector, including the financing of an X-ray clinic. But we also had transactions in the services sector and with financial companies. Due to high inflation, rising interest rates and the public's reluctance to purchase consumer goods, the bank has deliberately stayed away from areas that have direct contact with end customers. We don't do automotive either, since it's unclear how things will develop in this area in view of increasing vehicle electrification and changes in consumer behavior.

In which countries was the bank especially active?
JT In the US, Scandinavia, the Benelux countries and the UK.

How was new business in Germany?
JT At € 700 million, we've grown, both in terms of volume and earnings. I'm very pleased about that. We were particularly active in the factoring and leasing segments – including bicycle leasing. Interestingly, many of the transactions we concluded were outside our home market in the northern part of Germany. This shows that the bank has an attractive offering.

HCOB has invested a lot in payment transactions in recent years. Has this paid off?
JT Yes. In 2023, we saw double-digit growth in commissions from transactions alone, and we gained a total of 500 new customers. The deposit business also did well, although this is of course largely due to the turnaround in interest rates. To become even better, we'll continue to invest in our customer portal this year. We still have big plans in the payment transactions segment, and the same applies to our trade finance business, which is helped by our good rating.

The bank opened a branch in London in 2023. What is the significance of this?
JT Proximity to the markets and customers is very important. You need local expertise, you need people who have been familiar with the markets for many years. We now have that in London. If you only operate from afar, it's difficult to do good business.

What are the prospects for 2024?
JT The year will be challenging both economically and geopolitically. In addition, I don't yet see inflation easing in the long term, which could have a corresponding impact on interest rates and our customers' cash flow. We're aiming for new business totaling around € 2 billion. We're open to doing new business and are looking forward to it – but are also approaching it with the necessary caution.

“Focus on international business”

Inka Klinger
Head of Project Finance Department

How did the bank do in 2023 in terms of Project Finance?
Inka Klinger We concluded € 1 billion in new business in this segment. At the end of 2023, our portfolio amounted to € 3.8 billion, split roughly equally between the Renewable Energy and Infrastructure segments.

Where did the new business primarily occur in 2023?
IK We were particularly active in the Infrastructure and Energy Transition segments. Among other things, we provided financing for data centers and liquid storage facilities, as well as fiber optic networks, an area in which we have a great deal of experience. We were one of the first banks to finance fiber optic projects. In recent years, we’ve also provided financing for waste-to-energy projects and the development of district heating networks.

In which countries was the bank active?
IK We focused on international business. Our market is Central and Western Europe, including the UK and Scandinavia. We also concluded a transaction in the US, where we’d like to be a little more active this year. The German market didn’t play a major role in 2023. We’re consciously diversifying our portfolio, something that applies to asset classes, financing products, maturities and countries.

What are the prospects for 2024?
IK Nothing will change in terms of our fundamental strategic direction. However, we’re working internally on a few topics that could become important in the future, such as storing energy in large batteries. As an energy source, renewable energies fluctuate, so it’s important to be able to store energy if the electricity supply is to remain stable. We’re also looking into the production and distribution of hydrogen. This could lead to interesting opportunities and we want to be well prepared for developments here.

“Grow with our clients across the broader aviation eco-system”

Richard Moody
Global Head of Aviation Finance

The bank established the Aviation Finance division in 2023. What are the reasons for taking this step?
Richard Moody HCOB has built a strong reputation in asset- and corporate-based financing, but it exited aviation over 12 years ago. Aviation is complementary to other businesses, such as real estate and shipping. By establishing the business, HCOB has been able to diversify by gaining both a new business line and geographical earnings given the global nature of the industry. In addition, Covid led to substantial amounts of deferred investments. With the industry's recovery, there is and will be a need for capital to support the growth of the broader industry going forward.

Why is the aviation business attractive for the bank?
RM The aviation sector requires a significant amount of capital across a wide variety of areas, from asset-backed to corporate cashflow financing in order to support airlines, lessors and manufacturers. There is also a broader opportunity across the entire aviation eco-system covering not only commercial and freighter aircraft, but engines, spares, flight training, airport ground handling and so on. When you look at the industry holistically, there are attractive opportunities to deploy capital across multiple sub-sectors and geographies.

What is the bank's strategy in Aviation?
RM Given our size we want to be selective in terms of where we provide financing and be relevant to our client base by serving as a constructive solutions provider. HCOB Aviation Finance has assembled a very experienced team that understands structured finance and capital markets, so we can grow with our clients across the broader aviation eco-system. There will also be more opportunistic situations where we can capture value. We aim to be as flexible and nimble as possible in order to create win-win situations.

Are there regions or aircraft types that the bank will focus on?
RM The industry is global and so by definition we will consider transactions across all jurisdictions. In addition to countries and regions where HCOB is familiar, for instance Western Europe, the business will be able to look more broadly at countries that it is less familiar with by writing diversified multi-lessee portfolio financing transactions. This will give us the ability to enhance our returns and diversify earnings.

What role does ESG play in the aviation business?
RM It is generally recognized that aviation is one of the most difficult industries to decarbonize and will require significant amounts of investment from all stakeholders, including governments, airlines, manufacturers and financiers. We are cognizant of our corporate social responsibility, so aviation has been included in HCOB's published Sustainable & Transformational Finance Framework. We will aim to support the industry's sustainability agenda by mobilizing capital where possible and appropriate.

What new business targets does the bank have?
RM As we are a new division, we are targeting modest growth in 2024 of approximately $600 million of balance sheet deployment. The medium-term goal is to build a book of approximately $2 billion within the next 24 to 36 months. This will put the Global Aviation business on a level similar to other HCOB businesses.

Report of the Supervisory Board

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

2023 annual financial statements and Group financial statements of Hamburg Commercial Bank AG

Report of the Supervisory Board on the 2023 financial year

The Supervisory Board performed its duties under the law and the Articles of Association during the 2023 financial year. In particular, it monitored the management of the company and provided advice to the Management Board in matters relating to corporate governance.

In the 2023 reporting year, the Management Board provided the Supervisory Board with regular, timely and comprehensive information on the bank's business policy and other fundamental issues relating to corporate governance and planning, financial development, operating performance and the bank's risk, liquidity and capital management, as well as on major legal disputes, compliance issues and transactions and events of fundamental significance to the bank.

Hamburg Commercial Bank can look back on a very successful 2023 in which it demonstrated a high degree of continuity in a challenging macroeconomic and geopolitical environment. The bank's results are characterized by a further increase in total income, very solid, profitable new business, a strong capital position, consistent diversification of the portfolio, strict cost control and a stable funding structure combined with a high level of efficiency, which is reflected in the excellent cost-income ratio. The upgrade by the rating agency Moody's is confirmation of the bank's solid business strategy - which is an additional incentive for HCOB to continue working consistently on improvements. In 2023, the bank hired a large number of employees and is planning further strategic hires for 2024.
On the basis of the bank's distribution policy, the Management Board and Supervisory Board of Hamburg Commercial Bank AG intend to propose to the Annual General Meeting that a dividend payment of EUR 301.8mn (EUR 1.00 per share) be resolved for the 2023 financial year.

Risk-conscious action, consistent diversification of business activities, high cost awareness and a modern technical infrastructure form the foundation for the bank's continued long-term success. This remains particularly relevant in these times, which continue to be characterized by geopolitical and economic uncertainties.

The Supervisory Board dealt in depth with the issues relevant to the bank and received detailed reports on these throughout the year. Also, in the 2023 financial year, particular attention was paid to the risk policy, which continues to be pursued very consistently.

The bank's NPE ratio increased for the first time in four years and stood at 2.3% as of December 31, 2023 (previous year: 1.2%). More than a quarter of the NPE volume in 2023 is attributable to two substantially collateralized loans which recently defaulted. One is the bank's only exposure to the Signa Group, which is secured, amongst others, by a land charge on the building of HCOB's current headquarters in Hamburg and had an impact of around 0.4 percentage points on the NPE ratio.

In addition, the focus continued to be on the successful implementation of the diversification strategy consistently pursued by the bank as part of its moderate growth plan on both the asset and liability sides of the Group balance sheet, which, among other things, increases the resilience of the loan portfolio. The continuous development and consideration of environmental, social and governance (ESG) criteria in its business activities have already been a major concern of HCOB for several years. The bank has anchored an integrated sustainability framework in the bank's strategy architecture and, among other things, defined binding sustainability criteria in the guidelines for the lending business. HCOB's Sustainable & Transformational Finance Framework published in December 2023 is a further milestone on the bank's path to increased sustainability.

The Supervisory Board was kept informed about the status of major milestones and – where necessary – adopted appropriate resolutions.

The Supervisory Board was involved in decisions of material importance to the bank.
The Supervisory Board sought legal advice where necessary.

The Chairman of the Supervisory Board and the Chairmen of the Risk and Audit Committees were also informed by the Management Board about important issues and upcoming decisions, including between the scheduled meeting dates. For example, the Chairmen received in response to the turbulence in the US regional banking sector following the collapse of Silicon Valley Bank (SVB) and in connection with Credit Suisse a weekly liquidity position report until June 30, 2023, when the markets were stabilized.

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

Where resolutions were also required between meetings, the Supervisory Board adopted them by written procedure.

Meetings of the Supervisory Board

Seven meetings of the Supervisory Board were held in the 2023 financial year. Furthermore, the Supervisory Board held a strategy workshop with the Management Board on September 28, 2023. Most of the Supervisory Board meetings were held in person, enabling hybrid participation. Exceptions were the meetings on February 8 and August 23, 2023, which were scheduled exclusively virtually.

The Management Board regularly informed the Supervisory Board about the bank's situation. In this context, it informed the Supervisory Board on the basis of the quarterly figures available in each case, in particular about: the current economic situation, the course of business overall and in the individual business areas (also in relation to the current business plan), the risk situation, the development of capital, and the liquidity and funding situation. In addition, the Supervisory Board was regularly provided with an outlook for the following quarters and the year as a whole.

Moreover, information on HR matters and regulatory issues, i.a., the Supervisory Review and Evaluation Process (SREP) 2023, also formed an important part of the reporting on the situation of the bank. Furthermore, the Management Board regularly reported to the Supervisory Board on the status of strategic projects, such as the IT transformation, the change of payment service provider, the integration of ESG criteria into business activities and the implementation of the Corporate Sustainability Reporting Directive (CSRD).

The Supervisory Board critically reviewed the reports and in some cases requested additional information and documents, which were always provided promptly and to its satisfaction.

Furthermore, the Supervisory Board dealt with various matters regarding the members of the Management Board.

The auditor regularly attended the Supervisory Board meetings and was available to the Supervisory Board to provide additional information.

In addition, the Supervisory Board continues to be informed at the beginning of each month about the preliminary key figures for the previous month-end.

In addition, the Supervisory Board was informed in writing about significant matters between meetings, such as the current liquidity position report in response to the collapse of Silicon Valley Bank (SVB) in the USA in March 2023. Furthermore, the Supervisory Board was provided with current important internal communications as well as rating and press information.

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

At the meeting on February 8, 2023, as part of the usual report on the bank's situation, the Supervisory Board discussed the preliminary Group net result for 2022 and the likely dividend proposal, which was published in a press release on February 9, 2023. In addition, the Supervisory Board received overviews of the secondary activities of the Management Board and the significant donations made by HCOB (donation amounts > EUR 10 thousand) in 2022. Finally, the Supervisory Board acknowledged the change in the remuneration officer function due to organizational changes in the bank.

The subject of the meeting held on March 29, 2023 (annual financial statements meeting) was primarily the presentation of the results of the audit of the 2022 annual and Group financial statements by the auditor and the report of the Audit Committee on the audit of the 2022 annual and Group financial statements. Following Supervisory Board's own assessment and prior discussion with the auditor, and based on the recommendation made by the Audit Committee, the annual financial statements for 2022 were adopted and the Group financial statements for 2022 were approved, including the proposal for the appropriation of the net income with the distribution of a dividend of EUR 1.5 bn (EUR 4.97 per ordinary share). In addition, the usual resolutions to be passed on recommendations to the Annual General Meeting were adopted.

In connection with the annual and Group financial statements for 2022, the combined separate nonfinancial report ("CSR Report") for 2022 pursuant to Sections 315b, 315c in conjunction with 289b to 289e HGB (German Commercial Code) was also reviewed and approved.
In addition, the usual resolution was adopted on the recommendations to the Annual General Meeting on the election of the auditor for the financial year 2023.

In the absence of the Management Board, the Supervisory Board also discussed target achievement for the 2022 financial year and the target agreements for the 2023 financial year of the members of the Management Board and adopted a resolution in accordance with the resolution recommendation of the Remuneration Committee in this regard.

In addition, against the backdrop of the Supervisory Review and Evaluation Process (SREP) 2022, the Supervisory Board held discussions with the ECB's top management and representatives of the Joint Supervisory Team.

At the meeting on June 8, 2023, the Supervisory Board discussed the usual reports from the Management Board, in particular the report on the bank's situation. In the absence of the Management Board, the Supervisory Board dealt with matters that were reserved exclusively for the Supervisory Board, in particular matters regarding the members of the Management Board.

At the meeting on August 23, 2023, the Supervisory Board dealt in particular with the interim financial statements as of June 30, 2023, and current developments. Among others, HCOB's strong and resilient results in the ECB Stress Test were highlighted. In addition, it was commented that in July 2023, for the third year in a row, Hamburg Commercial Bank received an industry award from The Banker magazine, which named HCOB "Best Performing Bank" in Germany. Furthermore, the Supervisory Board was also informed about the status of the D&O insurance policy. Finally, the Supervisory Board acknowledged the change in the remuneration officer function due to further organizational changes in the bank.

On September 28, 2023, the Supervisory Board, in addition to the discussion of the report on the bank's situation, held a joint strategy workshop with the Management Board.

Moreover, the Supervisory Board resolved the abolishment of its IT Transformation Committee and future reporting on IT matters to the Audit Committee and the respective amendment of the Rules of Procedure for the Supervisory Board. Furthermore, the Supervisory Board resolved on the renewal of HCOB's Related Party Transactions Policy.

In the absence of the Management Board, the Supervisory Board dealt with matters concerning the members of the Management Board, i.a. the regular discussion of the preliminary performance achievement 2023 of HCOB Management Board members.

In its meeting on October 19, 2023, the Supervisory Board resolved positively regarding the assessment of the suitability of a candidate nominated by the shareholders for the Supervisory Board of Hamburg Commercial Bank AG, Manuel Lagares Gómez Abascal.

The last meeting of the year was held on December 7, 2023. At this meeting, the Supervisory Board in addition to the usual reports on the bank's situation, discussed and approved the medium-term planning for 2024 - 2026. In addition, the Supervisory Board dealt with the change in the regulatory functions of the Deputy Head of the Risk Control Function in the meaning of MaRisk and the Deputy Remuneration Officer (according to IVV) due to organizational changes at HCOB.
In the absence of the Management Board, the Supervisory Board received the reports from the Remuneration Committee and Nomination Committee on current matters regarding the members of the Management Board.

In the reporting year, the Supervisory Board also passed a resolution by written procedure on a submission relating to a litigation in accordance with the Rules of Procedure for the Board.
In addition, the Supervisory Board received the Remuneration Monitoring Report for 2023 on November 29, 2023, and the final 2023 SREP decision on December 6, 2023.

In the past year, the Supervisory Board again dealt in depth with various current topics relevant to the financial sector, such as regulatory developments, outsourcing management and ESG, among others. In addition, training courses are held for the Supervisory Board both when new Supervisory Board members are appointed and on special topics.

Where individual members of the Supervisory Board were affected personally or by virtue of their function by resolutions of the Supervisory Board or its committees, or where other potential conflicts of interest arose, they did not participate in the deliberations and resolutions of the relevant body. The number of other significant directorships held by members of the Supervisory Board can be found in the Corporate Governance Report in the present Annual Report.

All members of the Supervisory Board attended well over half of the meetings of the Supervisory Board and its committees to which they belong.

Committees of the Supervisory Board

The Supervisory Board has formed five committees from among its members to support it in its work.

Effective as from October 1, 2023, the *IT Transformation Committee* was abolished.
Reports and discussions on relevant IT topics shall take place in the Audit Committee in future.

The *Nomination Committee* met six times last year. The Nomination Committee prepared the resolutions for the Supervisory Board in accordance with the Rules of Procedure for the Supervisory Board. Together with the Management Board, the Nomination Committee also supports the Supervisory Board with regard to long-term succession planning. Where necessary, it adopted its own resolutions or made recommendations to the Supervisory Board for its approval. In addition, the Nomination Committee resolved positively on a recommendation concerning the assessment of the suitability of a candidate for the Supervisory Board by written resolution in October 2023.

The *Risk Committee* met a total of five times in the 2023 financial year. In the reporting year, the Risk Committee also adopted four resolutions by way of written resolution procedure.

Representatives of the auditor also regularly attended the meetings.

The Risk Committee dealt intensively with the bank's risk situation and risk management. In this context, it dealt with the update of the Strategic Risk Framework, which represents the risk framework for business strategy and planning.

At all its meetings, the Risk Committee was kept informed of current events and developments and their impact on the risk situation, particularly against the background of the challenging macroeconomic and geopolitical environment. The Risk Committee regularly considered the status of strategic risk issues at the bank, particularly with regard to NPL/NPE and liquidity and funding. Furthermore, the Risk Committee received reports on topics such as the diversification of the bank's portfolio and pension management.

The Risk Committee also obtained information on current regulatory topics and the status of supervisory inspections. Among other things, the Risk Committee discussed in detail current developments with regard to the ICAAP and ILAAP regulatory requirements (Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process).

The Risk Committee also discussed individual exposures of significance to the bank and received reports on the progress made in reducing the non-performing loan (NPL) portfolios.

The Risk Committee discussed all lending business guidelines and business transactions subject to submission and resolved the business transactions requiring approval in accordance with the law and the HCOB Related Party Transactions Policy.

In addition, the Risk Committee received regular reports on compliance, information security and the effectiveness of the internal control system. In addition, the Risk Committee was regularly informed by Internal Audit on the basis of excerpts from its quarterly reports and by the Legal department about significant legal disputes.

In a joint meeting with the Remuneration Committee, the Risk Committee further reviewed the bank's remuneration systems to determine whether the incentives set by the remuneration systems appropriately take into account the bank's risk, capital, and liquidity structure as well as the probability and maturity of income.

The *Audit Committee* met six times in the past financial year. In the reporting year, the Audit Committee also adopted one resolution by way of written resolution procedure.

Representatives of the auditor attended all meetings.

The members of the Audit Committee discussed the bank's annual and Group financial statements for 2022 and the corresponding audit reports with the auditor PwC. The committee reviewed the independence of the auditor in accordance with the requirements of the German Corporate Governance Code on the basis of the auditor's declaration of independence and prepared the appointment of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as auditor for the 2023 financial year. Furthermore, the Audit Committee assessed the quality of the audit of the annual financial statements in accordance with section 107 (3) of the German Stock Corporation Act (AktG) and confirmed it as adequate.

The auditor reported regularly to the Audit Committee on the latest results of its audit and presented the current status of planning for the audit of the annual and Group financial statements. The committee was also informed about the engagement of the auditor for non-audit engagements (independence compliance process).

The Committee obtained assurance of the effectiveness of the risk management system – in particular the internal audit and internal control systems – by discussing the relevant reports. In addition, the Committee dealt with the results of the audit of securities accounts and the audit of securities services transactions in accordance with the German Securities Trading Act (WpHG). Finally, the Audit Committee dealt in detail with the status of the IT transformation on the basis of reports from the bank, the IT Transformation Committee of the Supervisory Board, and the auditor PwC. Furthermore, reports on the change of payment transaction service provider, reorganization of the bank's vendor management and the status of the Cum/Ex investigations by the Cologne Public Prosecutor's Office were discussed.

The *Remuneration Committee* met six times in the reporting year, once partly in a joint meeting with the Risk Committee.

It dealt in depth with Management Board remuneration issues. In particular, the Remuneration Committee dealt with the Remuneration system as well as target agreements and target achievement for members of the Management Board. It also dealt with the bank's remuneration system for employees and diversity targets for senior positions. In addition, the Remuneration Officer reported to the Remuneration Committee on the results of her control activities and presented her annual Remuneration Monitoring Report to the Committee. The Chairman of the Remuneration Committee also regularly exchanged views with the Remuneration Officer on relevant topics outside of meetings.

The *IT Transformation Committee* of the Supervisory Board met four times in the 2023 financial year. In addition, it adopted the minutes on its last meeting on September 26, 2023, by way of written resolution procedure.

At its meetings, the *IT Transformation Committee* received reports on current issues and progress in the bank's IT transformation, the change of payment transaction service provider, and vendor management, and discussed these topics in detail with the Management Board.

The chairpersons of the committees regularly reported to the Supervisory Board on the work and results of the committees' deliberations at the respective subsequent plenary meetings.

Audit and adoption of the 2023 annual financial statements and Group financial statements

The accounts, the annual financial statements, and the Group financial statements, including the combined management report, for 2023 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, which had been appointed as the auditor of the annual and Group financial statements by the ordinary Annual General Meeting held on April 18, 2023. The audits led to an unqualified audit opinion being issued in each case.

The financial statement documents and the audit reports, together with all appendices, were sent to all members of the Supervisory Board prior to the meetings. The auditor of the annual financial statements initially reported on the performance and principal findings of its audit to the Audit Committee at the latter's meeting held on March 26, 2024. On this basis, and on the basis of its own review, the Audit Committee discussed the results in detail with the auditor. The Chairman of the Audit Committee informed the Supervisory Board of the outcome of its deliberations in the Audit Committee at the Supervisory Board meeting held on March 27, 2024. The auditor also attended the meeting of the Supervisory Board and reported on the main results of its audit. On the recommendation of the Audit Committee, the Supervisory Board finally approved the results of the audits, after examining the reports of the auditor and in-depth discussion, and concluded that no objections could be raised even after the final result of the own investigations. The Supervisory Board approved the 2023 annual financial statements drawn up by the Management Board, meaning that they have been formally adopted, and approved the 2023 Group financial statements. It also approved the Report of the Supervisory Board for the 2023 financial year.

Personnel matters

There was one change to the Supervisory Board in the reporting year 2023. The shareholders' general meeting appointed Manuel Lagares Gómez-Abascal as of October 27, 2023, for the shareholder representative, Mark Neporent, who resigned effective October 26, 2023, as member of the Supervisory Board.

There were no changes to the Management Board in the reporting year 2023.

The Supervisory Board would like to thank the Management Board and all of the bank's employees for their continued considerable personal commitment and performance.

Hamburg, March 27, 2023

The Supervisory Board

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

Corporate Governance

All statements contained in this Corporate Governance Report reflect the situation that prevailed on March 22, 2024, in the absence of any references to the contrary.

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

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

In accordance with Section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of listed companies must declare annually the extent to which their management and monitoring system complies with or deviates from the recommendations of the German Corporate Governance Code. It is the bank's aim, even as a non-listed company, to comply with the Code as far as possible. The Management Board and Supervisory Board of Hamburg Commercial Bank (HCOB) therefore voluntarily issued the following Declaration of Conformity with the GCGC in March 2024 and disclosed deviations from the recommendations of the Code.

Declaration of Conformity

On April 28, 2022, the "Government Commission on the German Corporate Governance Code" presented a new version of the German Corporate Governance Code, which entered into force on June 27, 2022, when it was published by the Federal Ministry of Justice and Consumer Protection in the official section of the German Federal Gazette. The new version restricts the applicability of the Code's recommendations to credit institutions such that the recommendations only apply to them to the extent that there are no statutory provisions to the contrary.

Hamburg Commercial Bank's last declaration of conformity was issued on March 29, 2023.

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

According to Recommendation B.2, the Supervisory Board together with the Management Board should ensure long-term succession planning; the corresponding procedure should be described in the Corporate Governance Statement.

The Supervisory Board, on which all of HCOB's institutional private investors are represented and an appropriate number of independent shareholder representatives are members, works together with HCOB's Management Board to ensure long-term succession planning; there is no description of the procedure in the Corporate Governance Statement.

According to Recommendation B.5, an age limit should be specified for members of the Management Board and stated in the Corporate Governance Statement.

To date, no age limit has been specified and no corresponding information is provided in the Corporate Governance Statement. The Management Board of HCOB currently has an average age of around 55.

According to Recommendation C.1, the Supervisory Board should determine specific objectives regarding its composition and prepare a profile of skills and expertise (competence profile) for the entire Supervisory Board. In doing so, the Supervisory Board should pay attention to diversity. The competence profile of the Supervisory Board should also include expertise on sustainability issues of importance to the company. Supervisory Board proposals to the General Meeting should take these objectives into account and at the same time strive to fill out the competence profile for the entire Supervisory Board. The status of implementation should be disclosed in the form of a skills matrix in the Corporate Governance Statement. This should also provide information on what the shareholder representatives consider to be an appropriate number of independent shareholder representatives on the Supervisory Board and the names of these members.

No information on the competence profile of the Supervisory Board was provided in the Corporate Governance Statement. As part of the Supervisory Board's annual efficiency review, which was last carried out in December 2022, the Supervisory Board examined the competencies, skills and experience available on the Supervisory Board, including in relation to sustainability issues of importance to the company, and updated the competence profile drawn up in 2021 (see Corporate Governance Report 2022 and Report of the Supervisory Board 2022). In the opinion of the shareholder representatives on the Supervisory Board, the number of independent shareholder representatives is appropriate. The names can be found in the Corporate Governance Report 2023.

In connection with the nomination of the candidate proposed by the shareholders for the Supervisory Board of HCOB, Manuel Lagares Gómez-Abascal, to succeed the member of the Supervisory Board Mark Neporent, the Supervisory Board also carried out an assessment of the collective suitability of the Supervisory Board in the internal suitability assessment following the election of the candidate in October 2023. The regular annual efficiency review of the Supervisory Board will be carried out in the first quarter of 2024.

According to Recommendation C.2, an age limit should be specified for Supervisory Board members and stated in the Corporate Governance Statement.

According to the Rules of Procedure for the Supervisory Board, members of the Supervisory Board should generally not be older than 68 years of age at the beginning of their term of office (see Corporate Governance Report 2023). The age limit has not been published in the Corporate Governance Statement.

According to Recommendation C.3, the term of membership of the Supervisory Board should be disclosed.

The term of membership of the Supervisory Board has not been disclosed. The Supervisory Board has deliberately decided against setting a limit on the term of membership and for this reason does not currently prepare a report on this (see Corporate Governance Report 2023).

According to Recommendation D.1, the Supervisory Board should adopt Rules of Procedure and make them available on the company's website.

The Supervisory Board of Hamburg Commercial Bank AG, on which all of HCOB's institutional private investors are represented, has adopted Rules of Procedure. The Rules of

Procedure for the Supervisory Board are part of HCOB's written rules. The Rules of Procedure for the Supervisory Board have not been published on the website of Hamburg Commercial Bank AG.

According to Recommendation D.2, the Supervisory Board should form professionally qualified committees depending on the specific circumstances of the company and the number of its members. The respective committee members and the committee chairperson should be named in the Corporate Governance Statement.

The names of the Supervisory Board committees and the respective committee members as well as the committee chairperson can be found in the notes to the annual financial statements and the notes to the consolidated financial statements for 2023. This information is also published on the HCOB website. It has not been published in the Corporate Governance Statement.

According to Recommendation D.4, the Supervisory Board should form a Nomination Committee composed exclusively of shareholder representatives, which nominates suitable candidates to the Supervisory Board for its proposals to the General Meeting for the election of Supervisory Board members.

The Nomination Committee of the Supervisory Board of HCOB currently consists of three shareholder representatives and one employee representative. Nevertheless, in accordance with the Rules of Procedure for the Supervisory Board, only the shareholder representatives on the Nomination Committee propose suitable candidates to the Supervisory Board for its election proposals to the General Meeting.

According to Recommendation D.7, the report of the Supervisory Board should state how many meetings of the Supervisory Board and the committees were held in person or as video or telephone conferences and how many meetings of the Supervisory Board and the committees were attended by the individual members.

The number of meetings attended by individual Supervisory Board members was not listed in the current report of the Supervisory Board. The members of the Supervisory Board all attended the meetings of the Supervisory Board and the committees with only very minor and well-justified exceptions. The meetings in 2023 were mainly held in person with the option of participating via video conference.

According to Recommendation D.12, the Supervisory Board should regularly assess how effectively the Supervisory Board as a whole and its committees fulfill their duties. In the corporate governance statement, the Supervisory Board should report whether and how a self-assessment was carried out.

The Supervisory Board of HCOB regularly assesses the efficiency of its work as a whole and that of its committees (see Corporate Governance Report and Report of the Supervisory Board 2023). No report has been made in this regard in the Corporate Governance Statement.

According to Recommendation F.2, the consolidated financial statements and the Group management report should be publicly accessible within 90 days of the end of the financial year and the mandatory interim financial information within 45 days of the end of the reporting period.

Hamburg Commercial Bank made the consolidated financial statements and the Group management report for the 2022 financial year publicly available within the recommended *period (March 30, 2023). The interim report for 2023 was only just not publicly accessible within the recommended period (August 24, 2023).*

Hamburg Commercial Bank has complied with the suggestions of the Code insofar as this is appropriate for a non-listed stock corporation.

Hamburg, March 27, 2024

For the Management Board
Ian Banwell

For the Supervisory Board
Juan Rodríguez Inciarte

Supervisory Board

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

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

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

With regard to Recommendation C.6 GCGC, the Supervisory Board is to include what it considers to be an appropriate number of independent members from the group of shareholder representatives, thereby taking into account the shareholder structure. Within the meaning of this recommendation, a Supervisory Board member is considered independent if he/she is independent from the company and its Management Board, and independent from any controlling shareholder. With regard to Recommendation C.7 GCGC, more than half of the shareholder representatives should be independent from the company and the Management Board. Supervisory Board members are to be considered independent from the company and its Management Board if they have no personal or business relationship with the company or its Management Board that may cause a substantial – and not merely temporary – conflict of interest. As at December 31, 2023, four of the twelve shareholder representatives on the Supervisory Board were classified as independent: Juan Rodríguez Inciarte, Klaus Heinemann, Chad Leat and Stephan Wilcke. The shareholder representatives on the Supervisory Board consider the number of independent shareholder representatives to be appropriate.

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

Section 25d (11) sentence 2 no. 3 of the German Banking Act (KWG) requires the Supervisory Board to evaluate the structure, size, composition and performance of the management and supervisory body on a regular basis, at least once a year. For this purpose, the Supervisory Board, as in the previous year, used questionnaires not only to evaluate various aspects of its own work, but also to evaluate the work of the Management Board. The efficiency review conducted at the end of 2022 revealed that the Supervisory Board is satisfied with the efficiency of its activities on the whole.

A comprehensive suitability review for the entire Supervisory Board was carried out in October 2023, in connection with the election of the new member Manuel Lagares Gómez-Abascal, who joined the Supervisory Board as of October 26, 2023. Therefore, the regular efficiency review is scheduled for the first quarter of 2024.

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

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

Supervisory Board member	**Number of other mandates** (as at March 22, 2024)
Juan Rodríguez Inciarte	1
Manuel González Cid	2
Frederick Haddad	3
Klaus Heinemann	1
Manuel Lagares Gómez-Abascal	3
Chad Leat	4
Dr. Ilinca Rosetti	3
Friedrich Spandl	1
Mark Werner	2
Stephan Wilcke	3
Peter Yordán	2

Further information on diversity can be found in the combined management report and the Corporate Social Responsibility (CSR) report. Detailed information on the activities of HCOB's Supervisory Board in 2023 can be found in the Report of the Supervisory Board.

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

Management Board

Composition
In March 2024, the Management Board of Hamburg Commercial Bank consists of four members and is divided into the following areas of Board responsibility: CEO (Chief Executive Officer), CRO (Chief Risk Officer), CFO (Chief Financial Officer) and CIO (Chief Investment Officer). When selecting new Management Board members, the Supervisory Board must adhere to the relevant legal requirements. The German Corporate Governance Code expects the appropriate consideration of women in particular. The German Banking Act requires the consideration of balance and diversity regarding the knowledge, skills and experience of all Management Board members. The Rules of Procedure for the Supervisory Board also contain requirements that the Supervisory

Board and/or the Nomination Committee has to take into account when identifying applicants to fill a Management Board position. This means that the Supervisory Board looks at the Management Board position to be filled on a case-by-case basis and selects Management Board members taking into account the requirements of the position in question and the competencies already represented on the Management Board based on an individual job profile.

Procedure

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

Other mandates in management or supervisory functions

One member of the Management Board is a member of the Supervisory Board of a subsidiary of the bank. Otherwise, the members of the Management Board do not exercise any management or supervisory functions in other companies.

Remuneration

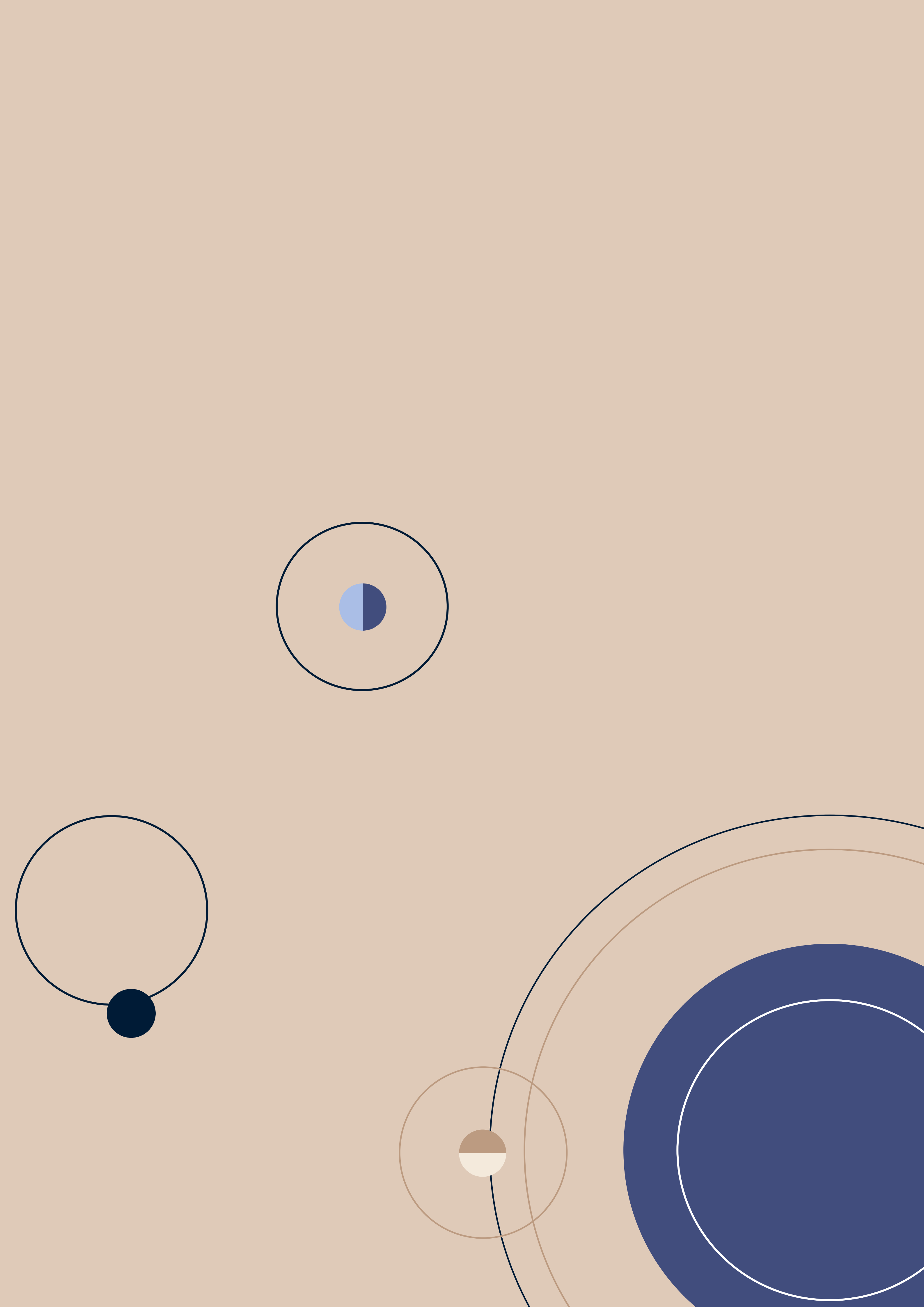
Information on the remuneration system and the remuneration of the members of the bank's Management Board can be found in the notes to the annual financial statements and the notes to the consolidated financial statements.

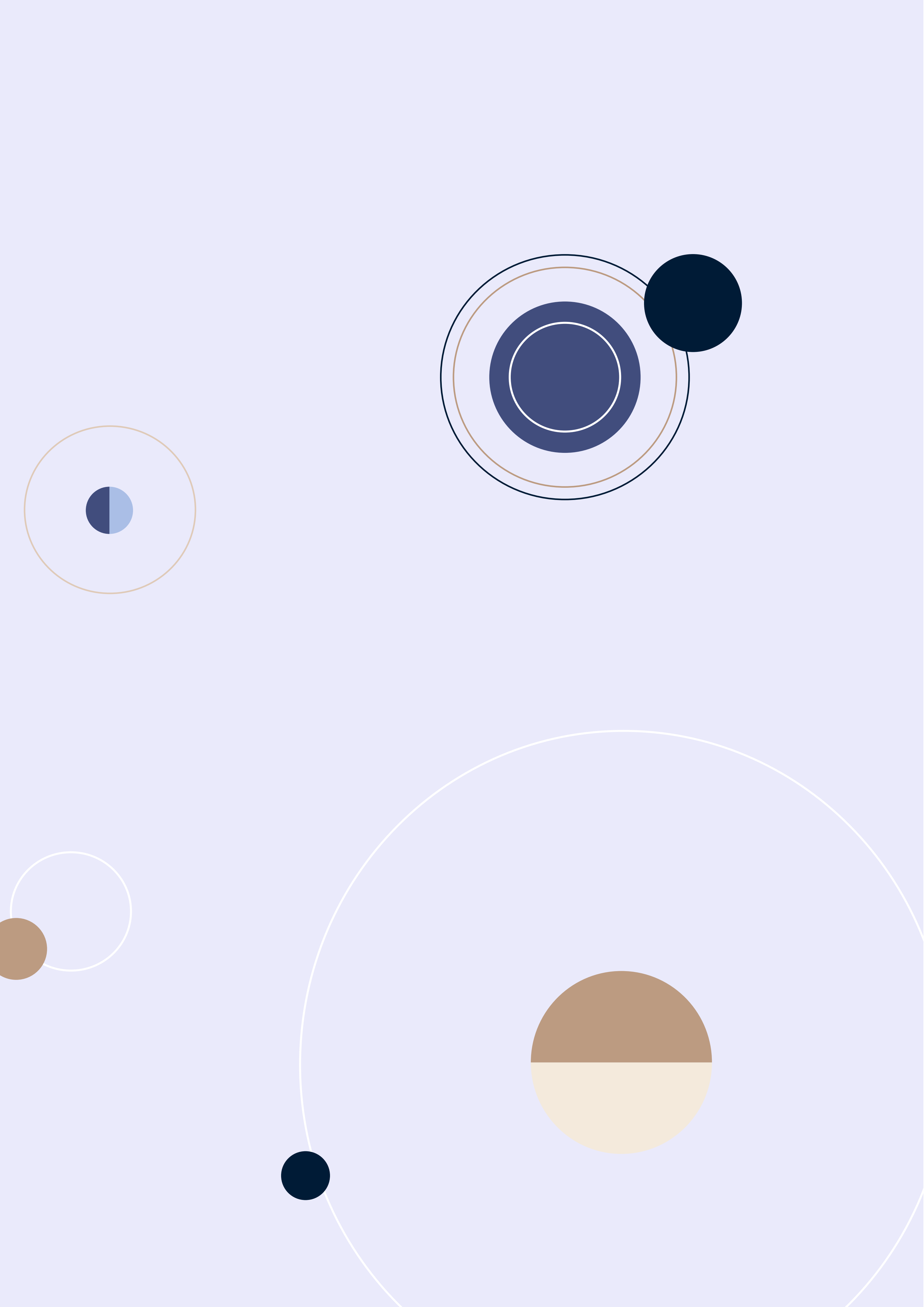
Shareholders, Annual General Meeting

The shareholders of Hamburg Commercial Bank exercise their rights at the Annual General Meeting. The Annual General Meeting is held once a year and is convened by the Management Board, stating the agenda and enclosing the necessary reports and documents.

The Annual General Meeting in April 2023 dealt with the legally required agenda items for an Annual General Meeting. In connection with the appropriation of the balance sheet result, a dividend of EUR 4.97 per share was resolved, which corresponds to a total dividend of EUR 1,500,057,591.41.

According to Principle 24 of the GCGC, the Annual General Meeting should generally resolve on the approval of the remuneration system submitted by the Supervisory Board in an advisory capacity and on the approval of the remuneration report for the previous financial year in a recommendatory capacity. As a non-listed company and given that HCOB's institutional private investors are represented on the Supervisory Board, the bank opts not to have the Annual General Meeting address the remuneration report and the remuneration system for the members of the Management Board, prepared by the Supervisory Board, in greater detail.





Combined Management Report

Information on the combined management report

To improve the clarity of presentation, the management reports of Hamburg Commercial Bank AG and the Hamburg Commercial Bank Group have been combined in accordance with Section 315 (5) of the German Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The annual and Group financial statements of Hamburg Commercial Bank (including the combined management report) will be jointly submitted to the operator of the German Federal Gazette and published in the Federal Gazette. In addition, the annual and Group financial statements of Hamburg Commercial Bank are available on the Internet at www.hcob-bank.com. The following information in the combined management report relates to the Hamburg Commercial Bank Group as a general rule; in the event of material differences with regard to Hamburg Commercial Bank AG, separate explanations are provide

Basis of the Group

Business activities

Headquarters, regional focus, clients and products

Hamburg Commercial Bank (HCOB), headquartered in Hamburg, is a private commercial bank managed in the legal form of a German corporation.

HCOB offers its clients a high level of structuring expertise in real estate financing and has a strong market position in international shipping. It is one of the pioneers in Europe-wide project financing for renewable energies and digital infrastructure. HCOB offers customised financing solutions for national and international corporate clients and, since 2023, for the global aviation sector. Reliable and timely payment transactions and products for foreign trade round off the Bank's range of services. Hamburg Commercial Bank ensures its actions are consistent with established ESG criteria.

Segments and locations

Hamburg Commercial Bank's operating business activities are divided into four lending-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.

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, London and Luxembourg, in line with its focused direction. In the Athens branch, the Bank serves international shipping clients. The focus of the branch in London (which had the status of a representative office up until 9 May 2023) is on sales in the areas of Corporates International, Project Finance and Aviation, as well as the international real estate business. In the Luxembourg branch, the emphasis is on business management in the International Corporates, Asset-Based Lending and Aviation Finance business areas. 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 15 fully consolidated subsidiaries as at the reporting date (31 December 2022: 14). There were three additions to, and two companies that left, the group of fully consolidated companies in the reporting period.

The additions relate to Elbe CA Holdings, LLC, die Elbe CA Subsidiary SCSp and BSP Michel Unlevered Direct Lending Fund SCSp. The first two companies mentioned are subsidiaries of the special fund HPS Elbe Unlevered Direct Lending Fund SCSp, which is also fully consolidated. The BSP Michel Unlevered Direct Lending Fund is also a specialised loan fund whose primary business purpose lies in the purchase of receivables, with an emphasis on the North American market.

RESPARCS Funding Limited Partnership I ("RESPARCS") and Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG ("Adessa") were deconsolidated. RESPARCS, a former refinancing vehicle for an earlier capital market transaction, was liquidated in the reporting year. The property company Adessa, whose business purpose was to hold and let a property located in Kiel, sold this property, which was previously let to Hamburg Commercial Bank AG, to HCOB in December 2023. The closing of the transaction means that HCOB no longer exerts control over Adessa, which led to the latter's deconsolidation.

Further details on the aforementioned changes in the scope of consolidation, which had no material effect on the Group's earnings, net assets or financial position, can be found in Note 5 (Scope of consolidation) to the Group financial statements.

Shareholder structure

Since 28 November 2018, Hamburg Commercial Bank has been owned by renowned, globally active, institutional private investors that have a high level of expertise in the banking business, in particular. The ownership structure as at 31 December 2023 was as follows (percentages rounded):

Ownership structure

Several funds initiated by **Cerberus Capital Management, L.P.**	Promontoria Holding 221 B.V. 9.44 % Promontoria Holding 231 B.V. 13.26 % Promontoria Holding 233 B.V. 17.89 %	**40.60 %**
One fund advised by **J.C. Flowers & Co. LLC**	JCF IV Neptun Holdings S.à r.l.	**33.30 %**
One fund initiated by **GoldenTree Asset Management LP**	GoldenTree Asset Management Lux S.à r.l.	**11.94 %**
Centaurus Capital LP	Chi Centauri LLC	**7.13 %**
BAWAG P.S.K. (incl. P.S.K. Beteiligungsverwaltung GmbH) Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft		**2.38 %**
HCOB Members of the board and senior management of the Bank (since Nov. 2018, active and inactive members)		**4.66 %**

Management Board of Hamburg Commercial Bank AG

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 59 (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 maximum protection ceiling is 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 maximum 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:

- **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 sectors/subsegments 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.

Within the strategic approaches, new business approaches identified by the Bank as part of its strategic process are taken into account. The basis used to assess the Bank's new business approaches is the analysis of the macroeconomic environment, the competitive conditions in the relevant markets and the banking environment, as well as the evaluation of trends that could give rise to business opportunities.

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 on the topic of ESG in the reporting year, including the adoption of a Sustainable & Transformational Finance Framework, a classification system for categorising the Bank's lending transactions as 'sustainable' or 'transformational'. 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 Es-tate 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 structur-ing expertise in the field of commercial real estate financing, allowing the Bank to achieve prices that are commensurate with the risk involved.

Shipping segment
HCOB is one of the leading German institutions in global ship financing, with a focus on second-hand ship financing. The successful business model in the Shipping segment is based on com-paratively 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.

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 sector deals with the financing of energy projects, primarily for renewable energies, and also includes the areas 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. In addition, HCOB supports companies in Europe that produce or operate technical solutions in the context of the energy transition. The new Aviation Finance business area expands the Corporates segment and offers asset-backed financing solutions for the aviation industry, which has mounted a strong recovery in the aftermath of the COVID-19 pandemic and is showing high demand for investments in the area of decarbonisation. The potential of this business area is due in particular to the high demand for forward-looking and binding financing solutions in the aviation industry. 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 management system is aimed at the integrated management of key value drivers – profitability/income, efficiency/costs, capital, liquidity and risk – in line with the statutory requirements and the internal Strategic Risk Framework (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.

A multi-level contribution margin accounting system is also used to manage the individual business areas. Other components of the Bank management system are the strategy, planning and forecasting process, plan/actual comparisons and the target 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 2024 is also described (chapter entitled “Forecast, opportunities and risks report”). The central key management indicators are based on the business strategy 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 financial and non-financial 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 the contribution that the Bank's business makes to its 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

Key geopolitical and economic developments

The geopolitical situation in 2023 continued to deteriorate compared to the previous year. The war in Ukraine, which began in February 2022 with Russia's invasion, has continued with no sign of any imminent end. On 7 October 2023, the militant Palestinian organisation Hamas carried out a terrorist attack against Israel. Since then, war has been raging between Hamas and Israel. As a result, the sea route through the Red Sea has been massively obstructed by attacks by Houthi rebels. According to the Uppsala Conflict Data Program, there are more active armed conflicts involving sovereign states than at any time since the Second World War.

The **energy markets** are showing remarkable stability despite mounting geopolitical risks. The war in the Middle East, which affects around 50 % of the world's oil reserves, led to a temporary rise in the price of oil to USD 90 per barrel of Brent crude oil. Nevertheless, this value remains below the average value for 2022 of around USD 100 recorded in response to the outbreak of the Russia-Ukraine war. By the end of the year, the oil price had fallen significantly again and was hovering at around USD 75 per barrel.

Meanwhile, the situation on the **natural gas market** has eased noticeably, which is reflected in a gas price below the level witnessed at the beginning of 2022. Although the price can still be considered high by historical standards, European natural gas futures (Dutch TTF) fell by 58 % to an almost four-month low of € 32 per megawatt hour in 2023. The easing of the situation on this market is being bolstered by the high filling level of gas storage facilities, which were 90 % full (an above-average figure) in November.

Another consequence of the Russia-Ukraine war is the noticeable increase in the **number of refugees**, particularly in the EU and especially in Germany.

On the geopolitical front, another factor that has played an important role is the mounting **tension between the US and China.** Although high-level meetings and agreements have helped to improve communication channels between the two countries, the geopolitical situation remains critical. In particular, the increasing frequency and drastic nature of Chinese threats regarding a possible **annexation** of **Taiwan** have led to an increased focus on this risk.

Global **inflation** fell at what started out a slow rate in 2023, but then fell significantly in the second half of the year. Common factors translating into easing pressure on the inflation rate were lower prices for food, energy and industrial goods, as well as falling transport costs. On the other hand, prices for services and noticeable wage pressure continued to drive up prices. Despite a downward trend, the headline inflation rate therefore remained above the 2 % target, particularly in the eurozone and the US.

Global growth developed better than expected in 2023. This is due to a normalisation of consumption in China at the beginning of the year and a revival in US growth, which offset the sharp slowdown in Europe. Challenges to growth in 2023 included the tightening of the monetary policy reins, which gradually had more and more of an impact, as well as the ongoing real estate crisis in China and stagnating growth in the eurozone.

According to the S&P Global purchasing managers' indices, the manufacturing industry recorded no growth in production in 2023. By contrast, activity growth accelerated in the majority of the services sector during the year. This development can be traced back partly to catch-up effects resulting from the pandemic, manifested in an increased willingness to spend on tourism, among other things. In the manufacturing sector, on the other hand, companies are once again adapting to the shorter delivery periods and ordering fewer goods to be held in stock.

Economic development by region
In the world's three major economic areas, the US, the eurozone and China, the effects of normalisation following the disruption triggered by the pandemic are manifesting themselves differently in terms of magnitude and timing.

In the third quarter of 2023, gross domestic product (GDP) in the **US** showed annualised growth of 4.9 %. After two stable quarters since the beginning of the year, each with annualised quarterly growth of just over 2 %, the US economy has performed significantly better than expected this year. Consumer spending, which accounts for more than two thirds of US economic activity, proved to be the main driver of economic strength. A robust labour market and a gradual slowdown in inflation bolstered consumer spending. The core PCE inflation rate has fallen by 200 basis points since the beginning of 2023 and reached 2.9 % in December, going some way towards easing the concerns of US households. The turbulence surrounding numerous regional banks that got into difficulties in spring 2023 did not have any lasting negative impact on the economy.

In the third quarter of 2023, the **eurozone** economy recorded a quarter-on-quarter decline of 0.1 %, reversing the previously downwardly revised growth of 0.1 % in the previous three-month period. This represents the first decline in GDP volume since the last quarter of 2022 and is mainly due to a negative contribution made by changes in inventories. Germany, France and the Netherlands contributed significantly to the decline in GDP in the third quarter. The annual inflation rate in the eurozone fell to 2.9 % in December 2023, the lowest level seen since July 2021. This means that inflation has shrunk to a third of the original inflation rate since the beginning of the year and is only just above the ECB's inflation target. The monetary guardians in Frankfurt are, however, concerned about the slow decline in core inflation (to an annualised 3.6 % in November), which is still well above the 2 % target value.

China's economic recovery after the stringent restrictions imposed in response to the pandemic were lifted at the end of 2022 proved to be disappointing. With solid GDP growth of 2.2 % in the first quarter and 1.3 % in the third quarter, growth fell short of expectations in the second quarter in particular at 0.5 %. Although Beijing's growth target of 5 % for the year as a whole is likely to be achieved, the economy continues to grapple with uncertainties caused by the ongoing pandemic, which is having a negative impact on consumer and investment behaviour. The retail, real estate and manufacturing sectors in particular are experiencing a slump, which is illustrated by the low inflation rate in the current year. In December, prices fell by 0.3 % compared to the previous year, although the core rate (excluding energy and food) was still in positive territory.

The **German** economy, which was already ailing in the first half of the year, is likely to have fallen into a two-quarter recession in the second half. This is indicated by the HCOB PMI leading indicators. GDP is expected to have shrunk by around 0.3 % in 2023. We are forecasting a decline in activity in the services sector in the fourth quarter. There is a persistent recession in the residential construction segment of the construction sector in particular. The unemployment rate is up slightly, while companies continue to complain about shortages of labour. The year-on-year inflation rate for German consumer prices was confirmed at 3.7 % in December 2023, down significantly compared to the start of the year (8.7 %). In a European comparison, German prices are above the target value of 2 %. Meanwhile, core inflation has cooled to 3.5 %, which is more in line with the European average.

Monetary policy: significant countermeasures
The US Federal Reserve (Fed) and the European Central Bank (ECB) started raising their **key interest rates** in mid-2022. By the end of 2023, the US Fed had raised the Fed Funds Rate by 525 basis points to between 5.25 % and 5.50 %. The ECB raised its key interest rates by a total of 425 basis points to 4.00 % (deposit rate) and 4.50 % (main refinancing rate). Neither central bank has raised interest rates since the summer of 2023. The central banks in the US and the eurozone are continuing to reduce their total assets. At the ECB, total assets have been reduced mainly because banks have largely repaid the TLTRO long-term refinancing loans. In addition, the amounts from maturing bonds in the APP portfolio have only been partially reinvested since March 2023, and have not been reinvested at all since July. The Fed is also reducing its asset portfolio in general, although the regional bank turmoil this spring prompted it to inject additional liquidity into the system by making renewed asset purchases, meaning that its balance sheet has increased temporarily again.

Long-term bond yields rose in the reporting year due to the continuation of the interest rate hike cycle, but have fallen again to some extent since October 2023. This could indicate the expectation that the end of the rate hike cycle has been reached. Central banks have signalled that they now want to wait and see the effects of previous interest rate hikes on inflation. This led many investors to expect interest rate cuts. On 31 December 2023, the ten-year T-notes stood at 3.88 % and corresponding Bunds at 2.02 %. In comparison, yields at the beginning of 2023 were 3.88 % (T-notes) and 2.48 % (Bunds).

The **stock markets** in Germany and the US recorded moderate gains of 6 % and 9 % respectively from January to October. They rose significantly in December, bringing overall performance since the beginning of the year to 20 % and 18 % respectively. This increase was driven by the increased probability of a soft landing scenario in the US and falling inflation figures. In the US, stocks from the communication services and information technology sectors were the main drivers of the S&P 500. In Germany, the IT sector reaped particular benefits, as did the financial sector, including insurance companies and banks.

The **euro** fluctuated between 1.05 and 1.11 US dollars in the first six months, appreciating by 2.25 % in the first half of the year, but showing no clear direction. Driven by the expectation that the US Federal Reserve would cut interest rates earlier than the European Central Bank, the euro temporarily rose to over USD 1.11, an increase of almost 4 % in the year and its highest level since 19 July. The euro was trading at 1.09 US dollars on 31 December 2023.

DEVELOPMENT IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK

Real estate markets
On the investment markets, the German real estate markets were on a marked downward trajectory in 2023. The transaction volume for both commercial and residential property plummeted to the lowest level seen in 13 years and market values fell sharply in some cases. This can be explained largely by the considerably more difficult financing conditions for credit-financed market participants as a result of the rise in interest rates and the increased relative attractiveness of fixed-income investments for investors. In addition, the recessionary trend in economic development clouded the outlook for market participants, which is one of the reasons why they were reluctant to invest. In addition, uncertainty regarding the scope and cost of energy-efficient modernisation for older properties and those in need of refurbishment contributed to a much more cautious approach among potential investors. In view of the investments required

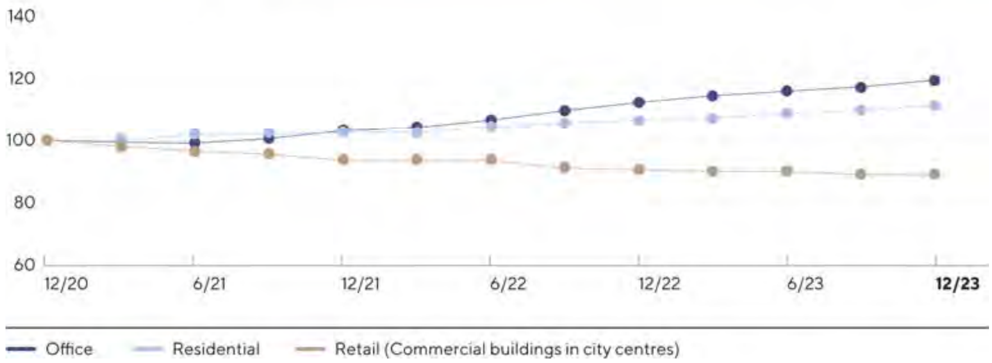
for these properties in the long run, prices fell particularly sharply. In this uncertain market environment, the investment volume fell by just under 60 % compared to the same period last year.

This drop also put a strain on project development. Even more projects were postponed or cancelled than in the previous year, which led to a sharp drop in building permits and orders, particularly in the residential construction segment. In the second half of the year, there was also an increase in insolvencies in commercial project developments, which was primarily due to the persistently high construction costs, increased financing interest rates and a drop in pre-letting rates. As a result, construction was often halted. Overall, construction activity declined significantly over the course of the year, meaning that construction capacity utilisation fell sharply. Construction companies and project developers found themselves in a difficult situation.

On the rental markets, however, developments varied depending on the type of use. While residential rents in particular and, in some cases, prime office rents benefited from the short supply and rose significantly, rents for city centre retail properties fell once again.

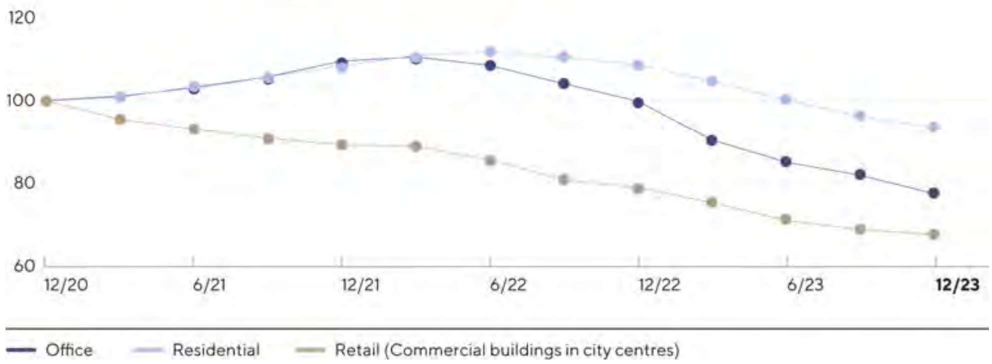
Rents

(Indexed market average, 12/2020=100)



Market values

(Indexed market average, 12/2020=100)



On the **housing markets**, letting was stimulated by the need to accommodate refugees, nominal income growth and, to a lesser extent, the increased number of people in employment. Demand in the major cities continued to rise considerably with the arrival of refugees and other newcomers. This trend was countered by a considerable decline in construction activity. In addition to the dampening effect of higher interest rates, this was also due to uncertainty among parties potentially interested in building about subsidy policies, not least in the new construction sector. Although a number of subsidy measures have now been introduced, many market participants were not yet convinced that they would be sufficient. As a result, the already scarce supply of housing became even scarcer, and rents climbed sharply. These increased rents did, however, remain largely affordable for many low-income households because the amount of, and the scope of eligibility for, housing allowance were increased significantly. The higher interest rates, on the other hand, have made buying a home less affordable for owner-occupiers and less attractive for investors. Residential property prices fell significantly as a result, especially for rented apartments.

In the **German office property markets**, demand for space fell significantly year-on-year in 2023. This reflected the reluctance among companies to hire staff as a result of the economic downturn. Lettings for large spaces, in particular, declined as flexible working models became increasingly commonplace. The weaker demand was clearly exceeded by the slight increase in completions, meaning that vacancy rates continued to rise. For the most part, however, these remained relatively moderate, with only a few locations already experiencing high vacancy rates. In addition, demand in many cities was concentrated on high-quality properties in prime locations, pushing rents there up significantly. In some office centres, however, rents fell. Market values suffered heavy losses in an environment dominated by very few transactions on the investment markets.

Demand for space also weakened on most **European office property markets**, but on average to a lesser extent than in Germany. Vacancies nevertheless rose marginally to a slightly higher level. As in Germany, prime locations generally benefited from the focussed demand for space, resulting in a moderate increase in prime rents. Market values, however, also fell, in some cases significantly, due to the rise in interest rates.

Retail property markets in Germany grappled with what remained high inflation and poor consumer sentiment in 2023. Consumer reluctance to spend led to declining retail sales after adjustments to reflect inflation. Some sectors were not hit quite as hard and achieved above-average nominal growth, particularly food retail thanks to the price trend. However, retail sales in the fashion and clothing sector also rose noticeably, even after price adjustments. In contrast, the construction and furniture markets, which were dealt a blow by the construction crisis, suffered nominal losses. Despite the overall nominal increase in shop sales, the downward trend in rents in city centre locations continued with noticeable losses. The decline was more moderate in suburban locations. Rents are now likely to have risen slightly, particularly in specialist retail parks with anchor tenants in the food retail sector. However, the market values of all retail properties (especially commercial buildings) fell in the face of higher interest rates, with investors also remaining risk averse and cautious.

Industry, trade and logistics, infrastructure and renewable energy
German economic output fell by 0.1 % (adjusted to reflect price, seasonal and calendar effects) in the third quarter of 2023 compared to the second quarter of 2023 after stagnating in the first quarter and reporting slight growth in the second. According to initial calculations by the German Federal Statistical Office, German GDP shrank (in real terms) by 0.3 % compared to 2022 over the year as a whole. In addition to the negative factors triggered by the consequences of the war in Ukraine (in particular the development in energy prices), the interest rate turnaround implemented from mid-2022 onwards, with its very sharp and rapid rise in (key) interest rates, also proved to be a significant drag on the German economy in 2023. While the German economy proved to be exceptionally resilient over the year as a whole in 2022 (despite previously disrupted supply chains and rising prices), the sharp rise in interest rates mentioned above hindered any revival in growth.

In the **manufacturing sector**, the production volume stagnated until into the fourth quarter of 2023 (January to October) and showed a slight year-on-year drop of 0.1 % (after calendar and seasonal adjustments), mirroring the trend seen in 2022. The main sectors within the manufacturing industry developed very differently in terms of the extent of the slumps they experienced in 2023. Only vehicle construction bucked the trend and recorded an increase in production volume. The least pronounced decline, albeit at an already weak level, was recorded in the construction industry (-0.3 %), while production in the pharmaceutical, food and metal industries fell by between 2 % and 3 %. The energy-intensive chemicals industry came under particular pressure. It reported a drastic drop in production volume of 12.7 %, continuing the trend from the previous year, in which output plummeted by almost 10 % in the reference period. Following an increase in the previous year (+3 %), vehicle construction was the only major sector to record a considerable increase of around 13 % in the first ten months of 2023; output in the automotive sector, which had only increased by 2 % in the previous year, increased by as much as around 20 %.

Following real revenue growth of 1.1 % in 2022 as a whole, companies in the **wholesale** sector recorded a real decline of 4.3 % in the first ten months of 2023, even clearer testimony to the extent of the deterioration compared to growth seen in the same period of the previous year (+1.8 %). With prices that remain high, but in particular given the sharp rise in interest rates and the resulting impact on demand, the **retail** sector shrank by almost 3.5 % in real terms in the first ten months of 2023. In the same period of the previous year, real retail sales had still risen by around 0.7 %, although a quarter-on-quarter contraction with increasing momentum had already started to emerge in the second quarter of 2022. While food sales declined by almost 6.4 % (as against almost 4 % in the same period of the previous year) in the first ten months in an environment in which prices remained high, retail sales of textiles, clothing, footwear and leather goods, which had still reported growth of around 35 % in the first ten months of 2022, triggered by the recovery, managed to buck the trend and achieve growth of around 4 %. 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 4 % in the first ten months of 2023 in a year-on-year comparison. In the same period of 2022, sales in this segment had already declined by around 8 %.

Revenue in the **logistics sector** showed marked positive development (in real terms) in the first three quarters of 2023, increasing by around 6 % compared to the same period of the previous year, when revenue had, however, increased by around 8 %. The measured business climate in the German logistics industry had, however, only made a brief recovery after the shock of the war in Ukraine at the end of 2022, and all indicators have been pointing downwards since the turn of the year from 2022 to 2023 – remaining well below the normal line. The business situation continued to decline in the fourth quarter. There are, however, signs of a slight trend reversal in business expectations in the fourth quarter of 2023, while the business climate has remained almost constant.

The global **project financing volume** dipped significantly in the first nine months of 2023, and was down by 13 % on the volume seen in the prior-year period according to the financial market data provider “Refinitiv”. Nevertheless, the figure achieved is the second highest in the last ten years. The energy generation sector managed to buck the overall trend and achieve growth, and recorded not only the largest volume globally, but also by far the largest number of transactions. Starting at a significantly lower level, petrochemical projects and financing in the water and wastewater sector showed very strong growth. The overall decline in the global project financing volume nevertheless varied considerably from region to region: in North and South America, the financing volume fell only slightly (-4 %), whereas a somewhat sharper decline was witnessed in Asia (-7 %). The Europe/Middle East/Africa region recorded the sharpest year-on-year decline, falling by one-fifth.

The expansion of **renewable energies** made further progress in both Europe as a whole and Germany in the course of 2023. The considerable slowdown in new wind energy construction (onshore) in Germany observed since 2018 evolved into substantial upward momentum in the first nine months of 2023: in terms of installed (gross) capacity, new construction in the first nine months was over 50 % higher than in the same period of 2022 and the (gross) new construction of 2,475 megawatts was already ahead of the figure for 2022 as a whole. According to preliminary figures from the German Federal Network Agency, the total installed capacity at the end of 2023 is expected to reach 60.9 gigawatts, although this is still too slow overall to reliably achieve the (first) interim target of the amended German Renewable Energies Act (EEG) for the end of 2024 (69 gigawatts). The installed capacity is to have increased to 115 gigawatts by 2030, which translates into annual new construction of 7.7 gigawatts in Germany. The expansion in the solar segment also continued dynamically in Europe: in Germany alone, according to preliminary figures from the Federal Network Agency, new installations in the photovoltaics segment totalled around 14.1 gigawatts in 2023, almost double the previous year's figure. At the end of

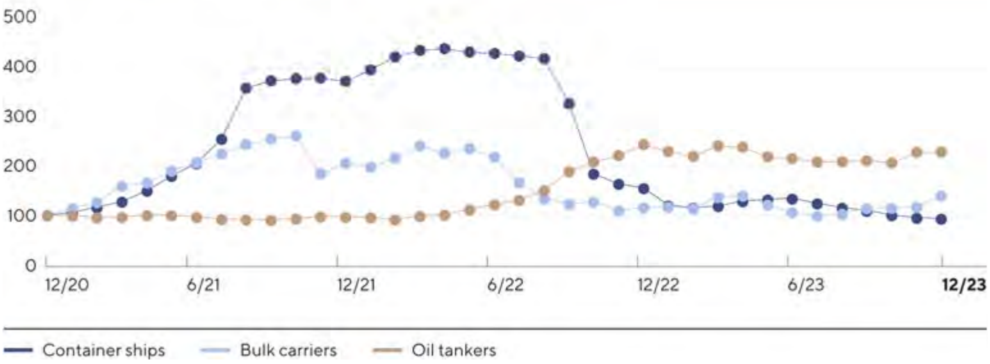
2023, a total output of 81.7 gigawatts had been installed. Nevertheless, the outlook for this sector is also ambitious: in order to achieve the target of 215 gigawatts for solar in 2030, 19 gigawatts of new capacity will have to be installed every year going forward. The need for alternative energy sources 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 likely to continue to have a positive effect here in the short and medium term.

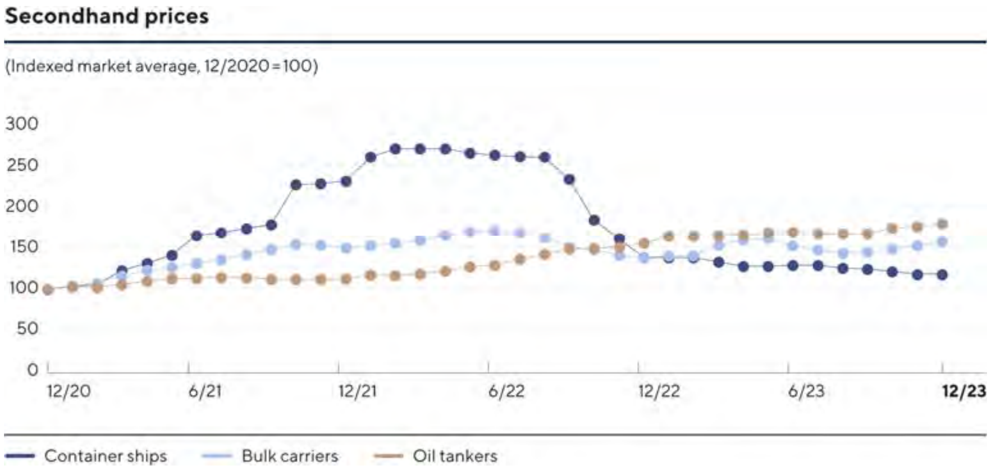
Shipping markets

The shipping markets were driven by numerous global forces over the past calendar year. Compared to previous years, however, the margins of fluctuation were much less pronounced. The main influencing factors were the waning effects of the pandemic and ongoing geopolitical implications. In addition, high inflation, rising interest rates and weaker economic conditions in many regions put a damper on consumption and the demand for raw materials. Fleet efficiency has also improved in line with the normalisation of waiting times due to port congestion. All in all, charter rates for container vessels fell back towards average levels, bulkers were able to maintain their level and rates for oil tankers remained significantly higher than average despite minor losses. The latter continue to benefit from the fact that the sanctions imposed on Russia have resulted in substantially longer trade routes. The war in Gaza led to restrictions on shipping traffic in the Red Sea at the end of the year, which is also resulting in longer trading routes.

Time charter rates

(Indexed market average, 12/2020=100)





Looking at the **container vessel** market, 2023 was a year of normalisation following the boom witnessed in the previous years, although the after-effects will continue to be felt for some time to come. Charter rates and second-hand prices gradually fell towards the long-term average. At the beginning of the year, the slump in demand for transport had a particular negative impact. The weaker economy and rise in the cost of living in line with inflation put a damper on consumption. Services that became available again after the pandemic also tied up a large part of consumers' purchasing power, and inventory levels built up in response to previous supply difficulties further reduced repeat orders. In the second half of the year, however, global container trade recorded positive growth rates again compared to the previous year, even though the figure for the year as a whole is likely to remain in negative territory. From the second quarter onwards, however, the supply side started to put pressure on the market. Due to the gradual delivery of ships ordered during the boom phase and sustained low scrapping activity, fleet capacity has been increasing at a rapid rate ever since. The fact that the market did not experience a more pronounced slump was also due to a late consequence of the boom. Shipping lines had stocked up on ships during the pandemic, or chartered them on a long-term basis, meaning that larger ships in particular were still in short supply on the charter market. High rates still had to be offered in order to secure tonnage requirements. One striking development was the recent significant reduction in the average term of charter contracts, reflecting the increased caution among market participants.

The past year was characterised by high levels of volatility for **bulkers**. While there was a strong upward trend in the first quarter, rates fell sharply in the summer. At the end of the year, we saw a renewed recovery and rates ended up significantly above the previous year's level. Demand for transport varied greatly from region to region. China's demand for coal imports soared in order to compensate for problems with domestic energy generation from hydropower. This strong effect offset the rather mixed demand picture in the rest of the world. Economic development in Europe and Japan in particular was sluggish, which led to a noticeable reduction in steel production and the associated imports of iron ore and coal. Port waiting times continued to decrease and are currently at their lowest level since 2018. The additional transport capacity available to the market as a result had a negative impact on earnings. On the other hand, order book levels remain relatively low. This is due to the recent moderate earnings expectations, uncertainty surrounding future environmental regulations and high new construction prices. The resulting subdued fleet growth is having a stabilising effect on the markets.

Oil tankers can look back on another strong year. Charter rates remained at high levels despite slight setbacks. OPEC+, the cartel of the world’s major oil-producing countries, attempted to stabilise oil prices, which had fallen due to the weaker global economy, by cutting production considerably. The decline in demand for transport was, however, partially offset by an increase in production in the US, Brazil and Guyana. The market received further positive impetus from the fact that Russia continued to seek new customers for its crude oil and oil products in Asia and Latin America as a result of the sanctions and expanded existing business relationships. Longer routes and the increase in the volume shipped created considerable demand for transport. Fleet growth in 2023 was moderate. The reluctance to place new orders in recent years has paid off. At the same time, very few ships were scrapped, as even older ships benefited from the comparatively high rates. This kept fleet capacity utilisation stable. Given the advanced age of the fleet and sustained positive earnings prospects, however, a significant increase in order activity has recently been observed despite high new construction prices.

BANKING ENVIRONMENT

The market environment for banks in 2023 was characterised by high levels of volatility and had both good sides and bad for institutions in the sector. While the high level of geopolitical uncertainty was further exacerbated by the crisis in the Middle East that emerged in October, the gradual decline in inflation, albeit at a level that remained high, and the turbulence in the US regional banking sector and in connection with Credit Suisse had a negative impact, which partially offset the positive effects on bank earnings triggered by rising central bank interest rates. The highly volatile stock market quotations of banks over the course of the year reflected these two poles, with the positive aspects associated with rising interest rates outweighing concerns over the resilience of the banking sector overall at the end of the year.

In general, banks' net interest income is likely to have benefited from the rising interest rates, despite the inevitable increase in refinancing costs. At the same time, many 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 continued to help keep loan defaults at a comparatively low level so far. The inflation environment, on the other hand, is likely to have had a negative impact on bank earnings in the form of rising personnel and operating expenses. The latter is likely to apply in particular to modernisation projects in the IT sector.

Looking ahead, the question as to how individual banks will position themselves in the new market environment will play a decisive role with regard to their long-term market opportunities and ratings. A solid starting position in terms of capital resources, stringent cost management (taking into account the need to invest in IT and digitalisation), ongoing business model development, as well as effective risk management are likely to be crucial success factors in this respect.

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 2023 financial year.

One of the implications of the difficult situation on the real estate markets was that HCOB, in line with its risk-conscious business approach in the Real Estate segment, only concluded new business on a selective basis, particularly within Germany. In addition, the difficult external market conditions, in particular the sharp rise in interest rates witnessed since mid-2022, had an increasingly negative impact on credit quality over the course of the year, which was reflected in a significant increase in the NPE volume, the main reason behind the higher NPE ratio at Group level. Loan loss provisions were also dominated by the Real Estate segment in the form of net additions at Stage 3 and - at Stage 1 and 2 - in particular through the recognition of model overlays for the office property sub-portfolio.

In the Shipping segment, the Bank benefited, among other things, from the positive development in the market situation and the medium-term forecasts for charter rates and ship prices. Accordingly, model overlays set up for the tanker portfolio in the past were reversed in the reporting period, which had a positive effect on loan loss provisions (income statement) and, as a result, on the Bank's earnings situation. In addition, there were significant net reversals of model overlays in the Project Finance segment now that certainty has been established in the French energy market with regard to guaranteed feed-in tariffs.

In a generally positive interest rate environment for the development of banks' net interest income, HCOB was able to significantly increase its net interest income in the 2023 financial year, which rose by around 21 % compared to the previous period as the net interest margin widened further. The development in the interest rate environment in conjunction with the Bank's balance sheet positioning also had a positive effect on the performance of the financial investment portfolio, which is measured almost exclusively at fair value through OCI in accordance with IFRS. Accordingly, the revaluation reserve in IFRS Group equity increased significantly in a year-on-year comparison.

The development in the interest rate environment also had a positive impact on Hamburg Commercial Bank AG's net income for the year under the German Commercial Code (HGB). In addition to the impact on net interest income, there were also positive earnings effects resulting from the predominantly interest rate-induced reversals of impairment losses on fund assets and the securities portfolio, which are recognised in the income statement. Valuation losses were reported in this area in 2022.

On the refinancing side, the Bank, also supported by the rating upgrade to the A range, was able to successfully implement its issuing activities in what was, at times a volatile market environment by issuing three senior preferred bonds and one mortgage Pfandbrief.

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

Business development – significant developments and events in the 2023 reporting year

Hamburg Commercial Bank has succeeded in further consolidating its position in the German and European banking market, as is evidenced by the good financial ratios as at 31 December, the further progress made with the diversification strategy, the improved rating positioning and the good results in the SSM stress test. The confirmation of the positive trend in increasing operating profitability, maintaining a good capital and liquidity position at the same time, is particularly encouraging. Key risk metrics, first and foremost the NPE ratio, were adversely affected by the gloomy environment on the real estate markets. In detail, the following developments and events are worth highlighting in the 2023 financial year:

Profitability: Expectations for net income before taxes significantly exceeded – 18 % increase in net income before taxes compared to the previous year - further increase in the net interest margin – encouraging development in the market segments overall
In terms of profitability, the Hamburg Commercial Bank Group was able to confirm the positive trend seen in the recent past and significantly exceeded its forecasts for net income before taxes for the year as a whole. In the 2023 financial year, this earnings figure increased by 18 % year-on-year to € 427 million (previous year: € 363 million), which was higher than planned. Net earnings also benefited from one-off effects in the other operating result, which were slightly higher overall than in the previous year. Earnings performance was also characterised by the planned increase in total income, which was able to absorb the rise in risk costs, and - thanks to efficient cost management - by lower costs than originally expected.

The increase in total income is largely due to the rise in net interest income, which was up by 21 % in line with increasing diversification. This is based on the renewed expansion of the net interest margin (hereafter referred to as "NIM"; for a definition of NIM, please refer to the comments in the segment report within the notes to the Group financial statements) with business volume that remained more or less stable. In addition to rising interest rates, ongoing asset allocation had a positive effect here. In view of the increasing pressure on refinancing costs in the banking market in general, the Group benefited from the upgrading of its issuer rating to the A range in February, a development that is likely to expand the investor base in the long run and further strengthen fundraising resilience (see also the separate section below).

Developments in the individual market segments were encouraging on the whole. With the exception of the Real Estate segment, which was impacted by higher loan loss provision expenses, all lending units recorded after-tax returns exceeding the cost of capital. For further information on the segment results, please refer to the chapter entitled "Segment results".

New business development ahead of prior-year level – solid margin development
New business development was in line with the Bank's expectations. With a relatively balanced allocation to the individual market segments, the gross new business volume totalled € 6.2 billion in the 2023 financial year. Compared to 2022, in which the new business volume came in at € 5.6 billion, new business in the Corporates (in particular) and Project Finance segments increased. New business profitability, measured by RoE after tax, was also consistent with expectations across all asset classes. Further information on the development of new business in the individual lending units can be found in the "Segment results" section.

Total assets virtually constant – balance sheet liquidity strengthened in an uncertain and volatile environment – expansion of diversification

The development in consolidated total assets was almost constant in the reporting period. At € 31.5 billion as at 31 December 2023, they were only slightly (1 %) below the level seen at the end of the previous year (€ 31.8 billion). Balance sheet development was characterised by the dividend payment of € 1.5 billion in April 2023 (see also the separate section below), combined with the corresponding effects on the balance sheet items cash reserve and equity.

Secondly, the development of the balance sheet was dominated by the fact that Hamburg Commercial Bank managed its loan and financial investment portfolio dynamically and adaptively in markets characterised by high levels of uncertainty and volatility, prompting changes in asset allocation compared to the plans at the end of 2022. As a result of these changes, the volume targets for the loan book and total assets were reduced slightly overall, and the liquidity of the balance sheet structure was strengthened by a more pronounced expansion of the investment portfolio than originally planned. Financial investments, for example, are up considerably on the year-end figure, namely by € 2.5 billion, to € 7.8 billion. By contrast, momentum in the loan book slowed, with the carrying amount of loans and advances to customers at € 18.5 billion at the end of 2023, around 6 % below the level seen at the end of 2022. The degree of diversification in the loan book across the asset classes has increased further, which is reflected in an increasingly balanced allocation of the portfolio across the four lending units. Due to the selective business approach, particularly in national Real Estate, and high principal payments made by Shipping clients, the relative shares attributable to these segments declined, while the relative share of the portfolio attributable to the Corporates segment increased.

The exposure at default (EaD) increased from € 34.4 billion to € 35.2 billion. Of this amount, € 5.4 billion (31 December 2022: € 3.0 billion) is attributable to products that contribute to the diversification of the financial investment and loan portfolio in addition to conventional client business. In the lending area, these include externally managed specialised loan funds and investments in securitised loan receivables (contractually linked instruments), and on the securities side, investments in securitisation structures with an investment grade rating (collateralised loan obligations and agency mortgage-backed securities). In particular, investments in securitisation structures in a securities format were expanded significantly in the reporting year.

The diversification strategy also continued on the liabilities side. The four capital market issues in the reporting year with a total volume of € 2.3 billion (three senior preferred benchmark bonds and one mortgage Pfandbrief) are particularly worthy of mention. The Bank also continued to increase its deposits from the client business successfully.

Risk: Development of key risk metrics characterised by the challenging situation on the real estate markets - NPE ratio in the Group rises to 2.3 % at the end of the year - loan loss provisions moderately higher than expected over the year as a whole

The development of key risk metrics in the reporting year was characterised primarily by the extremely challenging conditions on the real estate markets, in particular due to the sharp rise in interest rates and lower market values observed. The resulting negative effects also increasingly impacted the Bank's loan portfolio over the course of the year.

The NPE ratio rose from 1.2 % to 1.5 % at the end of the first half of the year due to a number of new defaults in the particularly interest rate-sensitive Real Estate segment and the new default on a large-volume wind farm financing arrangement in Sweden (default risk largely secured by an export credit agency, ECA), although the increase was limited by the reduction in NPE. The persistently poor market environment led to further defaults in the Real Estate segment in the second half of the year, including the purchase price financing that HCOB provided for a company from the Signa Group for the main building sold and leased back by the HCOB Group in the 2020 financial year. Ultimately, the NPE ratio had risen to 2.3 % by the end of 2023; without the aforementioned default, the NPE ratio would have come in at 1.9 %.

The development in loan loss provisions (income statement) was also characterised by the challenging conditions on the real estate markets, which led to significant additions at Stage 3 of the loan loss provisions model in the Real Estate segment and also the recognition of model overlays (Stages 1 and 2). This trend was offset by positive developments in loan loss provisions in the other lending units. In total, the loan loss provisions burden in the 2023 financial year was moderately higher than expected at € 79 million.

Moody's upgrades HCOB's issuer rating to A3
The rating agency Moody's upgraded key ratings of Hamburg Commercial Bank by one notch 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 positive rating move followed an upgrade in July 2021 to "Baa1"/"Ba1" and represents a further improvement on HCOB's "Baa2"/"Ba2" rating awarded 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.

The Bank expects that the rating upgrade, including the improvement of HCOB's Pfandbrief ratings by one notch each (Mortgage Pfandbrief to "Aaa", Ship Pfandbrief to "Aa3"), will have a further positive impact on the Bank's long-term earnings power and, in particular, on its refinancing activities, especially in the form of an expansion of the investor base, as well as positive effects on funding costs.

Dividend payments started in 2023 for the 2022 financial year – € 302 million dividend proposal for the 2023 financial year
In line with the distribution policy adopted in the 2022 financial year, the Management Board and Supervisory Board of Hamburg Commercial Bank AG had proposed to the Bank's Annual General Meeting in March 2023 to make dividend payments of € 1,500 million (equivalent to € 4.97 per share) from the accumulated HGB profit for the 2022 financial year and to allocate the remaining portion of € 90 million to retained earnings. On 18 April 2023, the Annual General Meeting approved this proposal for the appropriation of profits as proposed. The dividend was paid out to the Bank's shareholders in April 2023. Hamburg Commercial Bank had already taken the dividend payment into account as part of the calculation of the CET1 ratio at 2022 year-end by way of a deduction from CET1 capital.

In the annual financial statements in accordance with the German Commercial Code (HGB) for the 2023 financial year, HCOB is reporting net income for the year of € 344 million. After the allocation of € 42 million to other retained earnings by the Management Board and the Supervisory Board in accordance with their authorisation under the Articles of Association, accumulated profit amounted to € 302 million. As part of the appropriation of earnings, the Management Board and the Supervisory Board will propose to the Annual General Meeting scheduled for April 2024 that the accumulated HGB profit be distributed as a dividend (equivalent to € 1.00 per share). Hamburg Commercial Bank had already taken the dividend proposal into account as part of the calculation of the CET1 ratio at 2023 year-end by way of a deduction from CET1 capital.

ECB stress test result confirms robust business model

Regulatory monitoring focused on the resilience of European banks, not least with the EBA/ECB stress test. The adverse scenario used for the stress test included a significant and prolonged economic downturn, as well as a correction in the capital and asset markets in the real estate asset class, which is also influenced by the current interest rate environment. Hamburg Commercial Bank participated in the SSM stress test. The results published at the end of July 2023 demonstrate the Bank's good capital position, even after the dividend payment, as well as its significantly increased resilience thanks to significantly improved profitability and a solid, resilient portfolio quality. The CET1 capital ratio calculated for the Bank as part of the stress test was still at a very strong 16.5 % even in the adverse scenario – after a discount of 4.0 percentage points. The leverage ratio fell – after a discount of 1.6 percentage points – to what remained a very good level of 8.2 %. This means that HCOB's results were above the average results reported by all of the institutions tested and serve as clear testimony to the progress made in recent years in terms of sustainable profitability and increased resilience.

London branch

HCOB has been represented by a branch office in London since 10 May 2023. With the approval granted by the UK Financial Conduct Authority (FCA), the Bank's existing representative office in London was expanded to give it branch status.

By expanding its presence in one of the world's most important financial markets, HCOB is strengthening its international positioning and giving its business partners in the UK direct access to the Bank's financing solutions. The Bank's expanded presence in London will also allow it to progress further in its quest to diversify its business activities. The focus is on business in the areas of Corporates International, Project Finance and Aviation Finance, as well as the international real estate business.

Hamburg Commercial Bank expands its business activities to include aviation finance

HCOB is forging ahead with its proven diversification strategy and expanding its business model to include the new Aviation segment. Internationally oriented aircraft financing is an ideal addition to the Bank's other financing activities in the Real Estate, Shipping, Project Finance and Corporates segments. The new Aviation Finance business area was established in the reporting year and is to be carefully built up and developed under the auspices of industry specialist Richard Moody. The business area's potential arises in particular from the high demand for forward-looking and binding financing models in the aviation industry, which has mounted a strong recovery after the COVID-19 pandemic and is also an area in which there is high demand for investments in connection with decarbonisation.

In the new business area, Hamburg Commercial Bank will provide asset-backed financing solutions for lessors and airlines, as well as financing for the broader aviation sector, including pilot training, slots, gates, maintenance facilities and aviation supply chains. The Bank will also be making selective investments in capital market products.

Earnings, net assets and financial position

Group key management indicators	Actual figures 2022	Forecast for 2023 (according to 2022 Forecast report)	Actual figures 2023
RoE after taxes (%)[1]	20.8	> 11	12.5
CIR (%)	44	~ 45	39
NPE ratio (%)	1.2	1.3	2.3
CET1 ratio (%)	20.5[2]	> 17	19.5[3]
LCR (%)	197	> 140	184

1) The RoE after taxes shown is based on standardised regulatory capital backing (average RWA and CET1 ratio of 13 %)

2) The dividend payment of € 1.5 billion made in the 2023 financial year was taken into account in advance in the Common Equity Tier 1 capital

3) The proposed dividend payment of around € 302 million in 2024 was taken into account in the Common Equity Tier 1 capital in advance in accordance with Article 26 (2) CRR; the dividend payment is subject to approval by the Annual General Meeting

Group performance in line with expectations overall

The following aspects, in particular, contributed to development in the Bank's financial ratios that was in line with expectations overall in the 2023 financial year:

- The Group net result (net income after taxes) amounted to € 271 million (previous year: € 425 million). Based on standardised regulatory capital backing, the return on equity after taxes (**RoE after taxes**) came to 12.5 % (31 December 2022: 20.8 %). This means that the Bank was consistent with its forecast for net income after taxes as published in the combined management report for the 2022 financial year (above € 250 million) and its forecast for RoE after taxes (> 11 %), even though the income tax burden was considerably higher than planned due to deferred tax expenses. This was offset by net income before taxes that was significantly higher than expected, increasing by 18 % to € 427 million (previous year: € 363 million). On the income side, the other operating result, which benefited from one-off effects, was the decisive factor in net income before taxes exceeding the target, while total income was at the planned level. On the cost side, administrative expenses in particular, but also regulatory expenses, were lower than assumed in the forecast, which more than compensated for moderately higher than planned loan loss provision expenses.

  The following significant developments occurred compared to 2022 as a whole: Total income increased as planned. It totalled € 762 million in the reporting year, which corresponds to an increase of around 13 % as against the previous year (€ 673 million). The decisive factor here was the development in net interest income as a key component of total income. As a result of a further increase in the operating net interest margin, net interest income amounted to € 663 million (previous year: € 550 million) up by around 21 % on the 2022 figure. The FVPL result contributed € 72 million (previous year: € 86 million) to total income, driven by performance in the first half of the year that outstripped expectations. Loan loss provisions amounted to € -79 million after having still made a positive contribution to the Group net result in the previous year with a net reversal of € 11 million. As part of the development in loan loss provisions, net additions at Stage 3 of € 111 million, which are almost exclusively attributable to the Real Estate segment, were limited by net reversals at Stages 1 and 2 (in the form of model overlays) and recoveries on loans and advances previously written off. As the additional negative effects of loan loss provisions were offset by the increase in total income, total income after loan loss provisions (€ 683 million) was on a par with 2022 (€ 684 million). At € 332 million, administrative expenses were stable as against the prior-year figure (€ 332 million) despite the inflationary environment as a result of lower personnel expenses and thanks to efficient cost management. At € 97 million, the other operating result was well above expectations and, as in the previous year (€ 75 million), was characterised by one-off effects. As planned, the result from restructuring and transformation no longer had any negative impact in the 2023 financial year (previous year: € -34 million). Based on the aforementioned developments, net income before taxes totalled € 427 million, which was € 64 million higher than in the previous year (€ 363 million). At € 156 million, the income tax burden was higher than planned due to deferred tax expenses. In the previous year, income taxes had made a noticeably positive contribution of € 62 million to the Group net result, partly due to one-off effects associated with the results of tax audits. 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, the section on "Earnings situation".

- The **cost-income ratio (CIR)** came to 39 % on 31 December 2023 (31 December 2022: 44 %). As the increase in the cost base (administrative expenses) was less pronounced, based on the Bank’s stringent cost management, and the increase in the earnings base was higher than forecast at the end of 2022, the CIR was well below the Bank's forecast value of around 45 % as at the reporting date. The fact that the increase in the earnings base was higher than planned can be traced back to one-off effects in the other operating result.
- The **NPE ratio** increased by 1.1 percentage points to 2.3 % in the reporting year (31 December 2022: 1.2 %), significantly higher than the forecast, which was adjusted upwards from the original 1.3 % (2022 forecast report) to < 1.5 % in the first half of 2023. The increase in the ratio compared to the end of 2022 is due to the significant increase in the NPE volume from € 405 million to € 800 million with an increase in exposure at default (EaD) from € 34.4 billion to € 35.2 billion. This increase is primarily due to the net increase in the NPE volume in the Real Estate segment, mainly due to the significant rise in interest rates and higher construction costs. The increase in the NPE volume is also due to a default in the Project Finance segment. This relates to a major individual exposure in which the majority of the Bank's financing enjoys ECA cover for the default risk. In the other segments, there was a reduction in the NPE volume on an annualised basis.

- The **CET1 ratio** decreased slightly as expected compared to the end of the previous year (20.5 %) and stood at 19.5 % as at 31 December 2023. This value means that the ratio remains at a very good level that is also comfortably above the forecast value of > 17 %, which also represents the strategic target level. The change in the CET1 ratio was mainly due to the increase in aggregate RWA, although this was less pronounced than forecast, rising by € 1.1 billion to € 16.5 billion (31 December 2023). The increase is mainly due to higher RWA for credit risks, partly as a result of rating model recalibrations, but also due to changes in the composition of the loan portfolio. At € 3.2 billion as at 31 December 2023, Common Equity Tier 1 capital (CET1 capital) was on a par with the end of the previous year (€ 3.2 billion). The dividend payment of around € 302 million for the 2023 financial year proposed to the 2024 Annual General Meeting was, as was the case with the dividend payout in April, already recognised as a deduction from CET1 capital as at 31 December 2023. The dividend payment made in April 2023 for the 2022 financial year had also already been reflected in the CET1 capital, with the effect of reducing it, at the end of the previous year.
- The liquidity position was once again managed prudently in the reporting year in view of the highly uncertain market environment. At 184 %, the liquidity ratio **LCR** was comfortably above the forecast value at the end of the 2023 reporting period. The planned decrease compared to the value seen on 31 December 2022 (197 %) is based on the normalisation of capital resources due to the dividend payment. With holdings of highly liquid assets that remain comfortable, the LCR is still well above the regulatory minimum requirement of 100 % as at the reporting date.

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)	2023	2022	Change in %
Interest income from financial assets categorised as AC and FVOCI	1,447	761	90
Interest income from other financial instruments	65	81[1]	-20
Negative interest on investments categorised as AC and FVOCI	–	-13	-100
Negative interest on other cash investments and derivatives	–	-32	-100
Interest expenses	-852	-290[1]	>100
Positive interest on borrowings and derivatives	3	43	-93
Net interest income	**663**	**550**	**21**
Net commission income	23	33	-30
Result from hedging	13	2	>100
Result from financial instruments categorised as FVPL	72	86[1]	-16
Net income from financial investments	-3	-1	>-100
Result from the disposal of financial assets classified as AC	-6	3	>-100
Total income	**762**	**673**	**13**
Loan loss provisions	-79	11	>100
Total income after loan loss provisions	**683**	**684**	**0**
Administrative expenses	-332	-332	–
Other operating result	97	75	29
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-21	-30	-30
Net income before restructuring and transformation	**427**	**397**	**8**
Result from restructuring and transformation	–	-34	100
Net income before taxes	**427**	**363**	**18**
Income tax expense	-156	62	>100
Group net result	**271**	**425**	**-36**
Group net result attributable to Hamburg Commercial Bank shareholders	271	425	-36

1) The prior-year figures have been restated; details are set out in Note 2 to the Group financial statements

Total income increased significantly as planned
Hamburg Commercial Bank generated total income of € 762 million in the year under review. This means that the earnings figure was 13 % higher than the level reported for the previous year (€ 673 million). Total income is dominated by net interest income, which at € 663 million was € 113 million (or 21 %) higher than in the previous reporting period due to the further increase in the operating net interest margin. The FVPL result also made an encouraging contribution to total income, albeit less so than in 2022, and came to € 72 million (previous year: € 86 million). At € 27 million, the other items within total income, including net commission income, contributed slightly less to total income than in the previous year (€ 37 million). Developments in the individual main items making up total income and their causes are presented below:

In 2023 financial year, **net interest income** amounted to € 663 million, up by around 21 % on the value for the previous year (€ 550 million). This means that the growth trend in net interest income, in which the Bank is also benefiting from the interest rate environment in line with the general trend in the banking sector, intensified in the second half of the year, after an increase of 12 % was recorded in the first six months. The increase in net interest income is primarily due to the increase in the net interest margin (NIM), which was up in all lending units, as well as ongoing asset allocation. At the level of the Group, the NIM has increased from 168 to 204 basis points.

In all lending units and in the Treasury function, net interest income was higher than in the previous year. The biggest increase in net interest income was attributable to the Corporates segment, driven by an expansion of segment assets as part of the diversification strategy, ongoing asset allocation to the higher-margin international segment and a positive margin trend in the domestic segment. Net interest income also increased in the Project Finance segment as a result of much higher margins, despite lower average segment assets compared to the previous year. In the Real Estate and Shipping segments, net interest income was also up on 2022, although the portfolio size in both segments, particularly in Shipping, has decreased.

Net commission income amounted to € 23 million (previous year: € 33 million). The year-on-year decrease is mainly attributable to higher other commission expenses, as well as lower commission income in the lending and guarantee business. Other commission expenses were almost exclusively attributable to expenses for fees paid to portfolio managers of the fully consolidated fund subsidiaries (loan funds), which the Bank is using to strengthen the diversification of net interest income.

The **result from hedging** (€ 13 million, previous year: € 2 million) is mainly due to the earnings contributions from PFVH relationships in an interest rate environment characterised by high market momentum during the year.

The **result from financial instruments categorised as FVPL** was higher than expected and came to € 72 million (previous year: € 86 million). Higher than planned income was generated with interest rate derivatives in the banking book in the declining interest rate environment extending beyond the current financial year. Net income from foreign currency benefited from the appreciation of the euro against the US dollar in the context of hedging strategies. In addition, income from credit default swaps as part of the diversification strategy and cross-selling income in the client business made a positive contribution to the earnings position. By contrast, moderate negative impacts came from some assets recognised at fair value whose market value fell in the reporting year.

The year-on-year decline in the overall item is mainly due to higher positive valuation effects in 2022 from the change in fair value adjustments for client derivatives.

Loan loss provisions characterised by challenging environment on the real estate markets
With a net addition totalling € -79 million, loan loss provisions (income statement) in the reporting year were slightly higher than expected in the previous year's forecast, primarily due to higher negative effects in the Real Estate segment. In the previous year, loan loss provisions still made a moderately positive contribution to the Group net result with a net reversal of € 11 million.

In the 2023 financial year, net additions at Stage 3 totalling € -111 million were recorded under this result item. These were partially offset by net reversals at Stages 1 and 2 totalling € 15 million and positive effects from the result from other changes in loan loss provisions (€ 17 million).

At € -116 million, net additions at Stage 3 were almost exclusively attributable to the Real Estate segment. As a result of the ongoing poor performance of the real estate markets in the second half of the year, higher provisions had to be recognised in particular for financing arrangements in default involving office properties and shopping centres (especially for properties with increased capex requirements). Minor additions (€ -4 million) were recognised in the Project Finance segment for a major exposure that defaulted in the first half of the year. The majority of the Bank's financing for this borrower has ECA cover. In the Corporates segment, on the other hand, there was a net reversal of € 9 million. This is primarily attributable to the improved economic outlook for two loan exposures (hotel operating companies) in the wake of the recovery from pandemic-related impacts.

Stages 1 and 2 of the loan loss provisions model also had a negative impact in the Real Estate segment, with net additions totalling € -58 million. These were, however, more than offset by higher net reversals overall in the Project Finance (€ 39 million), Corporates (€ 26 million) and Shipping (€ 8 million) segments, resulting in an overall net reversal at Group level at these stages. Rating downgrades and increased model overlays were the drivers behind the negative impact in the Real Estate segment. The Bank has used the latter to address, in particular, possible economic effects for the office property sub-portfolio, which is being hit particularly hard by the difficult market conditions. The net reversals in the Project Finance segment are mainly due to the elimination of uncertainty regarding guaranteed feed-in tariffs in the French energy market. This resulted in the loan loss provisions recognised to account for the previous risks, including model overlays, being largely reversed. In the Corporates segment, the reversal of model overlays was also the main reason behind the positive development in loan loss provisions at Stages 1 and 2. The reason for the reversal was that individual exposures with potential negative impacts from the effects of the war in Ukraine as well as post-pandemic burdens, which were reflected in the model overlays, did not completely materialise in the review of the creditworthiness. During the reporting year, new triggers were introduced for the transition to Stage 2 for individual counterparties on the credit watch list, so that potential overlays for them can already be taken into account in the original calculation of loan loss provisions. In the Shipping segment, the effects of moderate rating downgrades in the wake of the economic slowdown on the shipping markets were slightly more than offset by the fact that the model overlays recognised for the tanker portfolio at the end of the previous year were fully reversed thanks to the positive development of the market situation in this sub-segment.

The result from other changes in loan loss provisions was largely characterised by payments received on receivables that had been written off. The most significant effect related to an inflow from the insolvency estate in connection with a loan to a customer that had already been written off.

For further details, particularly on the composition and development of the model overlays, we refer to Note 14 in the notes to the Group financial statements.

Administrative expenses stable as against previous year despite inflationary environment
Administrative expenses, which were well below the forecast figures, totalled € 332 million in the reporting year, meaning that they were stable against the previous year's level (also € 332 million) despite an environment characterized by higher inflation. One key success factor in this regard is the cost efficiency programme for administrative expenses that was launched at the beginning of 2023.

Despite the planned increase in headcount in the reporting period (including the increase in staff at the London branch that was established in May) and collectively agreed and non-collectively agreed salary increases, personnel expenses were cut from € 154 million to € 147 million. The main reasons for this development include: no expenses for the Energy Support Payments, which were paid to all employees up to the full amount of € 3,000 in 2022, as well as lower variable remuneration and lower expenses for company pension schemes than in the previous year. 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".

In contrast to the development in personnel expenses, operating expenses charted a slight increase. They totalled € 185 million in the reporting year (including amortisation of intangible assets and depreciation of property, plant and equipment), compared to € 178 million in the previous year. The costs of ongoing operations ("run the bank" costs) increased from € 125 million to € 132 million in the wake of slightly higher expenses for IT, legal advice, marketing and travel expenses. In the other operating expense categories, cost development was stable. At € 53 million, the forward-looking "change the bank" costs were on a par with the previous year. They were still mainly attributable to the Bank's IT projects, but also to strategic and regulatory projects.

Other operating result characterised by one-off effects as in the previous year
The other operating result of € 97 million (previous year: € 75 million) once again made a marked positive contribution to the Group net result. As in the previous year, one-off effects were a significant component of the result item. In the reporting year, the one-off effects related in particular to income from the reversal of provisions for litigation risks (€ 54 million). In addition, income from an earn-out agreement in connection with a subsidiary sold in previous years totalled € 40 million.

Further details on the composition of the other operating result can be found in Note 16 of the notes to the Group financial statements.

Regulatory expenses down due to lower bank levy
The expenses for regulatory affairs, the Deposit Protection Fund and banking associations totalled € 21 million and were almost a third lower than in the previous year due to lower contributions for the bank levy (€ 12 million; same period of the previous year: € 19 million), when total expenses of € 30 million were incurred in this earnings item. The comparatively significant decrease in the bank levy is due, among other things, to the fact that the annual target resources and basic contribution for the institution have decreased compared to the corresponding assessment bases for the 2022 bank levy.

As expected, no more burdens from transformation expenses
In the year under review, the result from restructuring and transformation was balanced at € 0 million (previous year: € -34 million).

As assumed in the planning, no more transformation expenses were incurred in the 2023 financial year. In the previous period, transformation expenses in the amount of € 58 million had still been recorded (mainly for project activities related to the payment transaction system change-over and IT transformation). In addition, the previous year's earnings item included income of € 24 million from the reversal of restructuring provisions.

Net income before taxes up by 18 % on the previous year's level and well above expectations – higher than planned income tax burden due to substantial deferred tax expenses

Given the above-mentioned developments in the individual line items, net income before taxes amounted to € 427 million in the reporting year (previous year: € 363 million), putting it 18 % above the previous year's level and coming in significantly higher than expected in the previous year's forecast.

Income taxes totalled € 156 million in the 2023 financial year, after making a noticeably positive contribution, with income of € 62 million, to the Group net result in the previous year due to one-off effects related to the results of tax audits and income from deferred taxes.

Income taxes in the reporting year were characterised by an expense from deferred taxes of € 133 million, a negative impact that was more pronounced than assumed at the end of 2022. Current tax expenses totalled € 23 million, taking into account relief of € 18 million from income for previous assessment periods.

Deferred tax expenses comprise an expense from the change in deferred taxes on temporary differences (€ 86 million) and an expense from the reduction of deferred tax assets on loss carry-forwards (€ 47 million). The drop in deferred taxes on temporary differences was mainly driven by the reduction in valuation differences relating to financial investments. The reasons for the decline in deferred taxes on loss carryforwards include the utilisation of tax loss carryforwards in the context of taxation in Germany and reduced earnings expectations for the Luxembourg branch compared to the previous year's planning.

Group net result in line with forecast

After income tax expense, Hamburg Commercial Bank reported a Group net result of € 271 million for the 2023 financial year (previous year: € 425 million). Hamburg Commercial Bank has therefore met its earnings forecast from the previous year (Group net result of more than € 250 million).

Compared to the previous year, the € 154 million reduction in the Group net result is due to the change in income taxes explained in the previous paragraph (additional burden of € 218 million). As a result, net income before taxes increased by € 64 million. In the reconciliation to this earnings figure, the additional burdens related to loan loss provisions (€ 90 million) were offset by the increase in total income (by € 89 million) driven by net interest income. As a result, total income after loan loss provisions of € 683 million was at the previous year's level (€ 684 million). Lower costs, in particular the absence of any negative impact from restructuring and transformation (previous year: € 34 million) and a higher other operating result (€ +22 million) drove the increase in net income before taxes.

Net assets and financial position

Material items on the statement of financial position

(€ m)	2023	2022	Change in %
Assets			
Cash reserve	3,857	4,974	-22
Loans and advances to banks	492	777	-37
Loans and advances to customers	18,509	19,592	-6
Loan loss provisions	-366	-414	-12
Trading assets	335	441	-24
Financial investments	7,795	5,338[1]	46
Deferred tax assets	536	697	-23
Remaining assets	383	413[1]	-7
Total assets	**31,541**	**31,818**	**-1**
Liabilities			
Liabilities to banks	4,671	4,604[1]	1
Liabilities to customers	13,616	13,246[1]	3
Securitised liabilities	7,575	6,873[1]	10
Trading liabilities	184	335	-45
Provisions	287	361	-20
Subordinated capital	921	929[1]	-1
Equity	4,009	5,165	-22
Remaining liabilities	278	305[1]	-9
Total liabilities	**31,541**	**31,818**	**-1**

1) The prior-year figure has been restated; details are set out in Note 2 to the Group financial statements

Virtually constant total assets
The consolidated statement of financial position remained almost constant compared to the previous year. At € 31,541 million, consolidated total assets at the end of 2023 were roughly the same as at 31 December 2022 (€ 31,818 million). The balance sheet development on the assets side was characterised on the one hand by the reduction in the cash reserve as planned (€ -1.1 billion), not least as a result of the dividend payment adopted and completed in April 2023. On the assets side, the decline in the cash reserve was offset by a significant increase in financial investments (€ +2.5 billion), while loans and advances to customers fell by € 1.1 billion. On the liabilities side, reported equity decreased by € 1.2 billion, which is attributable to the aforementioned dividend payment with a positive Group net result. This was primarily offset by an increase in securitised liabilities (€ +0.7 billion) and liabilities to customers of € 0.4 billion as a result of the active issuing activity and significant increase in deposits. In detail, the developments, which were moderate overall, were as follows:

The cash reserve, which was comparatively high at € 4,974 million at the end of 2022 in anticipation of the dividend payment, decreased significantly after the distribution in April and over the course of the second half of the year and totalled € 3,857 million at the end of 2023. To maintain the solid liquidity position, the portfolio of highly liquid securities ("Financial investments" item in the statement of financial position) was increased to partially compensate for this.

Loans and advances to banks dropped. These amounted to € 492 million as at 31 December 2023, as against € 777 million as at 31 December 2022.

The development of the loan book, reflected by the item in the statement of financial position loans and advances to customers, was characterised by the further implementation of the diversification strategy, but also by the risk-conscious and selective business approach in a partly difficult market environment. As at 31 December 2023, the carrying amount of loans and advances to customers was € 18,509 million, 6 % below the level as at 31 December 2022 (€ 19,592 million). The diversification strategy is reflected in the increasingly balanced portfolio allocation across the lending units: the relative shares of loans and advances in the Real Estate and Shipping segments have decreased, while the shares of the loan book in the Corporates segment have increased.

Total loan loss provisions (for items in the statement of financial position) amounted to € -366 million (31 December 2022: € -414 million). The reduction mainly relates to Stage 1 and 2 loan loss provisions as a result of the reduction in model overlays from € 144 million to € 85 million. Stage 3 loan loss provisions remained largely constant, as the net additions were offset by a comparable level of utilisation due to disposals. As a result of the reduction in model overlays, the coverage ratio for the overall AC portfolio fell to 2.0 % (31 December 2022: 2.1 %). The coverage ratio for the NPE portfolio (NPE coverage ratio AC) has fallen significantly and amounted to 34 % as at 31 December 2023 (31 December 2022: 69 %). The drop in this ratio is due to structural changes in the composition of the NPE portfolio. The largest partial disposal in the NPE portfolio, an exposure from the Real Estate segment, had an above-average coverage rate. Two new NPE cases, however, which together account for more than a quarter of the NPE volume as at 31 December 2023, had a low coverage ratio at the end of the reporting period. The reason for this is that the majority of the exposures concerned have ECA cover for the default risk (exposure from the Project Finance segment) or have a high collateral value or a stable cash flow outlook (exposure with the Signa Group in the Real Estate segment, see comments in the "Business development" section).

Trading assets were down on the end of the prior-year reporting period, falling by almost one-quarter to € 335 million (31 December 2022: € 441 million). The decline is mainly due to the lower carrying amount of the positive market values from interest and currency-related derivatives.

Financial investments were increased further as the Bank continued to implement its strategy of diversifying the balance sheet, as well as in the context of liquidity management. As at 31 December 2023, their carrying amount came to € 7,795 million, a noticeable increase of 46 % compared to the prior-year reporting date (31 December 2022: € 5,338 million). The increase is due primarily to the increase in highly liquid securities, as well as further investments in securitisation structures with investment grade ratings (mainly collateralised loan obligations and agency mortgage-backed securities).

Deferred tax assets fell by 23 % to € 536 million (31 December 2022: € 697 million). The main reason for the decline was the reduction in deferred taxes on temporary differences.

Other assets showed only a minor change compared to the end of the previous year and amounted to € 384 million (31 December 2022: € 413 million). In this summarised item, intangible assets have increased due to software capitalisation. This was more than offset by the fact that current income tax assets and the reimbursement claim from plan assets were lower than on the previous year's balance sheet date.

On the liabilities side, at € 4,671 million, liabilities to banks remained roughly on a par with the end of the previous year (31 December 2022: € 4,604 million). This item includes borrowings from the ECB under the TLTRO III programmes. After the further repayments of € 0.55 billion in the reporting year, the utilisation of these programmes amounted to only € 1.0 billion (nominal amount) as at the reporting date. By contrast, the portfolio of liabilities from repo transactions increased, albeit to a greater extent.

In line with the Bank's funding strategy, which aims to further increase the share of organic funding, liabilities to customers account for an increasing share of refinancing. These were up by 3 % year-on-year from € 13,246 million to € 13,616 million. The increase is due to the marked increase in deposits from € 9.2 billion to € 10.4 billion. Not least this development demonstrates the stability of Hamburg Commercial Bank's refinancing structure in what was, especially in the first half of the year, a turbulent market environment.

Securitised liabilities amounted to € 7,575 million as at 31 December 2023, 10 % higher than the level at the end of 2022 (carrying amount of € 6,873 million). The development of the position was characterised by the benchmark issues in the reporting year (three senior preferred bonds in the amount of € 0.75 billion and two in the amount of € 0.5 billion, as well as a mortgage Pfandbrief in the amount of € 0.5 billion).

In tandem with the development on the assets side, trading liabilities also decreased. This drop from € 335 million to € 184 million was mainly due to the reduction in the negative market values of interest-related derivative financial instruments and other trading liabilities (syndication transactions).

Provisions decreased compared to 31 December 2022, dropping from € 361 million to € 287 million. The decline can be traced back to lower provisions for litigation risks due to reversals, lower provisions for restructuring and a reduction in early retirement obligations.

The structural composition of subordinated capital has not changed. As at 31 December 2023, the carrying amount was virtually unchanged year-on-year at € 921 million (31 December 2022: € 929 million).

Despite the positive net result for the period and the increase in the revaluation reserve (OCI), reported equity decreased significantly, as planned, compared to the end of the previous year and totalled € 4,009 million as at 31 December 2023 (31 December 2022: € 5,165 million). The aforementioned dividend payment made in April 2023 in the amount of € 1,500 million was the decisive factor in this development.

Business volume up due to increase in off-balance sheet business
While total assets fell by 1 % as shown above, the business volume (total assets plus off-balance sheet business) increased by 1 % to € 36,338 million (31 December 2022: € 35,943 million), as the off-balance sheet business increased by 16 % compared to the previous year. This is due to the increase in irrevocable loan commitments by € 869 million to € 4,163 million (31 December 2022: € 3,294 million). The increase is partly due to the expansion of the international Corporates Business. On the other hand, sureties and guarantees fell, albeit to a much lesser extent in absolute terms, by € 197 million to € 634 million (31 December 2022: € 831 million).

Structure of liabilities by financial instruments

(€ m)	2023		2022	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Pfandbriefe and asset-based funding	**7,109**	**6,174**	**7,383**	**5,753**
Covered bonds (Pfandbriefe)	3,899	3,851	4,705	3,141
Other secured funding	3,210	2,323	2,678[1]	2,612[1]
Unsecured liabilities (senior preferred)	**16,735**	**2,571**	**15,038[1]**	**4,250[1]**
Unsecured liabilities (senior non-preferred)	**2,018**	**1,335**	**2,302[1]**	**1,823[1]**
Profit participation certificates and other subordinated liabilities	**921**	**913**	**929[1]**	**929[1]**
Total	**26,783**	**10,993**	**25,652[1]**	**12,755[1]**

1) The prior-year figure has been restated; details are set out in Note 2 to the Group financial statements

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 € 7,109 million as at 31 December 2023 (31 December 2022: € 7,383 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 € 18,753 million as at the reporting date (31 December 2022: € 17,340 million). Call and time deposits are shown together with structured unsecured financial instruments in the "Senior Preferred" category and amounted to € 16,735 million in total (31 December 2022: € 15,038 million). The "Senior Non-Preferred" category mainly consists of bearer and registered bonds that do not have any structured elements and amounts to € 2,018 million as at 31 December 2023 (31 December 2022: € 2,302 million).

HCOB's subordinated liabilities are reported under "Profit participation certificates and other subordinated liabilities" (€ 921 million, 31 December 2022: € 929 million). As at the end of the previous year, there were no silent participations or profit participation certificates.

Capital and funding

RWA, regulatory capital and capital ratios

	31.12.2023[1]	31.12.2022[2]
Risk-weighted assets (RWA) (€ bn)	16.5	15.4
Regulatory capital (€ bn)	4.1	4.1
thereof: CET1 capital (€ bn)	3.2	3.2
Overall capital ratio (%)	25.0	26.8
Tier 1 capital ratio (%)	19.5	20.5
CET1 capital ratio (%)	19.5	20.5
Leverage ratio (%)[3]	9.1	9.5

1) The proposed dividend payment of around € 302 million in 2024 was taken into account in the Common Equity Tier 1 capital in advance in accordance with Article 26 (2) CRR; the dividend payment is subject to approval by the Annual General Meeting

2) The dividend payment of € 1.5 billion made in the 2023 financial year was taken into account in advance in the Common Equity Tier 1 capital

3) Restated comparative figure as at 31 December 2022

Capital ratios at a high level
As expected, the CET1 ratio of 19.5 % is down slightly compared to 31 December 2022 (20.5 %). This development is due to the increase in RWA for credit risks, which is attributable both to changes in the loan portfolio and to rating model recalibrations. CET1 capital was positively influenced by the net result, the increase in the revaluation reserve (OCI) and lower regulatory deductions. As the planned dividend payment for the 2023 financial year in the amount of around € 302 million has already been deducted from the CET1 capital, CET1 capital as at 31 December 2023 remains at the previous year's level (€ 3.2 billion) of € 3.2 billion. The Tier 1 capital ratio and the overall capital ratio developed in line with the Common Equity Tier 1 ratio compared with 31 December 2022.

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

The leverage ratio was down slightly as against 31 December 2022 (9.5 %) to 9.1 %. The development is due primarily to the increase in the total leverage exposure. The value of 9.1 % reported as at 31 December 2023 means that the leverage ratio is still significantly higher than the regulatory requirement of 3 % and, together with the high capital ratios, pays testimony to the Bank's very robust capital position.

Distribution policy
In April 2023, the Bank began making dividend payments on the basis of the distribution policy adopted by the Management Board and Supervisory Board. In 2024, the Bank intends to pay a dividend of € 302 million in total (€ 1 per share) for the 2023 financial year on the basis of the dividend policy explained below.

Going forward, the Bank aims to normalise its capital buffers in the context of its distribution policy, initially to a target of at least 17 % CET1, while achieving business growth at the same time, as assumed in the current business plan.

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.

The distribution of dividends is a discretionary decision. As a result, the Management Board and Supervisory Board are free to propose deviations from the dividend policy described above to the Annual General Meeting. The dividend policy is reviewed annually by the Management Board as part of the updated corporate planning.

Refinancing strengthened significantly after rating upgrade with benchmark issues and increased volume of client deposits

The refinancing situation in the reporting period was characterised by volatile capital markets. The sharp rise in interest rates combined with a global decline in deposits led to temporary turbulence in the banking environment in the first half of 2023, triggered by difficulties faced by individual US regional banks (including: Silicon Valley Bank insolvency and the forced takeover of Credit Suisse by UBS in Switzerland). The financial markets stabilised significantly in the second half of 2023.

Fundraising is in line with the Bank's expectations. In total, the Bank raised around € 2.5 billion in long-term funds in 2023. During the reporting period, the Bank issued a € 750 million senior preferred benchmark transaction in the first quarter following its rating upgrade, following this up with a € 500 million mortgage Pfandbrief in the second quarter. In the second half of the year, the Bank placed two senior preferred benchmark bonds on the market with a volume of € 500 million each, one of which was in floating rate format for the first time. These bonds will strengthen the Bank's funding base in the long term. The Bank is planning further benchmark issues in the unsecured segment as well as mortgage and ship Pfandbrief issues in the coming years.

The strong refinancing structure enabled the payment of a dividend of € 1.5 billion in the first half of 2023, as well as the repayment of a further € 550 million from the refinancing via the TLTRO programme. At the end of the reporting period, the TLTRO portfolio still amounts to € 1.0 billion.

In addition to long-term refinancing, the planned increase in the deposit position by € 1.2 billion from the Bank's client business also contributed to the implementation of the funding strategy.

Key liquidity ratios

	31.12.2023	31.12.2022
Total deposits (€ bn)	10.4	9.2
LCR (%)	184	197
NSFR (%)	116	113

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.

Rating

Rating overview as at 31 December 2023

	Moody's
Issuer rating (long-term)	A3, stable
Current liabilities	P-2
Stand-alone rating (financial strength)	Baa3
Deposit rating	A3
"Preferred" Senior Unsecured Debt	A3
"Non-Preferred" Senior Unsecured Debt	Baa2
Mortgage Pfandbrief	Aaa
Ship Pfandbrief	Aa3

The table above provides an overview of Hamburg Commercial Bank's ratings awarded by Moody's as at 31 December 2023. With regard to the upgrade of HCOB's issuer and stand-alone ratings, as well as key instrument ratings, on 17 February 2023, we refer to the comments in the section "Moody's upgrades HCOB's issuer rating to A3" within the chapter "Business development – Significant developments and events in the 2023 reporting year".

Information on the sustainability ratings for Hamburg Commercial Bank AG can be found in the summarised separate non-financial report (CSR Report) and on the Bank's website.

Segment results

Segment overview

(€ m)		Real Estate	Shipping	Project Finance	Corporates	Lending Units	Treasury & Group Functions	Reconciliation	Group
Total income	**2023**	**209**	**180**	**102**	**186**	**677**	**70**	**15**	**762**
	2022	175	177	70	137	559	49	65	673
Loan loss provisions	**2023**	**-177**	**11**	**37**	**38**	**-91**	**11**	**1**	**-79**
	2022	11	18	-7	-11	11	2	-2	11
Administrative expenses & regulatory costs	**2023**	**-99**	**-89**	**-52**	**-95**	**-335**	**-18**	**-**	**-353**
	2022	-80	-83	-35	-58	-256	-106	-	-362
Net income after taxes	**2023**	**-53**	**81**	**69**	**102**	**199**	**126**	**-54**	**271**
	2022	84	88	22	54	248	55	122	425
RoE after taxes (%)	**2023**	**-8.3**	**22.9**	**22.2**	**17.0**	**10.5**	**49.6**		**12.5**
	2022	13.7	24.1	7.6	11.1	14.2	18.1		20.8
Segment assets (€ bn)	**31.12.2023**	**7.8**	**2.4**	**3.4**	**6.0**	**19.6**	**11.9**	**-**	**31.5**
	31.12.2022	8.1	3.5	3.4	4.6	19.6	12.2	-	31.8
New business (€ bn)	**2023**	**1.6**	**1.3**	**1.0**	**2.3**	**6.2**	**-**	**-**	**6.2**
	2022	1.6	1.6	0.7	1.7	5.6	-	-	5.6

Structure of segment reporting

The management of the Group comprises four lending-oriented 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 relation to the IFRS Group. For more detailed information on the structure and methodology of segment reporting, please refer to note 46 "Segment reporting" in the notes to the Group financial statements.

Further information on the segments and their strategic orientation can be found in the "Strategic direction for the business areas” section of the chapter of this combined management report entitled "Basis of the Group".

Business development in the segments

Against the backdrop of the interest rate environment and asset allocation that was focussed on diversification and profitability, total income increased significantly across all lending units (€ 677 million, +21 % compared to the previous year). This encouraging development, which was achieved with almost constant average segment assets of the lending units, was also reflected in a much higher net interest margin NIM (3.3 % as against 2.6 % in the previous year). The year-on-year increase in new business (€ 6.2 billion, +11 %) and the very small volume of prolongations more or less compensated for repayments. In view of the deteriorating economic environment on the real estate markets and the cautious risk policy, loan loss provisions increased considerably, after the previous year had been characterised by net reversals. The profitability of the lending units as a whole, measured in terms of RoE after taxes, decreased as a result to 10.5 % (previous year: 14.2 %), as the encouraging earnings performance was more than offset by higher loan loss provisions, higher cost allocation and taxes.

The **Real Estate** segment reported net income after taxes of € -53 million in 2023 (previous year: € 84 million), which clearly reflected the difficult market environment characterised by high interest rates. The operating business was once again characterised by the risk-conscious further development of the portfolio, the aim being to optimise earnings, in a challenging market environment, with less of an emphasis on new business and more emphasis on portfolio management. As a result, two major legacy exposures were successfully reduced. Compared to segment assets that were down to € 7.8 billion (previous year: € 8.1 billion), net interest and commission income from operating activities rose slightly, although this was more than offset in net income after taxes by the comparatively high loan loss provisions in particular. Gross new business remained subdued at € 1.6 billion due to the low demand for loans in view of the interest rate environment and the conservative business approach (previous year: € 1.6 billion). With margins that remained good, the cautious and selective approach is particularly evident in new business. The marked decline in the segment's RoE to -8.3 % (previous year: 13.7 %) reflects the overall challenging situation on the real estate market.

In the **Shipping segment**, net income after taxes amounted to € 81 million (previous year: € 88 million). Income from operating business was encouraging with stable net interest income despite the lower loan volume, and was up slightly on the previous year. Operating profitability, measured in terms of RoE, remained at a high level, albeit down slightly, at 22.9 % (previous year: 24.1 %). At € 1.3 billion, the focussed gross new business with national and international shipping companies with good credit ratings was below the previous year's level (€ 1.6 billion). The decline in segment assets to € 2.4 billion at the end of the year (previous year: € 3.5 billion) reflected the good liquidity resources of shipping companies with early loan repayments and a weaker USD exchange rate.

The **Project Finance segment** reported net income after taxes that were up considerably to € 69 million (previous year: € 22 million). Total income increased to € 102 million (previous year: € 70 million), with simultaneous net reversals of loan loss provisions totalling € 37 million (previous year: € -7 million), particularly at Stages 1 and 2. Segment assets totalled € 3.4 billion (previous year: (€ 3.4 billion). New business increased compared to the previous year (€ 1.0 billion; previous year: € 0.7 billion), with the weighting shifting towards infrastructure (and in particular projects to expand digital infrastructure) in both new and existing business. The volume of renewable energies decreased slightly in a very competitive market. At 22.2 %, the segment's profitability was up considerably on the previous year (7.6 %).

Net income after taxes in the **Corporate segment** amounted to € 102 million (previous year: € 54 million) and includes a positive earnings trend in the national and international area. With gross new business of € 2.3 billion, the previous year's figure (€ 1.7 billion) was exceeded. Segment assets rose significantly to € 6.0 billion (previous year: € 4.6 billion), making a substantial contribution to the diversification of the loan book. Margin development was positive, 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 17.0 % in total (previous year: 11.1 %).

The **Treasury & Group Functions** segment generated net income after taxes of € 126 million (previous year: € 55 million). Total operating income was mainly generated by the strategic investment portfolio and capital market-related asset-liability management. In addition to a higher allocation of costs to the lending units, the segment result also included one-off effects in other operating income, in particular income from the reversal of provisions for litigation risks and from an earn-out agreement in connection with a subsidiary sold in previous years.

"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. Reconciliation effects in total income result from the different presentation of capital market transactions and hedge accounting effects in internal reporting and IFRS accounting. The difference between the taxation recognised in the segments based on a uniform tax rate 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 46 "Segment reporting" in the notes to the Group financial statements.

Final assessment of the situation of Hamburg Commercial Bank

Despite the difficult situation in the real estate environment and the resulting deterioration in the NPE ratio, Hamburg Commercial Bank's business performance in 2023 was almost entirely positive. In addition to the Group net result meeting the forecast, the Bank's capital position, liquidity ratios and cost efficiency showed better development than expected at the end of 2022.

In terms of **profitability**, the Bank was able to continue the positive trend seen in the recent past. This is primarily reflected in the development of NIM, which increased in all lending units compared to the previous year, in some cases significantly so. On this basis, net interest income increased by more than a fifth compared to 2022, with total assets remaining stable. The Bank also believes it is well positioned for the near future in terms of its profitability metrics. On the assets side, the diversification of the loan book has increased further, which is reflected in an increasingly balanced portfolio allocation across the segments and the fact that the Corporates and Project Finance segments have made a substantial contribution to the increase in net interest income. In addition, the establishment of the Aviation business area, in which the first business transaction was executed in January 2024, laid the foundations for further diversification. The refinancing structure also proved stable in a volatile market environment and was further strengthened in particular by the expansion of client deposits and four benchmark issues. Another point worth emphasising is that the Bank's efficient cost management is increasingly bearing fruit. As a result, administrative expenses were kept stable compared to 2022 despite an environment that remains characterised by high inflation and in spite of the increase in staff capacities. Taking into account the lower regulatory costs and the fact that no transformation expenses were incurred in 2023, the cost trend is even more positive.

The most significant challenge currently facing the Bank is maintaining **asset quality**. In this respect and despite its stringent risk management, Hamburg Commercial Bank was unable to escape the deterioration in the macroeconomic environment and the consequences of rising interest rates in the Real Estate segment in the past financial year, particularly with regard to its NPE volume. The significant net increase in the NPE volume in the 2023 financial year is mainly attributable to this segment. Accordingly, the NPE ratio increased to 2.3 % at the end of 2023, having already risen from 1.2 % (31 December 2022) to 1.5 % at the end of the first half of the year. In its corporate planning, HCOB expects management of the NPE ratio to remain challenging in 2024 in view of the ongoing considerable challenges faced by the real estate sector. Looking ahead, pressure on the NPE ratio should ease as the economic environment brightens.

With the **capital ratios** reported at the end of the year, the Bank remains one of the banks with the strongest capital resources in the European banking market despite the projected decline compared to the figures at the end of 2022; the leverage ratio in particular is well above average in a peer group comparison. The results of the EBA stress test published in July 2023, in which Hamburg Commercial Bank performed above average, and the reduced capital requirements as part of the SREP process demonstrate the resilience of the Bank's business model to any adverse macroeconomic scenarios. The introduction of the Basel IV regulations from January 2025 should have a positive impact on the level of RWA for credit risks and, as a result, also on the Bank's capital ratios. This will be driven primarily by lower loss ratios for shipping and real estate collateral and the elimination of the general scaling factor. The profitability confirmed by the Group net result will serve to strengthen the Bank's equity position and enable dividend payments to be made to the owners.

Even after the dividend payment and the scheduled repayment of further TLTRO holdings, the Bank has solid **liquidity** ratios**.**

In view of the developments and positioning outlined above, 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, new employer branding campaign and expansion of the corporate benefits landscape
Human resources work in 2023 remained dominated by increased recruitment activities, as well as investments in our employees, including moves to expand the corporate benefits landscape. Another focal point was the launch of the new employer branding campaign.

Recruitment activities to strengthen resources in both quantitative and qualitative terms at all stages in the value chain are already clearly bearing fruit. The number of employees within the Hamburg Commercial Bank Group increased by 39 to 907 full-time equivalents (FTEs) as at 31 December 2023 compared to 31 December 2022. Taking into account the employees who left as planned with effect from the turn of the year 2022/2023, the workforce actually increased by 58 FTEs in the 2023 financial year.

An employer branding campaign was launched in the reporting year to support our recruitment activities. This ties in directly with the brand strategy, which was also revamped in 2023. Since 2019, HCOB has stood for "clarity" as its brand promise. With the new brand strategy and its leitmotif "Clarity as a service", HCOB is emphasising the importance of clarity even more by explicitly activating "clarity" as a service promise that is expressed in the Bank's services. As part of the modern and internationally focused employer branding campaign that ties in with the Bank's brand strategy, HCOB is using external advertising measures to showcase itself as an attractive employer. The campaign slogan "Clarity is Capital" expresses the Bank's strong and clear market position, also with regard to the highly competitive labour market. With a new colour scheme reflecting both HCOB's clarity and its maritime roots, the external campaign ran for a period of six weeks. Conventional (advertisements in magazines and in outdoor advertisements) and digital formats were used as the presentation media. The campaign was rounded off with various internal measures that allow employees to gain a deeper understanding of the new essence of the brand and strengthen their identification with HCOB as an employer. Following the official campaign period, the "breath of fresh air" was used to further expand employer branding through internal measures. This includes, for example, the use of social media channels with authentic content produced in-house. The introduction of the "Employees Recruit Employees" programme called "PEARL" at the beginning of the year is also being addressed as part of the campaign and has already translated into the first few success stories. The additional development of internal "active sourcing" in HR is designed to further reduce reliance on external personnel service providers when recruiting qualified employees and to increase the company's own recruitment speed.

The HR strategy for 2022-2024, adopted in 2022, was also operationalised and pursued further during the period under review. The Long-Term Incentive Programme (LTIP) for managers and selected senior experts, which was launched back in 2022, meets the expectations associated with further dovetailing the interests of our owners and employees.

Employees in the Group

	31.12.2023	31.12.2022
Full-time employees (FTE) in the Group[1]	**907**	**868**
thereof: Women	314	303
thereof: Men	593	565
thereof: Employees in Germany	841	825
thereof: Employees abroad	66	43
Total number of employees in the Group (“headcount”)	**1,014**	**975**
Key employee figures		
Part-time employees (%)	17.2	17.6
Average age in years	45.0	45.7
Average period of employment (years)	12.9	13.7

[1] Total number of employees excluding trainees, temporary staff and interns

In addition, 2023 saw employees benefit for the first time from the benefits that were revised or launched as new benefits at the end of 2022. Benefits worthy of particular mention include the assumption of the full costs of the “Deutschlandticket” nationwide local public transport ticket, financial support for team-building measures and initiatives allowing employees to take up to three working days off per year to do their bit in social and ecological projects ("Volunteering Days"). Through the cooperation with "Hansefit", employees have also been able to take advantage of a wide range of sports programmes throughout Germany at attractive conditions since June 2023. Another focal point within the reporting year was the revision of the regulations on mobile working. A new employer/works council agreement in favour of 20 % mobile work has been in force at HCOB since July 2023. HCOB was keen to find a regulation early on that would combine the advantages of mobile working with those of employees coming into the office: new virtual collaboration skills gleaned during the coronavirus pandemic and face-to-face collaboration both within and across teams to increasingly exploit the benefits of working on site in the office again. As, however, the Bank wanted to continue to allow its employees the necessary degree of flexibility, mobile work remains an option. It is up to the managers to make diligent decisions on any exceptions and to allow employees to spend more time working from home, for example to allow them to balance family and work commitments.

Corporate culture and further development
Continuous development of the corporate culture is a central factor for companies that want to remain successful in this fast-changing world of work.

The personal and professional development of all the Bank's employees is at the centre of our HR work. This is why HCOB does its very best to develop and promote its employees and talents through a variety of development opportunities. The Bank still uses a mentoring programme to specifically support exceptional employees, for example. This programme has been launched for what is already the third time. Cross-business unit networking and increasing talent visibility within the Bank is designed to foster further career development. The internal seminar programme was replaced by a new e-learning platform to which all employees have access to facilitate flexible professional and personal development. The offering is supplemented by language training, offering more employees the opportunity to improve on their own language skills in English, German, Spanish or French. For employees working in sales and credit analysis units, the Bank offers a "cash flow" training course organised by an external company that is geared towards the HCOB business model. All employees in these areas already completed this training in 2021/2022 and it will also be offered to new hires on an ongoing basis. This sees the Bank further expand its digital development offering. In addition, all business units have a decentralised budget to fund needs-based and function-specific development programmes for their employees.

The resolution adopted by the Management Board in 2023, which will be implemented in 2024, to focus even more strongly on personnel development sends out a clear signal regarding the importance that HCOB attaches to promoting its internal employees in order to retain talent at the Bank and ensure that it always has the right skillset available in-house in a changing environment. A total of 18 trainees started in various business units of the Bank in 2023. In addition, HCOB successfully filled its applicant places for the sandwich degree programme, which have doubled from five to ten. Since this year, the Bank has also been offering “Business Informatics” in addition to “Business Administration”. Further training is a top priority for HCOB, especially for its young professionals. As a result, the Bank organises a seminar spanning several days over the entire training period with external support. In addition, trainees have an individual training budget at their disposal and sandwich programme students who have been taken on by the Bank can follow up on their sandwich degree by embarking on further long-term training (e.g. a Master's degree or CFA) as part of the "education@work" programme.

The Bank also uses various elements to promote the three Cs: collaboration, concentration and what it refers to as “cosy” dialogue. The "CoZones" that have been set up for this purpose are state-of-the-art workspaces. In order to visualise the developments in our corporate culture, we also conducted the annual Bank-wide employee survey for the third time in 2023 with external support. This survey focussed on the following topics: new work, diversity, ESG and leadership. The results were presented individually at Overall Bank and BU level. The positive development in HCOB employees' assessments of questions/topics that were also the subject of the survey in previous years is worthy of particular mention. Furthermore, the participation rate has also risen, showing that the survey is increasingly important to all employees. Employees at the locations abroad – Greece, London and Luxembourg – were also surveyed for the first time in 2023.

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 give the Management Board and employees incentives 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 disproportionately high risks for the purposes of realising variable remuneration components.

The state-of-the-art remuneration system for employees, which has been agreed with the co-determination bodies and is constantly being enhanced, also contributes to our appeal as an employer and strengthens our recruitment efforts in a highly competitive market environment.

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 set out in the InstitutsVergV 4.0, published in 2021, have been implemented within 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 promote diversity and equal opportunities with the assistance of its equal opportunities officer. The topics are a particular priority at Hamburg Commercial Bank because they increase employer attractiveness and allow the Bank to live up to its social responsibility.

This is why, in December 2022, the Bank made a commitment to further measures to actively promote the issue of diversity within the Bank. Measures include targeted recruitment activities to increase the pool of female talent and targets to ensure that female employees are given systematic consideration in succession planning. These will help the Bank achieve the defined average target quota of 33 % for the underrepresented gender (predominantly women) in management and/or senior expert functions. The quota adopted in November 2020 is to be achieved by 31 December 2025. This also applies explicitly to the BU level.

In 2023, the Bank's top female talents, in particular, received support in the form of individual development measures and met the Management Board at regular intervals thanks to various dialogue formats.

In 2023, we as a Bank developed a "Code of Diversity" together with various people from within the Bank. This has been published both internally and externally. It encompasses our vision of how we want to shape the topic of diversity at the Bank and how we want to put it into practice together.

In order to promote stronger networks among women within the Bank, the women's network #networkingwomen 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.

What is more, HCOB again actively organised Girls' and Boys' Day in 2023 and offered pupils a hands-on insight into the working world of a modern commercial enterprise.

Statistics on equal opportunities as at 31 December 2023[1]

	Number			Quota	
	Women	Men	Total	Women	Men
BU heads	4	11	15	27%	73%
Heads of department	14	39	53	26%	74%
Senior positions[2]	112	246	358	31%	69%
Total	**130**	**296**	**426**	**31%**	**69%**

1) Only active employees, HCOB 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: Further slowdown in growth

The **global economy** is expected to expand by just 2.3 % in 2024, at a lower rate than in 2023 (3.0 %). Despite falling interest rates and slowing inflation in both the US and the eurozone, and given the absence of any growth spurt in China, the outlook remains subdued.

After robust growth of 3.0 % was recorded in the **US** last year despite higher interest rates, growth is expected to slow significantly in 2024. We expect that the higher interest rates will gradually have a negative impact on economic activity after all. Private households are also likely to have gradually used up the savings they accumulated during the coronavirus pandemic, weighing on consumption. Our forecast therefore assumes full-year growth of just 1.4 %.

In 2023, **China** only recorded moderate economic growth of 5.0 % despite missing out on a recovery following the lifting of the coronavirus measures. Various structural and cyclical challenges, including weak domestic consumption, slowing global demand and the ongoing crisis in the real estate market, are likely to have a negative impact on growth in 2024. As a result, we are therefore a further slowdown in economic growth of 4.2 % in this region in 2024.

Following growth of just 0.6 % in the reporting year, the **eurozone** is only expected to make a weak recovery in economic activity in 2024. Due to the ongoing decline in inflation and what remains a robust wage trend, the purchasing power of private households should gradually recover and deliver a boost to consumption. Persistently high energy prices and interest rates are, however, expected to remain a burden in 2024. Consequently, forecast GDP growth comes in at only 0.8 %.

After **Germany's** GDP shrank by 0.1 % in the reporting year, partly due to the weak manufacturing sector, we expect to see a slight recovery in 2024. This will be driven largely by private consumption and should lead to GDP growth of 0.4 %. This trend will be supported by a lower inflation rate compared to the previous year, while comparatively high wage agreements are likely to bolster the purchasing power of private households.

Monetary policy: Interest rate hike cycle appears to have ended

The end of the cycle of interest rate hikes appears to have been reached, as the headline **inflation** rate has fallen significantly in both the eurozone and the US. At the end of 2023, it came in at 2.9 % (eurozone, December) and 3.4 % (US, December). Despite this decline, the core inflation rate has fallen at a slower rate, and it is foreseeable that the inflation target of 2 % set by the major central banks will not be achieved in 2024.

In view of the significant decline in inflation in the US and the eurozone, it can be assumed that the **cycle of interest rate hikes** has reached its peak. The current main refinancing rate of the **European Central Bank** (ECB) is 4.50 %, while the Fed Funds Rate is in a range of 5.25 % to 5.50 %. Interest rate cuts are expected to be on the cards for 2024. The ECB started reducing its **asset portfolio** back in March 2023. On 14 December 2023, a decision was made to fully reinvest the assets from the Pandemic Emergency Purchase Programme (PEPP) until June 2024, then to reinvest half of the funds maturing until December 2024 and to make no further reinvestments from January 2025 onwards.

In the US, the **Federal Reserve** is sticking to its policy of reinvesting only a portion of the funds maturing from the asset portfolio. This is expected to lead to a further decline in the portfolio, which currently totals USD 7.76 trillion.

The futures markets expect long-term **yields on** German **government bonds** (Bunds) to trend moderately downwards over the course of 2024 as a whole compared to the level witnessed at the end of 2023. Ten-year US Treasury Notes (T-notes) are likely to fall overall according to market estimates. This expectation can be traced back mainly to mounting fears of an economic downturn, growing geopolitical conflicts and falling interest rates.

Looking ahead to 2024, the market expects the effects of the restrictive monetary policy to leave more of a mark and preparations to be made for interest rate cuts. The **EUR/USD exchange rate** should remain relatively stable, as the Fed and the ECB are expected to slash their interest rates to a similar extent.

OUTLOOK IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK

Real estate markets

The German real estate markets are likely to remain under pressure in 2024 due to the weak economy in an environment marred by hardly any growth in economic output and high interest rates. On the investment markets, the low-transaction pricing phase will continue into the second half of the year. Market participants still need some time to adapt to the increased costs and the losses in value that have already materialised. This means that interest-bearing investments will remain an attractive alternative to property for investors in 2024, despite the slight fall in interest rates before the turn of the year. However, with inflation expected to fall over the course of the year, prompting the first round of interest rate cuts by central banks, as well as the onset of an economic recovery, albeit only a moderate one, property may once again become a more attractive prospect for investors. In addition, transactions are expected to gradually increase as soon as ailing market players and the increasing number of insolvent developers are forced to sell their properties. Market participants with strong equity resources at their disposal, in particular, are likely to take advantage of these opportunities to invest at favourable prices. Overall, further drops in values are expected for most types of use before prices bottom out in the course of the year.

Construction activity will fall significantly yet again in 2024 following the sharp decline in building permits and orders in the previous year, particularly in the residential construction segment. Project developments will also continue to decline, meaning that significantly fewer completions are to be expected in the medium term. The labour market should develop more favourably despite the weak economy. Due to the ongoing pressing shortage of skilled labour, the rise in unemployment is likely to remain very limited and the number of people in employment could even increase slightly, as at least the service sector is still hiring. There are signs of a clear improvement in the situation with regard to real household incomes, as price-adjusted increases would appear to be on the agenda following high wage settlements in nominal terms and dwindling inflation. This should stimulate private consumption and, as a result, also the retail sector. The integration of refugees should continue to have a positive effect on demand.

The very high excess demand on the **housing markets** in the country's major cities will persist, not least due to the ongoing need to accommodate migrants, and less so due to people moving into cities as a result of the economic situation. In addition, there is already a high latent demand for affordable housing. With new construction that is not at a sufficient level, housing will therefore remain in short supply. Without more subsidy incentives and a consolidation trend with regard to construction costs, this is unlikely to change to any significant degree in the medium term. As a result, rental prices in Germany's major cities are likely to continue to rise significantly. By contrast, house prices are likely to fall slightly in 2024 before bottoming out over the course of the year in a more favourable interest rate environment than in the previous year.

On the **office property markets in Germany**, the decline in recruitment and the greater consideration given to options for employees to work from home when renting are translating into weaker demand for space. Office completions will reach a high level for the very last time in 2024, as these projects were started years ago in a more favourable environment. Vacancy rates are therefore expected to rise to a moderate level. As a result, office rents are likely to increase only slightly on average in 2024. They should perform better in sought-after central locations than in peripheral locations, where a decline in rental prices is impossible to rule out. On the other hand, further losses in market values are likely due to the persistently high interest rate level and mounting demand risks (demographic factors and the increasing use of flexible forms of employment). 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 in general due to similar developments in the underlying conditions as those that apply in Germany. Market value losses in this region are, however, likely to be slightly more moderate due to what are often higher rental yields.

The **retail property markets** are likely to receive both negative and positive impetus in 2024 owing to the weak economy and real income growth. What remains poor consumer sentiment should improve as soon as they become less sceptical, thanks to a robust labour market trend, and more willing to consume thanks to rising purchasing power. Retail sales are then also likely to increase at least moderately on a price-adjusted basis. After two years of significant real sales losses in online retail, growth here is now likely to be above-average and the interrupted trend towards structural change at the expense of bricks-and-mortar retail looks set to continue. While the food retail sector remains unaffected, losses cannot be ruled out in some durable goods segments, particularly for DIY stores, which have been hit hard by the construction crisis. In addition, the difficulties experienced by some retailers, not least department stores, and the growing vacancy rates in city centres will leave their mark. Shop rents are therefore likely to fall again, particularly in city centre locations. After many years of a downward trend, rents in shopping centres, however, may now be bottoming out. Rents for specialist retail parks, primarily in the local supply sector, are expected to rise. Following declining values in previous years, slight increases in value are likely to be achieved again. Risk aversion should, however, remain higher for other retail properties, resulting in slightly lower prices.

Industry, trade and logistics, infrastructure and renewable energy

The underlying conditions for German economic growth have deteriorated significantly since 2022 with the Russian invasion of Ukraine and the consequences for energy, commodity and food prices. The restrictive monetary policy deployed to combat inflation has created additional negative effects since the second half of 2022. To a certain extent, these circumstances are likely to still be standing in the way of a rapid recovery at the beginning of 2024. The decline in the inflation rate in 2023 (from over 8 % at the start of the year to an expected 3.7 % in December) is having increasingly positive effects that should bear fruit in 2024: pension increases in mid-2023 were above the current inflation rate, as were the wage agreements reached in the recent past. This trend is likely to continue over the course of 2024. Consumers are increasingly regaining purchasing power as a result. Private consumption is therefore likely to increase again and become the most important pillar propping up the economy, which should provide a boost to the **retail sector**. By contrast, the government spending cuts and savings requirements resulting from the Federal Constitutional Court's ruling in November 2023 on government borrowing are likely to slam the brake on overall economic growth. The prominent insolvencies in the retail sector witnessed in the first few weeks of 2024 illustrate the challenges facing the retail industry.

In the first half of the year, industry is likely to be burdened by the combination of weak economic development in many countries around the world, persistently high interest rates and geopolitical uncertainty: while high energy prices and the weak development in the eurozone, the US and China are likely to continue to weigh on production and unit sales in the **manufacturing industry**, the increased costs, not only for energy but also increasingly for staff, are likely to continue to put pressure on profits and, as a result, on corporate investment activity. Interest rate-sensitive sectors such as the construction and automotive industries could, however, receive positive impetus from the less restrictive monetary policy.

What is likely to remain muted economic development for the time being, coupled with geopolitical risks, means that companies in the **wholesale and foreign trade** sector are expected to paint a rather mixed picture in terms of development.

The **logistics sector** is also unlikely to escape the more subdued global growth, even if the supply chain problems in parts of the shipping industry (Houthi attacks in the Red Sea, water shortages in the Panama Canal) are tipped to contribute to a boom. In the course of a slow recovery in the second half of 2024, however, broader positive growth effects should have a stronger impact.

In view of the negative impact of the sharp rise in construction prices and the significant increase in lending rates, the ailing **construction industry** should continue to move away from its capacity threshold and remain very weak for the time being, even if expectations of falling interest rates over the course of 2024 hold the promise of at least slightly positive impetus.

On the one hand, continued high maintenance requirements are likely to provide incentives for investment in **transport infrastructure**, while on the other, the global acceleration in growth, which is not expected until later in 2024, as well as ongoing high interest rates and higher prices for construction materials and services, could have a negative impact, at least temporarily. Institutional investors will likely continue to play an important role.

The prospects for the expansion of **renewable energies** remain generally encouraging for 2024 as well, as 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 continue to drive development and increasingly spur on expansion – as was evident in 2023. 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 on the shipping markets is likely to deteriorate in 2024. In an environment of increasing excess supply, charter rates for container vessels could show the most pronounced drop, while bulkers could generally show a sideways trend due to lower demand growth and oil tankers could remain at high levels despite losses. Specifically, expectations for the individual shipping sub-segments are as follows:

The market for **container vessels** is likely to continue on a downward trend in 2024. While demand for transport should improve considerably, driven by the increase in consumer purchasing power and lower retailer inventory levels, as many large newly built vessels continue to be delivered, the fleet is likely to grow at a faster rate than demand. The increasing excess supply of tonnage is likely to cause charter rates and prices to fall to below-average levels in a long-term comparison. Even the expected slower travelling speeds required to comply with greenhouse gas emissions targets will likely only leave a dent in this downward trend. In the short term, however, difficulties on two key waterways are creating additional demand for tonnage. First, passage of the Panama Canal is severely restricted due to persistent drought in the region. In addition, most container vessels are avoiding the Red Sea after attacks by the Houthi rebels and opting to take the long route around Africa. The longer distances for the routes affected require additional ships to achieve the same transport performance. It is, however, uncertain how long these problems will last and continue to bolster the market.

In the base case, rates and prices for **bulkers** are expected to move sideways, with corresponding moderate growth rates in demand and supply. Uncertainties regarding global economic development, future drive technologies and high new construction prices continue to translate into stable order activity at a low level. A moderate increase in scrapping is expected. The market is also receiving temporary support from a significant lengthening of trade routes due to a resurgence of piracy in the Red Sea and logistical problems in the Panama Canal. On the other hand, rather moderate impetus is expected from the Chinese economy, which continues to struggle with overcapacity in the construction sector. Iron ore imports are not expected to grow and coal imports are even expected to decline. An increase in demand is expected for some "minor bulks". For example, bauxite and aluminium are in high demand because they are needed to support the economy's transformation towards lower CO_2 intensity.

The fundamental situation for **oil tankers** is likely to remain stable in the current year, with slight losses at most. The supply side is still having a stabilising effect, while transport demand is subject to uncertainty. Fleet growth is currently not significant, as high capacity utilisation at shipyards due to the construction of other ship types means that only comparatively little tonnage can be delivered, despite an increase in new orders. The number of scrappings is expected to remain moderate until a significant number of newly built ships reach the market. OPEC+'s efforts to boost oil prices by cutting production will continue in 2024. The greatest surge in demand for oil products is expected to come from Asia and Europe, although the latter is subject to greater risks.

BANKING ENVIRONMENT

Given what remains a volatile market environment, the banking environment will also remain challenging. As things stand at the moment, it appears that the need for loan loss provisions will increase in view of the weaker economic momentum in an environment that is dominated by continued high (albeit waning) inflation and interest rates at the same time, as the number of problem cases and insolvencies in the corporate sector is likely to increase. 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 negative effects from the macro-environment, and in particular the impact of higher interest rates, 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 2023	2024 forecast
RoE after taxes (%)[1]	12.5	> 11 with net income before taxes of > € 300 million
CIR (%)	39	< 45
CET1 ratio (%)	19.5[2]	> 17
LCR (%)	184	> 140
NPE ratio (%)	2.3	~ 2.5
Non-financial key management indicators		
	Actual figures 2023	2024 forecast
Rating	A3, stable	A3, stable

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 around € 302 million in 2024 was taken into account in the Common Equity Tier 1 capital in advance in accordance with Article 26 (2) CRR; the dividend payment is subject to approval by the Annual General Meeting

Key basis for the forecast
In its corporate planning for the 2024-2026 period, the Bank is generally applying the following assumptions/expects the following developments with a high degree of probability (base case):

- The expansive interest rate and monetary policy pursued by the Fed and the ECB against the backdrop of high inflation in 2022 and 2023 is likely to have reached its peak in 2023. A slight drop in key interest rates is expected for both 2024 and 2025.
- Economic growth in the US, the eurozone and Germany is only expected to be at a low level in the planning period.
- Inflation rates in the eurozone and in Germany should fall noticeably in 2024 - from the very high levels seen in 2022 and 2023 - in order to reach the ECB's target level in the medium term.
- A slight increase in consolidated total assets is targeted for the end of 2024. A moderate growth rate of around 2 % per year is assumed for the planning period as a whole. On the assets side, balance sheet growth should be attributable to an increasing loan book, whose share of total assets is expected to increase again. Financial investments are also still expected to grow in 2024, after which they should stabilise at the level reached at the end of 2024. Development on the liabilities side will be characterised in particular by a moderate increase in client deposits, but also by regular funding activities on the capital market, while the TLTRO holdings will be repaid in full in 2024. A further reduction in spread levels is expected for funding costs for capital market issues.
- As part of the Bank's return and risk-orientated asset allocation, which is geared towards diversification and short to medium-term market expectations, the proportion of loan portfolios in national real estate should continue to decrease overall. As far as the shipping portfolio is concerned, the aim is to keep the relative share of total assets more or less constant. The planned increase in the loan book is attributable to the Corporates and Project Finance segments. In Corporates, growth should be achieved in particular through activities in International Corporates & Specialty Lending, but also for the first time in 2024 through the new Aviation business area that was launched in the reporting year. For the Project Finance segment, corporate planning envisages a marked increase in volumes in the area of infrastructure financing in particular.

- The gross volume of new business in 2024 and the remaining years of the planning period should be higher than in the reporting year, with the Corporates and Project Finance segments likely to make a particular contribution to this trend. Based on conservative assumptions, the Bank expects new business margins to remain relatively stable across all asset classes.
- Total income in 2024 is expected to be on a par with the reporting year and will increase continuously in the planning period on the back of a planned increase in net interest income, while the share of total income attributable to the FVPL result is likely to fall.
- The positive development in net interest income will likely be attributable to growth in the loan book and a continued slight upward trend in NIM. The latter should benefit from the asset allocation described above and the interest rate positioning of the balance sheet.
- Loan loss provisions in 2024 are expected to be higher than in the reporting year, not least due to the continued pressure from the challenging market environment in the real estate sector and with potentially lower compensation for Stage 3 additions than in the reporting year, in which reversals at Stages 1 and 2 of the loan loss provisions model had a positive effect. Based on conservative assumptions, a negative impact totalling an average of just under 50 basis points has been projected for loan loss provisions over the planning period.
- Administrative expenses are only likely to increase slightly in 2024 compared to the reporting year, a trend that should be largely offset by lower "change the bank" expenses in an environment characterised by a planned increase in personnel expenses (due to growth-related investments in the workforce and inflation effects). Administrative expenses are predicted to trend sideways in both 2025 and 2026. With the earnings base expected to increase, this should lead to a reduction in the CIR from 2025.
- According to the Bank's corporate planning, the development in income tax expense will be characterised by the minimum taxation in Germany (current taxes) and expenses from the utilisation of deferred tax assets. The income tax rate should be significantly lower in the planning period than in the 2023 financial year.

The overarching goal for 2024 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 most important key performance indicators in the 2024 financial year

Taking into account the above-mentioned fundamental aspects, the Bank assumes in its forecast that its total income in 2024 will be more or less on a par with the reporting period. Taking into account the expectation of higher loan loss provisions than in the reporting year, not least due to the economic environment in the Real Estate segment, which is very likely to remain challenging in 2024, total income after loan loss provisions in 2024 should be slightly lower than the level seen in the past financial year.

As part of the reconciliation to net income before taxes, the Bank assumes that administrative expenses and regulatory expenses will remain up slightly on the 2023 level. The other operating result is likely to be noticeably lower than in 2023 due to lower one-off effects. On this basis, the Bank expects to be able to achieve net income before taxes in excess of € 300 million in the 2024 financial year. Based on income tax expense that is expected to be much lower than in the reporting year, the Bank forecasts an **RoE after taxes** of more than 11 % for the 2024 financial year (calculated on the basis of standardised regulatory capital backing).

The **CIR** in 2024 should be below 45 % but above the 2023 level, with the expected increase based on the assumption that the other operating result in 2024 will benefit to a much lesser extent from one-off effects than in the past 2023 financial year.

As part of the forecast for the **CET1 ratio**, the Bank assumes that aggregate RWA will have increased by the end of 2024 due to higher RWA for credit risks. The assumptions on which the planned increase is based include the effects of asset allocation and possible negative effects of the macroeconomic environment on the portfolio. CET1 capital should increase slightly due to the profit predicted for the 2024 financial year, reduced by a potential dividend payment in 2025. The dividend payment proposed for 2024 for the 2023 financial year was already taken into account in CET1 capital, with the effect of reducing the latter, at the end of 2023, meaning that it generally no longer affects this position in 2024. Based on the expected developments for risk-weighted assets and CET1 capital, the Bank assumes in its forecast that the CET1 ratio will again be above the strategic target level of > 17 % as at 31 December 2024.

The Bank expects the **LCR** to remain comfortably above the regulatory requirements at the end of 2024, with a ratio in excess of 140 %.

As regards the **NPE ratio**, the Bank expects to see a further increase in the NPE volume in 2024, at a faster rate than the planned increase in the EaD, particularly in light of the challenging conditions on the property markets. Based on these planning assumptions, the Bank expects an NPE ratio of around 2.5 % at the end of 2024, which should fall considerably again in the ensuing years of the planning period in tandem with a recovery on the property markets.

In general, the Bank expects that the positive trends in operating profitability will be reflected in a further improvement in the Bank's **rating position** in the medium term. At least for the current financial year, however, the rating is likely to remain at the current level, which is also reflected in 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

Based on the Bank's current assessment, the most significant opportunities and risks with regard to the forecasts for the most important 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)

Numerous risks could ensure that global economic growth in 2024 is weaker than forecast. Geopolitical developments, such as an escalation of the war in Ukraine or the Middle East and possible military intervention by China in Taiwan, could have a significant impact on global growth and trigger turmoil on the financial markets.

The Russia-Ukraine war currently appears to be stagnating on a military level, with a tendency towards Russian superiority. As a result, the rest of Europe could find itself under greater threat.

With regard to the Israel-Hamas war, downside scenarios that cannot be ruled out include a direct confrontation between the protecting powers, the US and Iran, which could lead to more intensive hostilities. Possible implications include the obstruction of the important shipping route through the Red Sea, which could drive up oil prices. This in turn would have a negative impact on supply chains and could lead to higher prices for a large number of goods. An increase in energy prices would also have a negative impact on global growth.

The relationship between China and Taiwan remains tense and could, in principle, result in an open conflict. Taiwan's status remains the central point of conflict in US-China relations, and policymakers will be watching closely to see who wins the US presidency.

Although interest rates in the US appear to have at least peaked and the Federal Reserve is expected to start cutting rates in the course of 2024, higher interest rates than the market expects could potentially result in interest rates still being perceived as too high for consumers and investors, which could pose downside risks to the US economy.

Another uncertainty factor is a possible decline in growth in China, particularly if the trade dispute with the US and the EU leads to a fall in exports.

In the eurozone and Germany, in particular, an escalation of the trade dispute with China could leave a clear mark first and foremost on exports. In addition, there is still a risk that extremely cold winters could lead to a drastic decline in gas stocks and send energy prices rocketing again. What is more, stronger than expected global economic growth could lead to a global shortage in the supply of energy for Europe, which would in turn have implications for inflation.

Another risk factor hanging over the global economy is the increased probability of extreme weather events. Heatwaves and flooding could lead to higher energy and food prices.

If the above risks fail to materialise, on the other hand, higher economic growth could be on the cards. A rapid end to the above-mentioned geopolitical tension and extensive fiscal and monetary stimuli in China could deliver significant benefits to the ailing global economy.

On the financial markets, there is a fundamental risk of a slump on the stock markets, which the International Monetary Fund (IMF) considers to be heavily overvalued. This could be triggered by geopolitical tension and/or a further sharp rise in long-term government bond yields, due for example to an unexpected renewed increase in inflation, and/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 growth in China and the US is weaker than expected and geopolitical tension continues to follow a negative trend, or if geopolitical conflicts in Europe (Ukraine war) and the Middle East (Hamas-Israel war) escalate, the current trends towards deglobalisation and on-shoring are likely to pick up speed, with the corresponding knock-on effects on global trade and, as a result, also on 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 renewed supply chain problems (attacks on commercial vessels in the Red Sea, water shortage in the Panama Canal) would improve the outlook for the industrial economy in Germany.

If the central banks do not break ties with their restrictive monetary policy as expected in 2024 due to inflation remaining stubbornly high and the much-awaited interest rate cuts fail to materialise, the associated effects on the general interest rate level would have more of a negative impact on the development of the **real estate markets** than assumed in the planning. An even weaker economic trend would also lead to further deterioration. This would affect both commercial and residential property. Conversely, were the primary stress factors to show more favourable development than assumed, i.e. in the form of a much more pronounced economic recovery, the stabilisation of long-term and reduction in short-term interest rates, and a slowdown in the momentum driving inflation, 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 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.

On the other hand, more favourable overall development in economic and industry-specific factors than assumed in the planning would tend to have a positive impact on the aforementioned results and key performance indicators.

C) CLIENT BUSINESS
On the earnings side, the fundamental challenge lies in achieving the planned moderate growth and the targeted development in operating profitability while upholding the Bank's conservative credit standards, 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 to include the Corporates, Asset-Backed Lending and Project Finance asset classes.

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 B), also on the level of loan loss provisions, the fundamental risk that the volume and margin targets used as a basis in the forecast cannot be achieved, for example due to weaker customer demand and/or high unscheduled repayments, as well as mounting competitive pressure on margins.

On the other hand, earnings opportunities could emerge in the event of a further or permanent drop in interest rates both in terms of our balance sheet structure management and for our clients' investments. Growth opportunities will also arise 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.

D) HUMAN RESOURCES
Significant strategic new hires are planned again for 2024 to support the Bank's 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. Among other factors, the employer branding campaign launched in 2023, which included a revamped brand essence that is now visible with the leitmotif "Clarity is Capital", offers opportunities to further increase the Bank's attractiveness as an employer. In addition, further measures were taken to promote diversity and equal opportunities in order to further advance this key issue for HCOB. These include, for example, the Code of Diversity that was developed and published in-house in 2023. The Bank also 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.

Developments in the course of 2023 showed that the labour market situation for employers is very challenging across the board in general, but also in the financial industry. This is due not least to demographic development. Against this backdrop, the Bank will once again make a special effort in 2024 and take measures to achieve its ambitious recruitment targets, both in terms of quality and quantity, to the extent planned. Furthermore, the Bank will take suitable measures and use HR instruments to ensure the retention of key skills and counter any loss of expertise due to the moderate staff turnover that is expected again in 2024. These will include, in particular, support for, and the development of, young professionals, the expansion of HR development programmes and the strengthening of the corporate benefits landscape.

E) OPERATING EXPENSES

With regard to operating expenses, one of the challenges facing HCOB is to complete the transformation of the Bank’s IT applications and infrastructure in a cost-conscious manner, on time and in line with the required quality standards. Delays could lead to the cost benefits that 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 and/or infrastructure 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 THE 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 2023 and develop more favourably than assumed in the plans, this would tend to have a positive impact on funding costs and net interest income.

The reform of the scope of protection offered by the Deposit Protection Fund of the Association of German Banks (ESF) entered into force 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 resulted in a broader investor base. Against this backdrop, the Bank expects that the impact of the aforementioned aspect on the achievement of the Bank's funding targets in the deposit business also represents an opportunity to further diversify its funding base and make it more granular.

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 has already been implemented, 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 past financial year was generally in line with expectations. The Bank performed well in a challenging and complex external environment and, with the exception of the higher NPE ratio due to negative developments on the real estate markets, achieved the targets it had set for the year as a whole, even exceeding them in some areas.

Looking ahead to 2024, the Bank is confident that the positive momentum in the development of operating profitability will continue, and also believes that it is well positioned in the event that interest rates fall.

The Bank will rise to the challenges arising from the gloomy economic environment on the real estate markets with a systematic NPE reduction plan using various recovery/restructuring and liquidation strategies that are appropriate for the exposures concerned. The Bank believes that it has a fundamentally solid starting position, supported by its increased loss absorption potential resulting from the increase in earnings and efficient cost management, the sustained balance sheet risk cover provided by model overlays and the success of the wind-down process in the recent past.

In summary, and on the basis of the generally satisfactory results reported in the IFRS Group financial statements for the 2023 financial year, the Bank is confident, from today's perspective, that it will be able to achieve the targets set for 2024 as a whole. On the basis of the information currently available to it, the Bank expects to be able to achieve IFRS net income before taxes for the 2024 financial year in the amount of more than € 300 million.

This earnings forecast is subject to any potential escalation of existing geopolitical crises and tensions (Ukraine, Middle East and Taiwan), the emergence of new crisis events or real estate market developments that are significantly more adverse than in the planning assumptions.

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 objectives of the business strategy and the Bank planning are aligned with the requirements of the SRF.

The RAS is broken down into a financial and non-financial RAS on the basis of the risk inventory. The financial RAS consists of a catalogue of key financial ratios, while the non-financial RAS includes qualitative requirements relating to risk culture. Operationalisation is achieved via the risk strategy and the limit system, with the risk strategy describing how risks are managed based on the risk inventory in accordance with the business strategy and the RAS. The risk strategy provides the framework for the individual sub-risk strategies.

A functional limit system requires a strict derivation of the risk appetite defined separately for the 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.

The SRF is the subject of a resolution passed by the Management Board and is reviewed at least once a year. Where necessary, adjustments are made during the year. It is fully integrated into the Bank's processes, for example by being incorporated into the Bank's objectives, by way of the definition of requirements for the strategy and planning process, in risk reporting and in the Code of Conduct.

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 provisions between the market and trading units on the one hand and risk controlling, settlement and control as well as back office on the other, is taken into account at all levels of the Bank from an organisational perspective.

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

The Risk Control business unit is responsible for the risk strategy, the risk controlling function required for regulatory purposes and the methodological guidelines and models for calculating all risk-relevant components. It develops the methods and tools for identifying, measuring, managing and monitoring risks, and sets the risk limits and risk guidelines for the operational portfolio management. The Risk Control business unit also determines the loan loss provision amounts in accordance with IFRS 9.

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

The specialised Restructuring & Work-Out department, which is located in the Credit Risk Center, is primarily responsible for restructuring and workout-specific activities, in particular the development, implementation and monitoring of restructuring and workout concepts. In addition – together with the Risk Control business unit – it is responsible for determination of the Stage 3 loan loss provision amounts (IFRS 9).

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

The Compliance business unit is responsible for monitoring and evaluation of compliance with the law and applicable regulations with regard to the Code of Conduct as well as measures to ensure capital market compliance and the prevention of money laundering, terrorism financing and other criminal acts in accordance with Section 25h of the German Banking Act (KWG), and also compliance with the requirements related to financial sanctions 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, which 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 appropriate 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.

The central ICS office is an independent function in business operations and reports to the committee responsible for NFR, the Management Board and the Supervisory Board. It is responsible for methodology guidelines and their continuous enhancement, and it checks the appropriateness and effectiveness of the Bank-wide process controls through spot checks, based on a risk-oriented process evaluation. An implemented ICS cycle also ensures that the ICS is reviewed with respect to its correctness and functionality as well as its appropriateness and effectiveness. 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 & Bank Steering 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 2023 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 individual capital requirements 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 capital requirements applicable to Hamburg Commercial Bank. In addition, there is a Pillar 2 Guidance (P2G) for CET1 capital.

Capital requirements[1]

(%)	31.12.2023	31.12.2022
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	3.2	2.7
Pillar 2		
Pillar 2 requirements (P2R)	1.8	2.1
thereof: to be supported by CET1 capital	1.0	1.2
thereof: to be supported by additional Tier 1 (AT1) capital	0.3	0.4
thereof: to be supported by Tier 2 capital	0.5	0.5
Overall capital requirements		
CET1 capital	8.7	8.4
Tier 1 capital	10.5	10.3
Total capital	13.0	12.8

[1] Total differences are rounding differences

In addition to the capital buffer requirements at 2022 year-end, 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. As part of the 2023 SREP decision, the Pillar 2 requirements (P2R) for Hamburg Commercial Bank for 2024 were lowered slightly from 1.82 % (2023) to 1.80 %. Thus, taking into account the slight increase in the combined capital buffer requirements (CBR), the Bank’s requirements for 2024 are approximately 8.8 % for CET1, 10.6 % for Tier 1 capital and 13.1 % for total capital.

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

Regulatory capital ratios[1]

(%)	31.12.2023 [2]	31.12.2022 [3]
Overall capital ratio	25.0	26.8
Tier 1 capital ratio	19.5	20.5
CET1 capital ratio	19.5	20.5

1) Regulatory group according to CRR
2) The proposed dividend payment of around € 302 million in 2024 was taken into account in the Common Equity Tier 1 capital in accordance with Article 26 (2) CRR; the dividend payment is subject to approval by the Annual General Meeting
3) The dividend payment of € 1.5 billion made in the 2023 financial year was taken into account in advance in the Common Equity Tier 1 capital

Regulatory capital[1,2]

(€ bn)	31.12.2023 [3]	31.12.2022 [4]
Regulatory capital	4.1	4.1
thereof: Tier 1 capital	3.2	3.2
thereof: CET1 capital	3.2	3.2
thereof: additional Tier 1 capital	–	–
thereof: Tier 2 capital	0.9	1.0

1) Regulatory group according to CRR
2) Total differences are rounding differences
2) The proposed dividend payment of around € 302 million in 2024 was taken into account in the Common Equity Tier 1 capital in accordance with Article 26 (2) CRR; the dividend payment is subject to approval by the Annual General Meeting
4) The dividend payment of € 1.5 billion made in the 2023 financial year was taken into account in advance in the Common Equity Tier 1 capital

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

(€ bn)	31.12.2023	31.12.2022
Credit risks	15.0	13.6
Market risks	0.2	0.3
Operational risks	1.2	1.1
Other RWA	0.1	0.3
Total RWA	**16.5**	**15.4**

1) Regulatory group according to CRR
2) Total differences are rounding differences

As expected, the CET1 ratio fell slightly compared to 31 December 2022 (20.5 %) due to increased RWA, but it remains significantly above the regulatory capital requirements at 19.5 %. Among other things, the increase in RWA is due to changes in the loan portfolio and the recalibration of rating models. CET1 capital was positively influenced by the net result, the increase in the revaluation reserve (OCI) and lower regulatory deductions. As the planned dividend payment for the 2023 financial year in the amount of around € 302 million has already been deducted from the CET1 capital, the CET1 capital of € 3.2 billion as at 31 December 2023 remains at the previous year's level (€ 3.2 billion).

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 19.3 % as at 31 December 2022 (previous year: 20.2 %). The corresponding Tier 1 ratio reached 19.3 % (previous year: 20.2 %), the corresponding overall capital ratio amounted to 24.8 % (previous year: 26.7 %). The capital ratios for the single entity as at 31 December 2023 are also shown after taking the proposed dividend payment of € 302 million into account. The single entity (HGB) regulatory capital requirements 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 minimum requirements of 9.8 % of the total risk exposure amount (TREA) for 2024 (2023: 8.0 %). For the first time, this also includes a Pillar 2 capital requirement of 1.8 % of TREA in addition to the overall capital ratio of 8 % of TREA. At the same time, the requirement of 3 % of the leverage ratio exposure (LRE) must be met. As at 31 December 2023, the MREL ratio was 40.5 % of the total risk exposure amount (TREA) and the leverage ratio exposure (LRE) was 18.9 %.

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.

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 2025. With the implementation of Basel IV, the advantages of internal models are significantly restricted in some cases. Nevertheless, Hamburg Commercial Bank expects that the implementation of Basel IV will tend to reduce the RWA for credit risks in 2025, since application of the foundation internal ratings-based (F-IRB) approach along with the Credit Risk Standardised Approach (CRSA) should provide portfolio-specific relief.

Basel IV

	31.12.2023[2]
Risk-weighted assets (RWA) (€ bn)[1]	15.4
Regulatory capital (€ bn)	4.1
thereof: CET1 capital (€ bn)	3.2
Overall capital ratio (%)	26.7
Tier 1 capital ratio (%)	20.8
CET1 capital ratio (%)	20.8

1) The underlying RWA estimate is based on the draft document of the European Commission on implementing the final Basel III requirements dated 27 October 2021, without taking into account privileged risk weightings and other transitional arrangements for RWA determination, and without taking into account the supporting factor currently applied for qualified infrastructure financing

2) The proposed dividend payment of around € 302 million in 2024 was taken into account in the Common Equity Tier 1 capital in accordance with Article 26 (2) CRR; the dividend payment is subject to approval by 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 Guide to the internal capital adequacy assessment process (ICAAP). The Bank defines capital adequacy as the ongoing safeguarding of financial stability, in the sense that risks are adequately covered by capital in order to ensure the implementation of the objectives of the business model. By determining it on a regular basis, capital adequacy forms part of the internal reporting and is closely managed and reported to the Bank's supervisory authorities.

The economic perspective is used to check whether all material risks are backed by internal capital at a specific point in time. Compared with the regulatory view (CRR), it is based on a restricted concept of capital and a broader concept of risk. The measurement of risks is based on the Bank's internal economic methods and procedures. As part of the monitoring of the risk-bearing capacity, Hamburg Commercial Bank regularly compares the total economic capital required for all material risk types (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 IFRS equity modified for economic purposes, the risk coverage potential includes, inter alia, a potential negative balance comprising unrealised gains and losses on all assets and liabilities reported at amortised cost (AC), less the net present value of the operating costs associated with these transactions and any positive effects associated with the Bank's own credit rating. Positive balances are not taken into account, in accordance with the requirements of the ICAAP guide.

As at 31 December 2023, the risk coverage potential amounted to € 3.2 billion (previous year: € 3.1 billion).

The overall risk takes into account default risk, market risk and 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 € 1.9 billion (previous year: € 2.1 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 a one-day holding period to show the economic capital required for market risk positions for the purpose of managing risk-bearing capacity with a risk horizon of one year. The economic capital required for market risk amounted to € 0.8 billion as at 31 December 2023 (previous year: € 1.0 billion).

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 2023, the Liquidity Value at Risk (LVaR), as a measure of the economic capital required for liquidity risk, amounted to € 0.2 billion (previous year: € 0.2 billion). The risk of illiquidity, on the other hand, which is more significant for the purposes of managing the liquidity risk in principle, is backed by a buffer of liquid funds. Information on managing the risk of illiquidity is included in the section entitled "Liquidity risk".

The operational risks are determined based on the most relevant scenarios from the risk scenario assessment using a Monte Carlo simulation. The economic capital required for operational risks amounted to € 0.1 billion as at 31 December 2023 (previous year: € 0.1 billion).

Utilisation of risk coverage potential decreased compared to the end of the previous year, and amounted to 59 % as at the reporting date (previous year: 68 %). This is mainly due to the reduction in the Bank's interest rate risk and the associated lower economic capital required for market risks.

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

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

(€ bn)	31.12.2023	31.12.2022
Economic risk coverage potential	**3.2**	**3.1**
Overall economic risk	**1.9**	**2.1**
of which: for default risks	0.8	0.8
of which: for market risks	0.8	1.0
of which: for liquidity risks	0.2	0.2
of which: for operational risks	0.1	0.1
Risk coverage potential buffer	**1.3**	**1.0**
Utilisation of risk coverage potential (%)	**59**	**68**

[1)] Total differences are rounding differences

In addition to the economic perspective described above, compliance with the regulatory capital requirements over a medium-term horizon (at least a 3-year perspective in the base and stress case) under the internal normative perspective is also assessed in accordance with the ECB Guide to 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 the 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 into different simulation scenarios for the economic and normative ICAAP 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.

Economic restrictions caused by the worsening of geopolitical tensions and the further deterioration of the macroeconomic environment may lead to a significant deterioration in the risk parameters. 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 Bank's internal requirements 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 regulatory requirements 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 (sensitivity).

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 predefined 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 analysis units in the market business units are 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 individual analysis units are 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 Processes & Middle Office department is 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 the preparation and further development of credit standards as well as compliance therewith, for setting ratings, and for preparing a second assessment for normal and intensive exposures that are subject to a vote. Voting on credit transactions is not an integral part of, but rather a prerequisite for, the lending decision in the case of normal and intensive exposures. In addition, the Credit Risk Center has the right of veto and the right to issue binding conditions. For normal and intensive exposures, lending decisions below the committee competence levels are each made jointly and unanimously by a competent manager in customer service together with a competent manager from the analysis unit of the respective market business unit (1st LoD). 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 analysis unit of the respective market business unit and the 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 the analysis unit of the respective market business unit and a competent manager from the 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 the operation of an early warning system. In addition, in cooperation with the analysis units of the market divisions and the Credit Risk Center, a credit watchlist is maintained 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.

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 and Risk Control business units as well as the Processes & Middle Office and Credit Law departments.

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, Leveraged Transactions, 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 significant 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. The 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 requirements for calculation of the regulatory capital backing in accordance with CRR for IRB models, 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 existing and new business, which is directly intended for syndication or which could potentially be considered for syndication at a later date, to a market conformity review and/or a syndication assessment that is 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, aircraft, 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 specific 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 loss ratios are estimated. The expected economic default amount is calculated using EaD, PD and 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 2023 were in the real estate portfolio, which accounted for 24 % of the overall portfolio, which is slightly below the level seen in the previous year (previous year: 25 %).

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

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

As part of the management of risk concentrations, the country risk limitation provides an additional management dimension. Both absolute and maturity-dependent 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 holdings portfolio and thereby its equity holding risk over recent years. Overall, the equity holdings portfolio of Hamburg Commercial Bank is not material for business operations. The reduction in equity holdings continues. 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.

The year under review was characterised by a worsening of geopolitical tensions and a further deterioration in the macroeconomic environment. Customers whose business model is expected to be affected by the direct and indirect consequences of these developments, such as inflation, the changing interest rate landscape and the impacts on energy and raw materials supply, are closely managed and the need for measures to manage credit risk is continuously reviewed.

The EaD of the total exposure amounted to € 35,240 million as at 31 December 2023 (previous year: € 34,429 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 72 % of the total exposure at the Group level (previous year: 74 %).

The difficult conditions in the real estate markets have increasingly also had an impact on the Bank's loan portfolio. The NPE ratio already rose to 1.5 % at the end of the first half of the year, due to a number of new defaults in the particularly interest rate-sensitive Real Estate segment as well as the new default on a large-volume wind farm financing arrangement, which is largely covered by export credit agency (ECA) cover, although the increase was limited by the reduction in NPE. There were further defaults in the Real Estate segment in the second half of the year, including the purchase price financing that Hamburg Commercial Bank provided for a company from the Signa Group for the main building sold and leased back by the Hamburg Commercial Bank Group during the 2020 financial year. As a result, the NPE ratio rose to 2.3 % at the end of 2023 (previous year: 1.2 %); without the above-mentioned default, the NPE ratio would have been 1.9 % as at 31 December 2023. Hamburg Commercial Bank has not provided any other financing for companies in the Signa Group.

During the year under review, the Bank took account of the changed market conditions by comprehensively revaluing the property collateral provided to it – around two thirds of the most affected property types in the pre-crisis portfolio of 2022 were revalued in 2023 – and has thus updated the majority of the collateral values to reflect the drop in property prices.

Default risk structure by rating category[1,2]

	31.12.2023		31.12.2022	
	EaD (€ m)	relative share (%)	EaD (€ m)	relative share (%)
1 (AAAA) to 1 (AA+)	6,760	19.2	8,801	25.6
1 (AA) to 1 (A–)	9,591	27.2	6,369	18.5
2 to 5	8,914	25.3	10,445	30.3
6 to 9	7,942	22.5	7,702	22.4
10 to 12	801	2.3	474	1.4
13 to 15	317	0.9	114	0.3
16 to 18 (default categories)	800	2.3	405	1.2
Other[3]	115	0.3	119	0.3
Total	**35,240**	**100**	**34,429**	**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]

	31.12.2023		31.12.2022	
	EaD (€ m)	relative share (%)	EaD (€ m)	relative share (%)
Industry	2,872	8.1	3,604	10.5
Shipping	2,359	6.7	3,225	9.4
Trade and transport	1,907	5.4	1,731	5.0
Credit institutions	5,221	14.8	3,744	10.9
Other financial institutions	5,388	15.3	4,054	11.8
Land and buildings	5,827	16.5	5,962	17.3
Other services	4,437	12.6	4,346	12.6
Public sector	7,112	20.2	7,615	22.1
Private households	117	0.3	147	0.4
Other	–	–	–	–
Total	**35,240**	**100**	**34,429**	**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]

	31.12.2023		31.12.2022	
	EaD (€ m)	relative share (%)	EaD (€ m)	relative share (%)
Up to 3 months	5,548	15.7	6,516	18.9
> 3 months to 6 months	1,288	3.7	826	2.4
> 6 months to 1 year	1,871	5.3	2,056	6.0
> 1 year to 5 years	13,996	39.7	13,758	40.0
> 5 years to 10 years	7,350	20.9	6,400	18.6
> 10 years	5,187	14.7	4,873	14.2
Total	**35,240**	**100**	**34,429**	**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]

	31.12.2023		31.12.2022	
	EaD (€ m)	relative share (%)	EaD (€ m)	relative share (%)
Eurozone	24,590	69.8	25,283	73.4
thereof: Germany	13,206	37.5	15,814	45.9
thereof: Greece	–	–	–	–
thereof: Italy	268	0.8	226	0.7
thereof: Portugal	209	0.6	207	0.6
thereof: Spain	743	2.1	427	1.2
Western Europe	3,815	10.8	3,006	8.7
Eastern Europe[2]	10	0.0	41	0.1
African countries[3]	326	0.9	511	1.5
North America	4,703	13.3	3,220	9.4
Latin America	390	1.1	415	1.2
Middle East	43	0.1	48	0.1
Asia Pacific region	1,332	3.8	1,842	5.4
International organisations	31	0.1	63	0.2
Total	**35,240**	**100.0**	**34,429**	**100**

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

2) Hamburg Commercial Bank has a gross exposure in the following Eastern European countries which were not members of the eurozone as at the reporting date: Romania, Czech Republic, Turkey and Hungary

3) The exposure in African countries mainly consists of Liberia, which is relevant as a country of registration for the shipping business, and a very low exposure in 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.

In the course of the geographical diversification of the Hamburg Commercial Bank portfolio, the exposure in North America was increased in particular, primarily through US corporate loans and securitisation structures which have top credit quality.

Hamburg Commercial Bank has no gross exposure to 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 (after the collateral relevant to country risk), there is only a single exposure that is largely hedged by export credit agency (ECA) cover. After ECA cover, the Bank's remaining transfer risk related to Russia is in the low single-digit million euro range, and it is fully covered by loan loss provisions.

In the countries affected by the current Middle East conflict, Hamburg Commercial Bank only has a low gross exposure to the potential direct impact. The indirect impact has had rather positive effects so far, especially in the Shipping segment. Due to the threat to merchant shipping in the Red Sea and the resulting changes in shipping routes, there was an increase in capacity requirements, causing the charter rates to rise. The developments in the situation are being closely monitored, in order to identify possible impacts of contagion in the context of a potential regional escalation.

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

Due to their unfavourable fiscal and economic data, a number of countries have long been subject to increased monitoring and partially also to stricter limits.

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. - 31.12.2023				
	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	9	26	-	3	38
Project Finance	-4	39	-	2	37
Real Estate	-116	-58	-	-3	-177
Shipping	-	8	-	3	11
Treasury & Group Functions	-	-	-	11	11
Reconciliation	-	-	-	1	1
Group	**-111**	**15**	**-**	**17**	**-79**

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

Changes in loan loss provisions in the lending business

(€ m)	01.01. - 31.12.2022				
	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	6	–	-5	-11
Project Finance	-1	-6	–	–	-7
Real Estate	-32	44	–	-1	11
Shipping	8	11	–	-1	18
Treasury & Group Functions	–	–	–	2	2
Reconciliation	-2	–	–	–	-2
Group	**-39**	**55**	**–**	**-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)

The net additions at Stage 3 totalling € -116 million were almost exclusively attributable to the Real Estate segment. As a result of the ongoing poor performance of the real estate markets in the second half of the year, higher provisions had to be recognised in particular for financing arrangements in default involving office properties and shopping centres (especially for properties with increased capex). Minor additions (€ -4 million) were recognised in the Project Finance segment for a major exposure that defaulted in the first half of the year. The majority of the Bank's financing for this borrower is secured by export credit agency (ECA) cover. In the Corporates segment, on the other hand, there was a net reversal of € 9 million. This is primarily attributable to the improved economic outlook for two loan exposures (hotel operating companies) in the wake of the recovery from pandemic-related impacts.

Stages 1 and 2 of the loan loss provisions model also had a negative impact in the Real Estate segment, with net additions totalling € -58 million. These were, however, more than offset by higher net reversals overall in the Project Finance (€ 39 million), Corporates (€ 26 million) and Shipping (€ 8 million) segments, resulting in an overall net reversal at Group level at these stages. Rating downgrades and increased model overlays were the drivers behind the negative impact in the Real Estate segment. The Bank has used the latter to address, in particular, possible economic effects for the office property sub-portfolio, which is being hit particularly hard by the difficult market conditions. The net reversals in the Project Finance segment are mainly due to the elimination of uncertainty regarding guaranteed feed-in tariffs in the French energy market. This resulted in the loan loss provisions recognised to account for the previous risks, including model overlays, being largely reversed. In the Corporates segment, the reversal of model overlays was also the main reason behind the positive development in loan loss provisions at Stages 1 and 2. The reason for the reversal was that individual exposures with potential negative impacts from the effects of the war in Ukraine as well as post-pandemic burdens, which were reflected in the model overlays, did not completely materialise in the review of the creditworthiness. During the reporting year, new triggers were introduced for the transition to Stage 2 for individual counterparties on the credit watch list, so that potential overlays for them can already be taken into account in the original calculation of loan loss provisions. In the Shipping segment, the effects of moderate rating downgrades in the wake of the economic slowdown on the shipping markets were slightly more than offset by the fact that the model overlays recognised for the tanker portfolio at the end of the previous year were fully reversed thanks to the positive development of the market situation in this sub-segment.

The result from other changes in loan loss provisions was largely characterised by payments received on receivables that had been written off. The most significant effect related to an inflow from the insolvency estate in connection with a loan to a customer that had already been written off.

For further details, particularly on the composition and development of the model overlays, we refer to Note 14 in the notes to the Group financial statements.

Total loan loss provisions

(€ m)	31.12.2023	31.12.2022
Volume of receivables AC	**18,166**	**19,430**
thereof: volume of impaired loans (gross carrying amount Stage 3)[1]	788	387
Gross carrying amount (Stage 2)	2,260	1,573
Gross carrying amount (Stage 1)	15,118	17,470
Total loan loss provisions for balance sheet items	**-366**	**-414**
thereof: Total loan loss provisions (Stage 3)[1]	-242	-238
Total loan loss provisions (Stage 2)	-89	-101
Total loan loss provisions (Stage 1)	-35	-75

[1] Stage 3 including POCI

As at 31 December 2023, the total loan loss provisions for balance sheet items calculated in accordance with IFRS 9 amounted to € -366 million (previous year: € -414 million). In addition, provisions for off-balance sheet items amounted to € -43 million as at the reporting date (previous year: -€ -35 million).

At 2.0 %, the coverage ratio of the total volume of receivables AC was slightly below the previous year (2.1 %). The total loan loss provisions at Stages 1 and 2 serve to mitigate the impact of potential future negative influences.

The NPE coverage ratio AC decreased from the prior year level (69 %) to 34 % as at 31 December 2023. The decrease is due to structural changes in the composition of the NPE portfolio. During the financial year, the partial disposal of an NPE exposure was recorded, for which a high level of coverage with loan loss provisions was required, whereas the default risks for new defaults are largely limited by high collateralisation and therefore only require a lower level of coverage with loan loss provisions.

Details regarding the total loan loss provisions in the lending business are presented in Notes 14, 25 and 38 in the notes to the Group financial statements.

Market risk

Market risks describe the potential losses that can arise as a result of adverse changes in market values on positions held in the trading and banking book.

The measurement of market risk at Hamburg Commercial Bank covers the following types of risk:

- Interest rate risk due to changes in interest rates. This includes interest rate risks in the banking book (IRRBB) and in the trading book.
- Credit spread risk due to changes in the credit spreads in the banking book (CSRBB) as well as in the trading book.
- Other market risks due to changes in 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 the inflation trend and the biometric assumptions. Measuring and managing of pension risk is carried out as part 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 Finance & 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 economic daily result and a value-at-risk (VaR) approach form the basis of the system for measuring and managing market risk. The economic result is determined from the change in net present value compared to the end of the previous year. The Value at Risk (VaR) of a position represents the loss in value (in euros) which will not be exceeded until the position is hedged or realised within a predetermined period with a predetermined probability.

The VaR is determined by Hamburg Commercial Bank using the historical simulation method. It is calculated 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.

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 approach with a holding period of one year and a confidence level of 99.9 %, which in line with the long-term investment horizon is based on market data history going right back to 2008, and it thus also takes into account the period of the financial crisis. This value is included as an add-on in the Group VaR with appropriate scaling.

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 market risk appetite formulated by the Management Board is converted into limits, which are further broken down by the Asset Liability Committee. Limit compliance is monitored on a daily basis by means of a VaR limit for Hamburg Commercial Bank's overall market risk, by VaR limits for specific risk types/portfolios as well as a stop loss limit for the economic result. On a monthly basis, the annualised economic capital required for market risks is calculated and compared with the economic capital allocated to market risks by the Management Board.

In the framework of stress testing, the potential net present value losses are limited, which would result from the six interest rate shock scenarios specified in the EBA guideline EBA/GL/2018/02. The perspective is expanded through monthly stress test calculations across all risk types, in which the net present value effects of various historical and hypothetical stress scenarios are analysed. The limiting of net interest income risk was adjusted at the beginning of 2023 in line with the new EBA standard (EBA/RTS/2022/10 Introduction of the Supervisory Outlier Test for Net Interest Income Risk). There are clearly defined processes in place in the Strategic Risk Framework for limit adjustments and overdrafts.

During the reporting period, the Group limits approved by the Management Board were met at all times.

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 7 "Accounting policies", Note 10 "Result from hedging", Note 26 "Hedge accounting" and Note 56 "Report on business in derivatives".

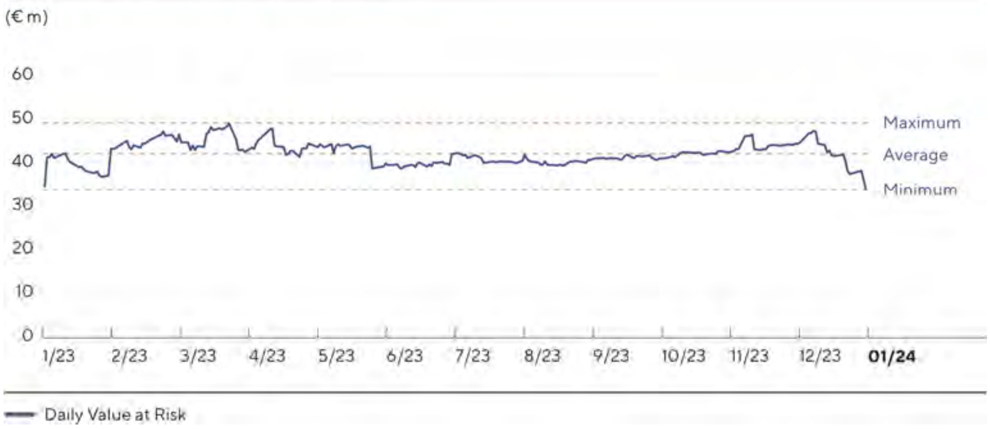
Market risks from the lending business and liabilities of Hamburg Commercial Bank are managed as part of a proactive portfolio management process and hedged through external transactions.

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 primarily include interest rate risk along with the equity/funds risk as well as the 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 2023.

Daily Value at Risk in the course of 2023



As at 31 December 2023, the daily market risk of the trading book positions was € 4.5 million and that of the banking book positions was € 34.1 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 € 33.7 million. The daily interest rate risk in the banking book (IRRBB) was € 18.3 million, the funds/equity risk was € 14.8 million, the credit spread risk was € 8.7 million and the foreign exchange risk was € 1.0 million.

The following table shows the change in daily VaR in the banking and trading books 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]	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Average	25.4	16.8	9.2	5.6	2.2	1.7	13.0	10.8	42.0	27.3
Maximum	33.1	28.7	10.4	7.4	4.9	4.9	14.8	13.7	49.0	43.2
Minimum	18.3	9.3	6.6	3.7	0.6	0.3	7.0	7.0	33.7	18.3
Period end value	18.3	22.4	8.9	7.0	3.8	2.6	14.8	7.1	33.7	34.3

1) Interest rate risk excluding credit spread risk
2) Due to correlations the VaR does not result from adding up individual values

The market risk of Hamburg Commercial Bank is characterised by interest rate and foreign exchange risk arising from the lending business, refinancing and the trading book. The latter predominantly contains positions resulting from foreign exchange risk management, trading in interest rate and currency derivatives with clients as well as 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 2023 includes a VaR add-on of € 1.4 million for residual risks for corporate bonds, Pfandbriefe, government bonds and collateralised loan obligations (CLO). As at 31 December 2023, the CTA has an add-on to the VaR determined by the system in the amount of € 14.2 million.

The overall VaR of € 33.7 million as at 31 December 2023 was at a similar level to the end of the previous year (€ 34.3 million). The main reasons for the increase in the first quarter were, on the one hand, an increase in the credit spread risk position in the investment grade area and, on the other hand, an adjustment in the accounting for the fund risks of the CTA. The reporting of the CTA add-on until the end of 2022, which was split equally between market risk and default risk, has been replaced by full reporting under market risk. At the end of 2023, the Bank significantly reduced interest rate risk in particular, thereby reducing the overall VaR.

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 and the interest rate shock scenarios specified by the ECB, further stress tests are performed to investigate the effects of unusual market fluctuations on the net present value of the Bank’s positions.

Hamburg Commercial Bank makes a distinction for market risk between standardised, historical and hypothetical stress scenarios. Whereas standardised scenarios are defined specifically according to risk types (for example, shifting or turning of the interest rate curve), the historical and hypothetical stress tests affect multiple market risk factors at the same time. As such, historical scenarios reflect historical correlations between the various risk factors that have actually occurred in the past, while hypothetical scenarios represent fictitious changes in risk factors. With regard to the hypothetical scenarios, a distinction is also made between economic scenarios that simulate a downturn in the macroeconomic environment and portfolio-specific scenarios that can represent a potential threat to the value of the material sub-portfolios of Hamburg Commercial Bank. An ESG market risk stress test 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 Guide to the internal liquidity adequacy assessment process (ILAAP).

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 the risk of illiquidity, the liquidity maturity transformation risk and the market liquidity 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.

Market liquidity risk is the risk that transactions cannot be concluded, or can only be concluded with disproportionately high costs, due to low market liquidity or a lack of market depth.

Organisation of liquidity risk management
Strategic liquidity management is the responsibility of the Finance & 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. The Finance & Bank Steering business unit 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 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 (balances arising from incoming and outgoing payments) are calculated from the first day up to the twelfth month – accumulated by maturity band – in order to quantify future liquidity requirements. The cumulative requirements are compared to the respective liquidity potentials that are available for liquidity coverage per maturity band. The net amount of cumulative requirements and liquidity potentials is referred to as the net liquidity position. In the maturity bands up to the third month, the minimum net liquidity position is prescribed by a limit or a risk guideline. The utilisation of these limits is monitored daily. 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.

The liquidity risk includes market liquidity risks through specific haircuts in the liquidity maturity profile as well as additional valuation adjustments (AVAs). In addition, market liquidity risks in the valuation of financial instruments are taken into account using the prudent valuation simplified approach. Further information on the level categorisation of financial instruments is presented in the Note "Disclosure of fair value in accordance with IFRS 7 and IFRS 13".

LIQUIDITY MANAGEMENT

The short-term liquidity base and the regulatory liquidity ratios are operationally managed by the Treasury & Markets business unit based on management goals specified by the Finance & Bank Steering business unit. In addition to the regulatory requirements, the liquidity maturity profile is relevant, amongst other things, to determine these management goals. The definition of or changes to individual parameters or the requirements are 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 the stress case liquidity maturity profile develop over time.

The risk of illiquidity over more than one year is managed by means of the liquidity maturity profile for an expiring portfolio 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 ECB-eligible loan receivables is coordinated by the Finance & Bank Steering business unit, 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 key indicators 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, within the framework of the periodic implementation of inverse stress tests, it was investigated during the reporting year whether any events occurred 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.

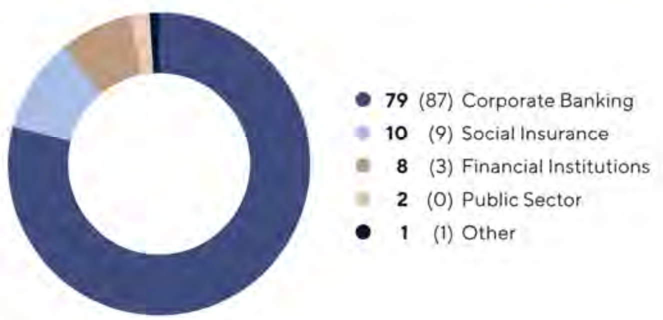
Hamburg Commercial Bank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors) and maturities (original and residual maturities).

In 2023, the volume of short-term deposits increased compared to the previous year, in line with the Bank's strategy. As at 31 December 2023, the total volume amounted to € 10.4 billion (previous year: € 9.2 billion). The counterparty concentrations are slightly lower than in the previous year. The ten largest depositors account for around 17 % of total deposits (previous year: 18 %). Based on the maturity structure, the proportion of deposits payable on demand is significantly lower at 31 % (previous year: 47 %).

The following chart shows the composition of deposits by sector:

Depositor structure as at 31 December 2023

(%, 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.

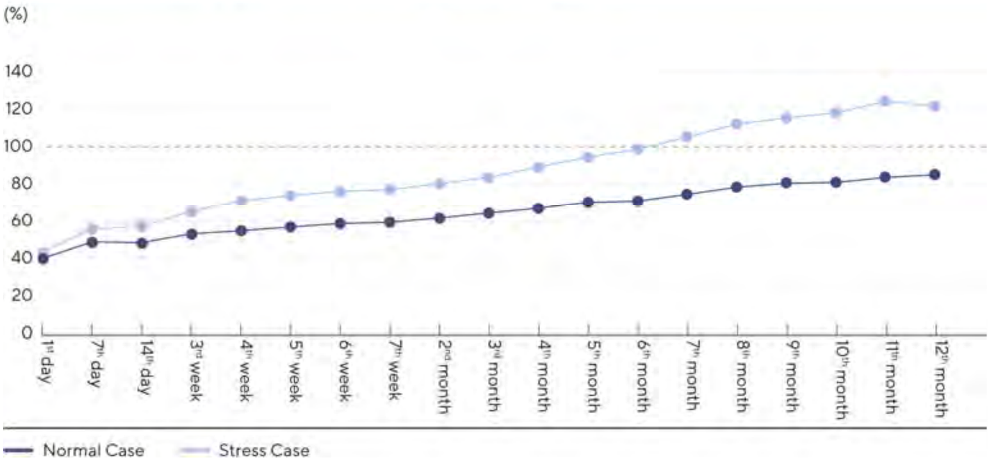
QUANTIFICATION OF LIQUIDITY RISK

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 85 % 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 Bank will not fall short of the minimum survival period of one month defined in MaRisk. Instead, the minimum survival period as at the end of 2023 stood at over 6 months. Compared to the 2022 year end, utilisation levels have increased marginally in the normal case and stress case in virtually all maturity bands. 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 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 2023.

Utilisation of liquidity potential as at 31 December 2023



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 2023, it amounted to 184 % (previous year: 197 %).

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 2023, the Bank's NSFR amounted to 116 % under the CRR (previous year: 113 %) and thus lies above the minimum ratio of 100 % required by the supervisory authorities.

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

The liquidity capacity period (LCP) is determined on the basis of the AMM. 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 stood at five months as at 31 December 2023.

Refinancing situation

Hamburg Commercial Bank successfully implemented its funding strategy in 2023. The refinancing situation in the reporting period was characterised by volatile capital markets. The sharp rise in interest rates combined with a global decline in deposits led to temporary turbulence in the banking environment in the first half of 2023, triggered by difficulties faced by individual US regional banks (including: Silicon Valley Bank insolvency) and the forced takeover of Credit Suisse by UBS in Switzerland. The financial markets stabilised significantly in the second half of the year. In total, the Bank raised around € 2.5 billion in long-term funds in 2023. During the reporting period, the Bank issued a € 750 million senior preferred benchmark transaction in the first quarter following its rating upgrade, following this up with a € 500 million mortgage Pfandbrief in the second quarter. In the second half of the year, the Bank placed two senior preferred benchmark bonds on the market with a volume of € 500 million each, one of which was in floating rate format for the first time. In addition to the refinancing via the capital market, deposits from corporates in particular contributed to the refinancing of the business. The volume of short-term deposits rose by more than 13 % in 2023, despite the difficult market environment. In order to further strengthen the deposit structure, the focus is on diversifying and expanding the deposits from corporates.

A worsening of the current geopolitical tensions and a deterioration in the macroeconomic environment could make execution of funding measures in the market more difficult. In addition, a more restrictive than expected monetary policy adopted by the central banks could limit the refinancing options and 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, which affects all members. Given the further reduction in the scope of protection provided by the guarantee scheme in 2025, there is a fundamental risk of increased liquidity outflows. As at 31 December 2023, 72 % of eligible protected deposits (€ 11.7 billion) are covered by the statutory and voluntary deposit guarantee funds.

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). Thus, the development of exchange rates has an influence on the funding requirements of Hamburg Commercial Bank.

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 inadequacies or failures of internal procedures, staff and systems, or as a result of external factors. This definition includes the risk of losses resulting from legal risks.

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

Business process risk is the risk that arises from incorrect execution or non-execution of business processes. Business process risks can have a variety of causes and consequences, and they often occur in connection with other types of risk, including failure or disruption of the IT and infrastructure, non-compliance with legal or contractual requirements, as well as inadequate or inefficient resource planning, management or monitoring.

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 complied with, or have changed after a transaction has been entered into.

Compliance risk arises as a result of non-compliance with legal regulations and requirements as well as codes of conduct, that may lead to sanctions being imposed by the supervisory authorities, financial losses or to a negative impact on the Bank's reputation.

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

Fraud risk is the risk of losses that arise due to other criminal acts. Other criminal acts are those which do not fall within the definitions of money laundering and terrorist financing, but which may nevertheless endanger the assets of the Bank or another party. Such other criminal acts include, for example, fraud and embezzlement, theft, misappropriation, robbery, corruption or spying on and interception of data.

Information risk is the risk of losses related to the use of network and information systems or communication technology, including breach of confidentiality, lack of availability as well as lack of integrity of data, systems and physical documents. The term "information risk" includes IT risks, information security risks and cyber risks.

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

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

Sourcing risk refers to the risk associated with the procurement of services from or the provision of services to third parties. In the event of outsourcing, it is the risk of losses resulting from contract, supplier and service risks which may arise 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, it is the contract and services risk that may 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, Corporate Legal & Board Affairs, Tax, Risk Control, Operations and IT business units and the Credit Law and Corporate Development departments, 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 loss events database, categorised according to risk types and causes.

Detailed information is collected on the risk situation of the Bank as part of the annual Group-wide risk scenario assessment based on the historical loss events data and defined forward-looking scenarios. 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 relevant scenarios from the risk scenario assessment are calculated and aggregated in a Monte Carlo simulation. The Operational Value at Risk (OpVaR) calculated in this way 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 (ICS)
One possible cause of loss events arising from operational risks lies in missing or inadequate controls. A functioning ICS helps to identify business process risks and implement appropriate measures to prevent and/or reduce them. The central ICS is thus an essential part of the management of non-financial risk. Detailed information on the ICS is set out in the "Risk management system" section.

Management of HR risks
HR risks are countered through active 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 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 information risk management as identifying information 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 Corporate Legal & Board Affairs business unit and the Credit Law department are responsible for managing these risks. The Tax business unit is responsible for tax risks as part of the legal 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 processes 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 Corporate Development department is responsible for the process involved in preparing the business strategy. The quantitative strategy management is the responsibility of the Finance & Bank Steering business unit. The Corporate Development department is responsible for monitoring the non-financial business strategy risk.

Non-financial risks in the reporting year
The year under review 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.

The intensified sanctions situation continues unchanged as a result of Russia's war of aggression against Ukraine as well as the current developments in the Middle East conflict. Hamburg Commercial Bank fully implements all sanctions and has stepped up the monitoring of current developments.

The threat of cybercrime remains high, with ransomware being the most common threat. Attacks are highly professional and increasingly automated. The banking industry as a whole is also in the focus of the attackers, although there is currently no increased threat situation facing Hamburg Commercial Bank. The threat in the context of the war in Ukraine is further manifested by various campaigns against different industries and authorities and in different countries. The further development of artificial intelligence and the associated new possibilities for manipulative actions continue to pose major challenges to cybersecurity. The Bank follows cybercrime developments on a regular basis and continuously works to improve the existing instruments and processes and to mitigate cyber risks.

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 € 53 million (previous year: € 110 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.

Summary of risk assessment

The 2023 financial year was characterised by the worsening of geopolitical tensions and the further deterioration in the macroeconomic environment. In particular, the challenging conditions on the real estate markets have had impacts on the Bank's loan portfolio. The risk policy of Hamburg Commercial Bank ensured that the Bank's capital and liquidity position was adequate at all times.

The Bank has implemented various measures, in order to appropriately take account of the existing risks.

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 is reporting a positive net result of € 344 million for the 2023 financial year. A comparison with the very high positive HGB net result achieved in the previous year (€ 2,385 million) is only possible to a very limited extent, as the previous year's result was substantially influenced by the positive result from loan loss provisions/valuation and other one-off effects, mainly driven by reversals from the funds for general banking risks and reversals of global valuation allowances in the lending business.

At € 726 million, net interest income was a good fifth below the level of the previous period despite an increase in net interest income in the operating business, which is due in particular to lower positive one-off effects from the termination of interest rate hedging transactions. Despite the inflationary environment, the cost base remained stable compared to the previous year, as did net commission income and net trading income overall. The other operating result, which was still a burden in 2022 due to interest-induced valuation losses on fund assets for pension obligations, was clearly positive in the reporting year at € 145 million. This was mainly due to one-off effects that were higher than in the previous year, as well as a partial reversal of impairment losses on fund assets. As the increase in the other operating result more than compensated for the decline in net interest income, the operating result before loan loss provisions/valuation rose by around 8 % compared to the previous year (€ 550 million) to € 593 million.

The result from loan loss provisions/valuation normalised to € -48 million in the 2023 financial year, after making a substantial contribution of € 1,993 million to the very high net income in the previous year, as mentioned above. The result in the reporting year was characterised by slightly higher negative loan loss provision effects than expected, mainly due to the challenging situation on the real estate markets. In contrast, but to a lesser extent, the securities business generated a positive result.

As part of the reconciliation to the net result, the fact that transformation expenses were no longer incurred, as planned, meant that the negative effects still recognised in the extraordinary result in the previous year no longer applied. Income tax expense (€ 201 million) was characterised by deferred tax expenses. The composition and year-on-year development of the statement of income can be seen in the following overview.

Statement of Income

(€ m)	2023	2022	Change in %
Net interest income	726	917	-21
Income from profit transfers	–	6	>100
Net commission income	32	34	-6
Net income from the trading portfolio	48	42	14
Administrative expenses	-358	-365	-2
thereof: Personnel expenses	-149	-154	-3
thereof: Operating expenses	-209	-211	-1
Other operating result	145	-84	>100
Operating result before loan loss provisions/ valuation	**593**	**550**	**8**
Loan loss provisions/valuation	-48	1,993	>100
Operating result after loan loss provisions/ valuation	**545**	**2,543**	**-79**
Extraordinary result	–	-35	100
Income tax expense	-201	-123	-63
Net result	**344**	**2,385**	**-86**

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

Net interest income totalled € 726 million, € 191 million or a good one-fifth below the previous year's level (€ 917 million). The only reason for the decline was that the one-off effects from derivatives were significantly less pronounced than in the previous period. In the 2022 financial year, effects from the termination of legacy derivatives (derivatives, that originally collateralised transactions that were wound up as part of the restructuring) in the investment portfolio had still made a substantial contribution to net interest income. As a result, net interest income in connection with derivatives was significantly lower than in 2022. Net interest income from operating activities, on the other hand, increased noticeably, with the Bank also benefiting from the significant change in the interest rate environment in line with the general trend in the banking sector. In particular, net interest income from lending and money market business increased considerably compared to 2022, rising by € 127 million year-on-year. On balance, the fact that interest income from fixed-interest securities and the special funds that had been launched increased at a faster rate than interest expenses for securitised liabilities and subordinated liabilities also had a clearly positive effect on net interest income. Interest income from the sale of receivables and prepayment penalties received or paid did not have any significant impact on net interest income, as in the previous year.

At € 32 million, **net commission income** was down only slightly on the previous year (€ 34 million). The drop is due to lower net commission income in the lending business and in the guarantee business. On the other hand, net commission income from payment transactions and foreign business, as well as documentary business, which accounted for around 50 % of the total position in 2023 (2022: 46 %), increased slightly.

Net income from the trading portfolio totalled € 48 million in the reporting year, compared to € 42 million in the 2022 financial year. Net income from foreign currency, the result from credit default swaps and the positive result from interest rate derivatives made a particularly positive contribution to the result in 2023. As in the previous year, net income from the trading portfolio does not include any additions to/reversals in the fund for general banking risks in accordance with Section 340e HGB.

Administrative expenses, which were much lower than expected, totalled € 358 million in the reporting year, meaning that they were down by 2 % on the previous year's level (€ 365 million) despite an environment characterised by higher inflation. One key success factor in this regard is the cost efficiency programme for administrative expenses that was launched at the beginning of 2023.

Despite the planned increase in headcount in the reporting period (including the increase in staff at the London branch that was established in May) and collectively agreed and non-collectively agreed salary increases, personnel expenses were cut from € 154 million to € 149 million. The main reasons for this development include: no expenses for the Energy Support Payments, which were paid to all employees up to the full amount of € 3,000 in 2022, as well as lower variable remuneration and lower expenses for company pension schemes than in the previous year. The number of employees had increased by 37 FTEs to 897 FTEs by the end of the year.

Operating expenses were also down slightly compared to the previous year. They amounted to € 209 million in 2023, after totalling € 211 million in 2022. The main reason behind the decline relates to regulatory expenses, which fell by almost a third from a total of € 30 million to € 21 million as a result of lower contributions for the bank levy. By contrast, there were moderate increases in individual expense categories compared to the previous year.

At € 145 million, the **other operating result** (including other taxes) made a clear positive contribution to the operating result before loan loss provisions/valuation in the reporting year as a result of higher income and much lower expenses, following a significant negative contribution of € -84 million in 2022. The increase of € 229 million is mainly due to the development of expenses and income from pension provisions and fund assets to be offset in accordance with Section 246 (2) sentence 2 HGB. These totalled € 73 million (net income) in 2023, compared to a negative impact of € 145 million (net expenses) in the previous year. The main driver behind this trend was the partial reversal of impairment losses on fund assets, whose fair value had fallen relatively sharply due to the interest rate trend in 2022.

Other operating income increased by € 79 million to € 180 million (previous year: € 101 million). In addition to the aforementioned net income, they mainly include one-off effects from the reversal of provisions for litigation risks (€ 54 million) as well as income from earn-out agreements (€ 18 million).

Other operating expenses fell very considerably by € 148 million to € 35 million (previous year: € 183 million). The drop results mainly from the lack of 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.

Operating result before loan loss provisions/valuation

At € 593 million, the operating result before loan loss provisions/valuation was around 8 % higher than in the previous period (€ 550 million). This was due to the fact that the € 191 million decline in net interest income resulting from lower one-off effects was offset by the other operating result, which was € 229 million higher than in the previous year. Administrative expenses and the other income items as a whole (net commission income and net income from the trading portfolio) were largely stable overall.

Loan loss provisions/valuation normalises – valuation result in the previous year primarily responsible for the very high net income for the year
The result from loan loss provisions/valuation normalised to € -48 million in the 2023 financial year, after making a substantial contribution of € 1,993 million to the very high net income in the previous year, as mentioned above.

Hamburg Commercial Bank AG recorded a negative result of € -91 million for loan loss provisions in the lending business in the reporting period (previous year: € 498 million). The development in loan loss provisions in the past financial year was characterised in particular by the challenging environment on the interest-sensitive real estate markets. There were noticeable individual valuation allowances in the overall item, which were partially offset by a net reversal of global valuation allowances, among other things. The individual valuation allowances were almost exclusively attributable to the Real Estate segment. There was also a net addition to global valuation allowances for the Bank's property financing, in particular due to cautious measures to address economic risks for the office property sub-portfolio, which was hit particularly hard by the difficult market conditions. This net addition was more than offset by higher net reversals in the other market segments overall.

The result in the securities business was positive at € 43 million, following a negative result of € -65 million in the 2022 financial year. The main reason behind this development was the change in interest rates compared to the end of 2022, which led to reversals of impairment losses on securities in the liquidity reserve measured based on the strict lower-of-cost-or-market principle.

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

The amount of the fund for general banking risks was maintained in the 2023 financial year. In the previous year, substantial reversals of € 1,560 million had been recognised.

As expected, no more burdens from the extraordinary result
In the year under review, the extraordinary result was balanced at € 0 million (previous year: € -35 million).

As assumed in the planning, no more transformation expenses were incurred in the 2023 financial year. In the previous period, transformation expenses were recorded for the last time in the amount of € 58 million (mainly for project activities related to the payment transaction system changeover and IT transformation).

The result from restructuring totalled € 0 million, compared to € 24 million in the previous year, at that time due to the reversal of restructuring provisions.

Income taxes characterised by deferred tax expense
Net income before taxes came to € 546 million (previous year: € 2,508 million).

Income tax expense amounted to € 201 million (previous year: € 123 million). In the reporting year, they were characterised by an expense from deferred taxes of € 179 million, a negative impact that was more pronounced than assumed at the end of 2022. Current tax expenses totalled € 22 million, taking into account relief of € 18 million from income for previous assessment periods.

Deferred tax expenses comprised an expense from the change in deferred taxes on temporary differences (€ 132 million) and an expense from the reduction of deferred tax assets on loss carry-forwards (€ 47 million).

Positive net result in line with the Bank's expectations overall
After income tax expense, Hamburg Commercial Bank reported a positive net result of € 344 million for the 2023 financial year (previous year: € 2,385 million). Net income before taxes, which also benefited from one-off effects, was significantly higher than expected, with business development that the Management Board considers to be positive. At the same time, income tax expense in the context of deferred taxes was higher than planned. Overall, net income after taxes in accordance with the German Commercial Code (HGB) (net result) was in line with expectations.

Net assets and financial position

Balance sheet

(€ m)	2023	2022	Change in %
Assets			
Cash reserve	136	1	>100
Loans and advances to banks	4,063	5,462	-26
Loans and advances to customers	17,667	18,954	-7
Securities	9,266	7,134	30
Trading portfolio	550	294	87
Equity holdings in non-affiliated companies and interests in affiliated companies	9	9	–
Deferred tax assets	579	755	-23
Remaining assets	715	929	-23
Total assets	**32,985**	**33,538**	**-2**
Liabilities			
Liabilities to banks	4,675	4,569	2
Liabilities to customers	13,616	13,248	3
Securitised liabilities	8,792	8,341	5
Trading portfolio	56	227	-75
Subordinated debt	910	921	-1
Fund for general banking risks	808	808	–
Equity	3,065	4,217	-27
Remaining liabilities	1,063	1,207	-12
Total assets	**32,985**	**33,538**	**-2**
Contingent liabilities	631	823	-23
Other commitments	4,689	3,652	28
Total off-balance sheet business	**5,320**	**4,475**	**19**
Business volume	**38,305**	**38,013**	**1**

Virtually constant total assets
The balance sheet remained almost constant compared to the previous year. At € 32,985 million, total assets at the end of 2023 were roughly the same as at 31 December 2022 (€ 33,538 million). The balance sheet development on the assets side was characterised by the

planned reduction in loans and advances to banks (€ -1.4 billion), not least as a result of the dividend payment adopted and completed in April 2023. On the assets side, the decline in this item was offset by a significant increase in securities (€ +2.1 billion), while loans and advances to customers fell by € 1.3 billion. On the liabilities side, reported equity decreased by € 1.2 billion, which is attributable to the aforementioned dividend payment with a positive net result. This was primarily offset by an increase in securitised liabilities (€ +0.5 billion) and liabilities to customers of € 0.4 billion as a result of the active issuing activity and significant increase in deposits. In detail, the developments, which were moderate overall, were as follows:

As at the reporting date, loans and advances to banks 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. This balance sheet item, which was comparatively high at € 5,462 million at the end of 2022 in anticipation of the dividend payment, decreased significantly after the distribution in April and over the course of the second half of the year and totalled € 4,063 million at the end of 2023. To maintain the solid liquidity position, the portfolio of highly liquid securities was increased to partially compensate for this.

The development of the loan book, reflected by the item in the statement of financial position loans and advances to customers, was characterised by the further implementation of the diversification strategy, but also by the risk-conscious and selective business approach in a partly difficult market environment. As at 31 December 2023, the carrying amount of loans and advances to customers was € 17,667 million, 7 % below the level as at 31 December 2022 (€ 18,954 million). The diversification strategy is reflected in the increasingly balanced portfolio allocation across the lending units: the relative shares of loans and advances in the Real Estate and Shipping segments have decreased, while the shares of the loan book in the Corporates segment have increased.

The securities position was increased further as the Bank continued to implement its strategy of diversifying the balance sheet, as well as in the context of liquidity management. As at 31 December 2023, their carrying amount came to € 9,266 million, a noticeable increase of 30 % compared to the prior-year reporting date (31 December 2022: € 7,134 million). The increase is due primarily to the increase in highly liquid securities, as well as further investments in securitisation structures with investment grade ratings (mainly collateralised loan obligations and agency mortgage-backed securities).

Trading assets were up on the end of the prior-year reporting period (€ 294 million) to € 550 million. This was mainly due to the increase in debentures and other fixed-interest securities recognised in the trading portfolio. In contrast, the carrying amount of interest-related derivative financial instruments decreased, albeit to a much lesser extent.

Deferred tax assets fell to € 579 million (previous year: € 755 million). The decrease resulted both from the reduction in temporary differences (in particular relating to the balance sheet items debentures and other fixed-interest securities) and from the lower amount recognised for deferred taxes on loss carryforwards compared to the end of the previous year.

Remaining assets, of which other assets are the main balance sheet item, totalled € 715 million and were € 214 million lower than the previous year's level (31 December 2022: € 929 million). This was due to the decrease in other assets by € 270 million to € 491 million (previous year: € 761 million). This was due primarily to the fact that the initial and variation margins from OTC derivatives were lower than at the end of the previous year. The reimbursement claim from fund assets, the FX equalisation item and the receivables from the tax authorities also, however, decreased compared to the previous year.

On the liabilities side, with a carrying amount of € 4,675 million, liabilities to banks were up slightly on the previous year (31 December 2022: € 4,569 million). This item includes borrowings from the ECB under the TLTRO III programmes. After the further repayments of € 0.55 billion in the reporting year, the utilisation of these programmes amounted to only € 1.0 billion (nominal amount) as at the reporting date. By contrast, the portfolio of liabilities from repo transactions increased, albeit to a greater extent.

In line with the Bank's funding strategy, which aims to further increase the share of organic funding, liabilities to customers account for an increasing share of refinancing. These were up by 3 % year-on-year from € 13,248 million to € 13,616 million. The increase was due to the marked increase in the deposit portfolio. Not least this development demonstrates the stability of Hamburg Commercial Bank AG's refinancing structure in what was, especially in the first half of the year, a turbulent market environment.

Securitised liabilities amounted to € 8,792 million as at 31 December 2023, 5 % higher than the level at the end of 2022 (carrying amount of € 8,341 million). The development of the position was characterised by the benchmark issues in the reporting year (three senior preferred bonds in the amount of € 0.75 billion and two in the amount of € 0.5 billion, as well as a mortgage Pfandbrief in the amount of € 0.5 billion).

The structural composition of subordinated liabilities has not changed. As at 31 December 2023, the carrying amount was virtually unchanged year-on-year at € 910 million (31 December 2022: € 921 million).

The fund for general banking risks was unchanged year-on-year at € 808 million as at 31 December 2023, which, in the Bank's opinion, adequately reflects the particular risks associated with the bank business segment (largely general banking risks).

Despite the net income for the year, reported equity decreased significantly, as planned, compared to the end of the previous year and totalled € 3,065 million as at 31 December 2023 (31 December 2022: € 4,217 million). The aforementioned dividend payment made in April 2023 in the amount of € 1,500 million was the decisive factor in this development. 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 € 302 million proposed for 2024 was already taken into account in advance in the CET1 capital and, as a result, when determining the capital ratios at the end of 2023. 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 2024.

Remaining liabilities fell from € 1,207 million to € 1,063 million. The drop of € 144 million was mainly due to provisions, which, with a carrying amount of € 490 million in total, were € 156 million lower than at the end of the previous year as a result of lower pension provisions and provisions for litigation risks. Other liabilities (€ 335 million; 31 December 2022: € 308 million) and deferred income (€ 215 million; 31 December 2022: € 240 million) were largely stable compared to the previous year.

Business volume up due to increase in off-balance sheet business

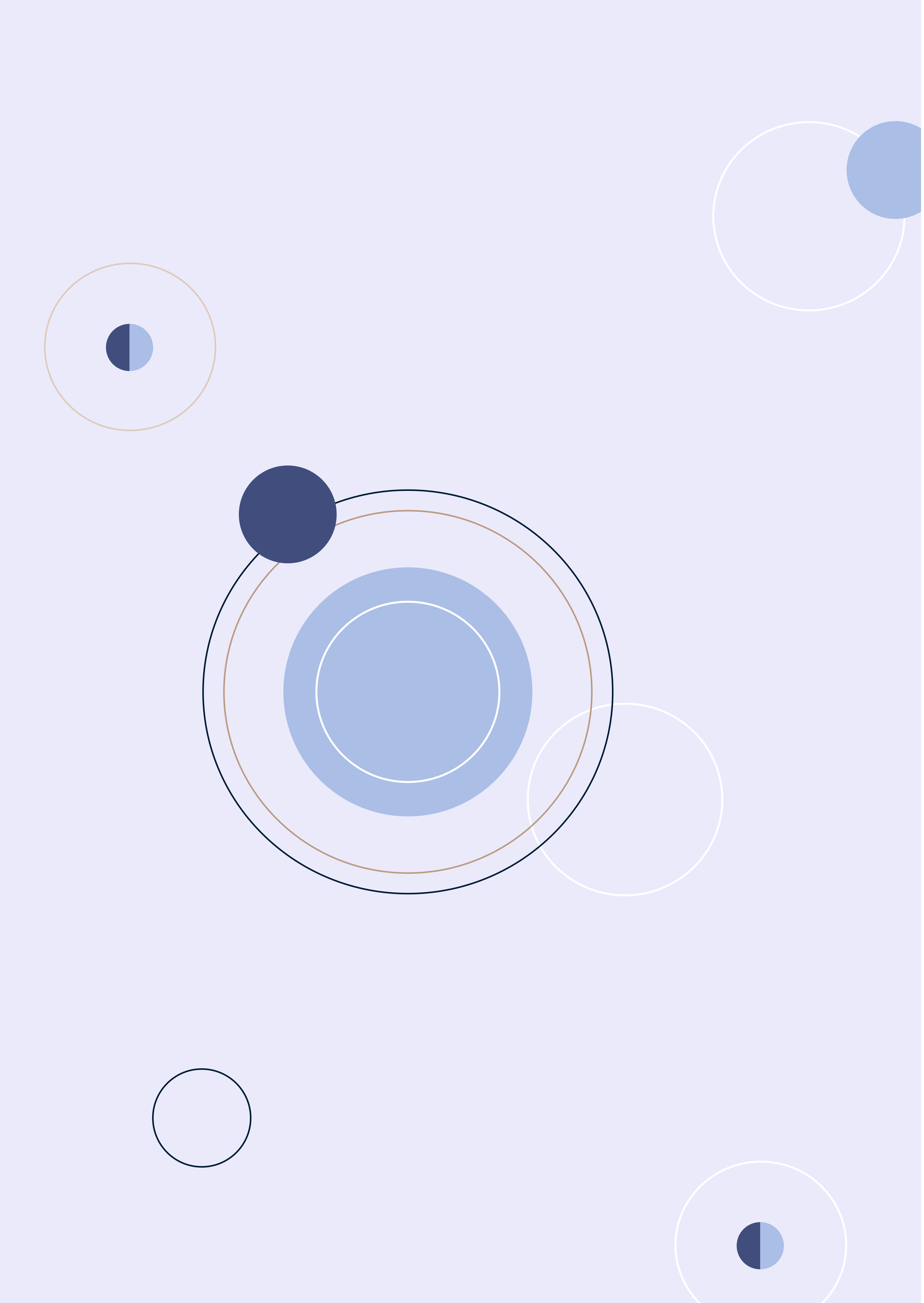
While total assets fell by 2 % as shown above, the business volume increased by 1 % to € 38,305 million (31 December 2022: € 38,013 million), as the off-balance sheet business increased by 19 % compared to the previous year. This was mainly due to the increase in other commitments, whose essential component is irrevocable loan commitments. The increase of € 1,037 million to € 4,689 million (31 December 2022: € 3,652 million) was partly due to the expansion of the international corporates business. By contrast, but to a much lesser extent in absolute terms, there was a downward trend in contingent liabilities, which essentially comprise guarantees and warranties. These were down by € 192 million year-on-year to € 631 million (31 December 2022: € 823 million).

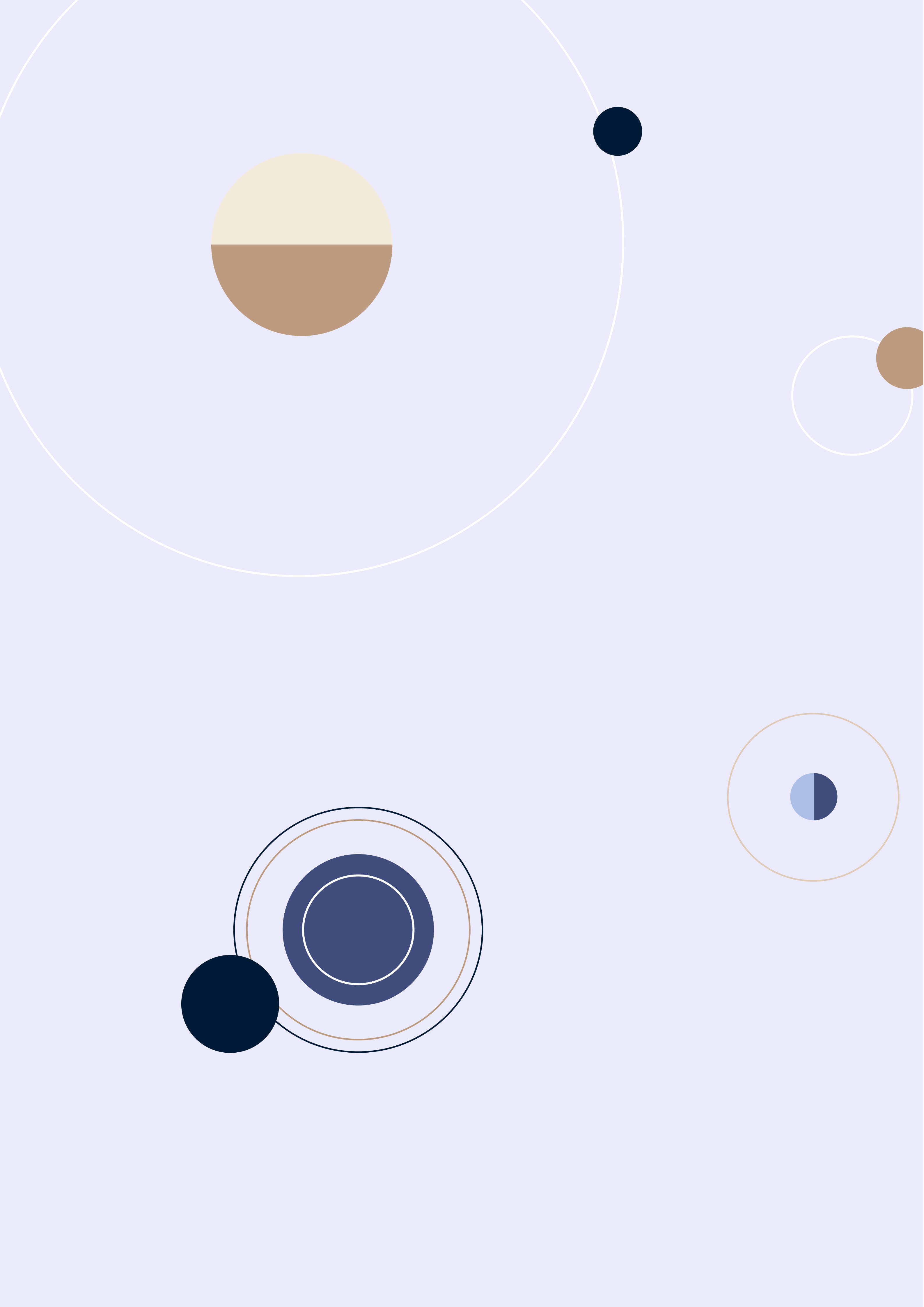
Refinancing

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, 12 March 2024

Ian Banwell	Ulrik Lackschewitz
Christopher Brody	Marc Ziegner





Group financial statements

Group statement of income

for the period from 1 January to 31 December 2023

(€ m)	Note	2023	2022	Change in %
Interest income from financial assets categorised as AC and FVOCI		1,447	761	90
Interest income from other financial instruments		65	81[1]	-20
Negative interest on investments categorised as AC and FVOCI		–	-13	-100
Negative interest on other cash investments and derivatives		–	-32	-100
Interest expenses		-852	-290[1]	>100
Positive interest on borrowings and derivatives		3	43	-93
Net interest income	(8)	**663**	**550**	**21**
Net commission income	(9)	23	33	-30
Result from hedging	(10)	13	2	>100
Result from financial instruments categorised as FVPL	(11)	72	86[1]	-16
Net income from financial investments	(12)	-3	-1	>-100
Result from the disposal of financial assets classified as AC	(13)	-6	3	>-100
Total income		**762**	**673**	**13**
Loan loss provisions	(14)	-79	11	>100
Total income after loan loss provisions		**683**	**684**	**-0**
Administrative expenses	(15)	-332	-332	-
Other operating result	(16)	97	75	29
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(17)	-21	-30	-30
Net income before restructuring and transformation		**427**	**397**	**8**
Result from restructuring and transformation	(18)	–	-34	100
Net income before taxes		**427**	**363**	**18**
Income tax expense	(19)	-156	62	>100
Group net result		**271**	**425**	**-36**
Group net result attributable to Hamburg Commercial Bank shareholders		271	425	-36

1) The previous year's amount was adjusted; for more details please refer to Note 2.

Earnings per share

(€)	Note	2023	2022
Undiluted	(21)	0.90	1.41
Diluted	(21)	0.90	1.41
Number of shares (millions)		**302**	**302**

Group statement of comprehensive income

for the period from 1 January to 31 December 2023

Reconciliation with total comprehensive income/loss

(€ m)	2023	2022
Group net result	**271**	**425**
Income and expenses that have been reclassified to the statement of income or may be reclassified at a later date		
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement (before taxes)		
Unrealised gains and loss (before taxes)	113	–170
Gains and losses (before taxes) reclassified to the statement of income	–11	3
thereof from exchange rate effects	3	–
Income taxes recognised	–32	54
	70	**–113**
Differences resulting from currency translation	–1	–
Subtotal	**69**	**–113**
Income and expenses that will not be reclassified to the statement of income at a later date		
Credit risk-induced changes in the value of liabilities designated at fair value (before taxes)	2	6
Income taxes recognised	–1	–2
	1	**4**
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	–2	187
Income taxes recognised	–	–60
	–2	**127**
Subtotal	**–1**	**131**
Other comprehensive income	**68**	**18**
Total comprehensive income	**339**	**443**

Group statement of financial position

as at 31 December 2023

Assets

(€ m)	Note	2023	2022	Change in %
Cash reserve	(22)	3,857	4,974	-22
Loans and advances to banks	(23)	492	777	-37
Loans and advances to customers	(24)	18,509	19,592	-6
Loan loss provisions	(25)	-366	-414	-12
Positive adjustment item from portfolio fair value hedges		–	–[1]	–
Trading assets	(27)	335	441	-24
Financial investments	(28)	7,795	5,338[1]	46
Intangible assets	(29)	75	55	36
Property, plant and equipment	(30)	17	16	6
Investment property	(30)	1	1	–
Current tax assets	(31)	29	81	-64
Deferred tax assets	(32)	536	697	-23
Other assets	(33)	261	260	0
Total assets		**31,541**	**31,818**	**-1**

[1] The previous year’s amount was adjusted; for more details please refer to Note 2.

Liabilities

(€ m)	Note	2023	2022	Change in %
Liabilities to banks	(34)	4,671	4,604[1]	1
Liabilities to customers	(35)	13,616	13,246[1]	3
Securitised liabilities	(36)	7,575	6,873[1]	10
Negative fair value of hedging derivatives	(26)	62	65	-5
Negative adjustment item from portfolio fair value hedges		–	–[1]	–
Trading liabilities	(37)	184	335	-45
Provisions	(38)	287	361	-20
Current tax liabilities	(40)	95	90	6
Deferred tax liabilities	(41)	3	–	–
Other liabilities	(42)	118	150	-21
Subordinated capital	(43)	921	929[1]	-1
Equity	(44)	4,009	5,165	-22
Share capital		302	302	–
Capital reserve		1,533	1,529	0
Retained earnings		1,838	2,915	-37
Revaluation reserve		65	-6	>100
Currency conversion reserve		-1	–	–
Group net result		271	425	-36
Total before non-controlling interests		4,008	5,165	-22
Non-controlling interests		1	–	–
Total liabilities		**31,541**	**31,818**	**-1**

1) The previous year's amount was adjusted; for more details please refer to Note 2.

Group statement of changes in equity

(€ m)	Note	Treasury shares	Share capital	Capital reserve
As at 1 January 2022		**-**	**302**	**1,524**
Group net result		-	-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-	-
Credit risk-induced changes in the value of liabilities designated at fair value		-	-	-
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		-	-	-
Other comprehensive income		-	-	-
Comprehensive income as at 31 December 2022		**-**	**-**	**-**
Compensation for the Group net loss for the previous year		-	-	-
Share-based remuneration		-	-	5
As at 31 December 2022		**-**	**302**	**1,529**
As at 1 January 2023		**-**	**302**	**1,529**
Group net result		-	-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-	-
Credit risk-induced changes in the value of liabilities designated at fair value		-	-	-
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		-	-	-
Exchange rate changes		-	-	-
Other comprehensive income		-	-	-
Comprehensive income as at 31 December 2023		**-**	**-**	**-**
Dividend distributions to the shareholders of Hamburg Commercial Bank AG		-	-	-
Compensation for the Group net loss for the previous year		-	-	-
Changes in scope of consolidation		-	-	-
Share-based remuneration		-	-	4
As at 31 December 2023	(44)	-	**302**	**1,533**

	Retained earnings	Currency conversion re-serve	Revaluation reserve	Group net result	Total before non-controlling interests	Non-controlling interests	Total
	2,437	**–**	**103**	**351**	**4,717**	**–**	**4,717**
	–	–	–	425	425	–	425
	127	–	–	–	127	–	127
	–	–	4	–	4	–	4
	–	–	-113	–	-113	–	- 113
	127	–	-109	–	18	–	18
	127	**–**	**-109**	**425**	**443**	**–**	**443**
	351	–	–	-351	–	–	–
	–	–	–	–	5	–	5
	2,915	**–**	**-6**	**425**	**5,165**	**–**	**5,165**
	2,915	**–**	**-6**	**425**	**5,165**	**–**	**5,165**
	–	–	–	271	271	–	271
	- 2	–	–	–	-2	–	- 2
	–	–	1	–	1	–	1
	–	–	70	–	70	–	70
	–	-1	–	–	-1	–	-1
	-2	-1	71	–	68	–	68
	-2	**-1**	**71**	**271**	**339**	**–**	**339**
	-1,500	–	–	–	-1,500	–	-1,500
	425	–	–	-425	–	–	–
	–	–	–	–	–	1	1
	–	–	–	–	4	–	4
	1,838	**-1**	**65**	**271**	**4,008**	**1**	**4,009**

Group cash flow statement

Group cash flow statement

(€ m)		**2023**		2022
Group net result		271		425
Reconciliation with cash flow from operating activities				
Depreciation, impairments and write-ups on loans and advances, property, plant and equipment, financial investments, intangible assets and investment property		105		7
a) Loans and advances to customers and banks	99		3	
b) Financial investments	1		-	
c) Property, plant and equipment/intangible assets/investment property	5		4	
Changes in provisions		-41		-178
Other non-cash expenses/income		237		272
Profit/loss from disposal of financial investments and property, plant and equipment/ investment property		2		1
a) Financial investments	2		1	
Other adjustments		-771		-599
Subtotal		**-197**		**-72**
Changes in loans and advances		1,241		1,060
a) to banks	285		461	
b) to customers	956		599	
Changes in trading assets		633		317
Changes in other assets from continuing operations		2		-19
Changes in liabilities		337		1,198
a) to banks	10		-901	
b) to customers	327		2,099	
Changes in securitised liabilities		658		159
Changes in trading liabilities		-736		-218
Changes in other liabilities from continuing operations		-97		-130
Interest and dividends received		2,359		1,012
Interest paid		-1,442		-382
Income tax payments		35		-45
Cash flow from operating activities		**2,793**		**2,880**
Receipts from disposals of		1,054		1,083
a) securities	1,051		1,083	
b) interests in affiliated companies and equity holdings	2		-	
c) property, plant and equipment/intangible assets/investment property	1		-	
Purchases of		-3,464		-2,246
a) securities	-3,435		-2,220	
b) interests in affiliated companies and equity holdings	-		-2	
c) Property, plant and equipment/intangible assets/investment property	-29		-24	
Cash flow from investing activities		**-2,410**		**-1,163**

Group cash flow statement

(€ m)	2023	2022
Payments made (-) from subordinated capital	-	-4
Distributions from equity	-1,500	-
Cash flow from financing activities	**-1,500**	**-4**
Cash and cash equivalents at the beginning of the period	**4,974**	**3,261**
Cash flow from operating activities	2,793	2,880
Cash flow from investing activities	-2,410	-1,163
Cash flow from financing activities	-1,500	-4
Cash and cash equivalents at the end of the period	**3,857**	**4,974**

Cash and cash equivalents are equivalent to the Cash reserve item in the statement of financial position and comprise cash on hand, balances at central banks, treasury bills, discounted treasury notes and similar debt instruments issued by public-sector bodies and bills of exchange. The cash flow from operating activities is calculated using the indirect method, whereby the Group net income/loss for the year is adjusted for non-cash expenses (increased) and non-cash income (reduced), and for cash changes in assets and liabilities used in operating activities.

The cash flow from financing activities was burdened by the dividend of € 1,500 million distributed in the reporting period.

Group explanatory notes

General information

1. Accounting principles

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

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

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

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

The supplementary provisions of Section 315e German Commercial Code (HGB) are taken into account and are shown individually in Notes 59 and 62.

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

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

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

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

The reporting year corresponds to the 2023 calendar year.

IFRS 7.31 et seqq. contains rules on presenting risks arising from financial instruments. In this regard, IFRS 7.B6 allows for the possibility of disclosing risk in a suitable medium separate from the Group financial statements. Availing itself of this option, Hamburg Commercial Bank has published risk disclosures about financial instruments as permitted by IFRS 7.31 et seqq. partly in the explanatory notes and partly in the Risk Report section of the Combined management report. Specifically, this pertains to the qualitative disclosures on credit risk, which are explained in the Risk Report. In addition, quantitative disclosures on credit risk, in particular on the development of loan loss provisions and the impairment of financial instruments, including the development of gross carrying amounts, are made in the Disclosures on financial instruments section of the notes to the Group financial statements (Note 47). This also concerns qualitative disclosures on market risk included in the Market risk section of the Risk Report. The sensitivity analyses as required by IFRS 7.40-42 for the assessment of market risk are included in the Disclosures on financial instruments section of the notes to the Group financial statements. The maturity analyses as required by IFRS 7.39 (a) and (b) for derivative and non-derivative financial liabilities are also included in the Disclosures on financial instruments section of the notes to the Group financial statements. The description of how liquidity risk is managed as required by IFRS 7.39 (c) is included in the Group Risk Report.

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

- GAS 20 Combined management report
- GAS 17 Reporting on the Remuneration of members of corporate bodies

Apart from the new standards and interpretations stated in the following, which may have a significant influence on the Group financial statements, a number of additional standards and interpretations have been adopted, but are not expected to have any material effect on the Group financial statements.

In the financial year under review, the following accounting standards had to be applied for the first time.

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

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

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

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

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

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

IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information
IFRS 17 covers the accounting treatment of assets and liabilities arising from insurance contracts. The amendments concern transitional provisions for the simultaneous application of IFRS 17 and IFRS 9. As at the reporting date, the amendments have no impact on the Group financial statements of Hamburg Commercial Bank, as the contracts for financial guarantees and performance guarantees relevant for IFRS 17 are accounted for in accordance with IFRS 9 in the Group financial statements. The insurance risk on these contracts is insignificant.

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules
The amendments concern the inclusion of a temporary exemption from accounting for deferred tax arising from the implementation of Pillar Two model rules. In addition, they require certain disclosures on the part of the companies concerned.

The above-stated temporary exemption from the obligation to account for deferred taxes and the obligation to disclose that the mandatory exemption is being used need to be applied immediately after the publication of the amendments to IAS 12. The other new mandatory disclosures need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2023. Please refer to the explanation under Note 19 Income tax expense.

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

Already endorsed by the EU:
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback
The amendments to this standard add to requirements explaining how a company accounts for a sale and leaseback after the date of the transaction. The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments to IAS 16 need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2024. Earlier application is permitted. The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current – Deferral of Effective Date and Non-current Liabilities with Covenants

The amendments to IAS 1 concern the classification of liabilities as non-current or current. If an entity has a right at the reporting date to defer settlement of the liability for at least 12 months after the reporting date, the liability is classified as non-current. The mere existence of a right is considered sufficient. In case this right depends on certain covenants, these do not affect the classification of debt as current or non-current at the reporting date, provided that the covenants have to be complied with after the reporting date. However, the classification of a liability as current or non-current is affected if covenants have to be complied with on or before the reporting date, even if the covenant itself is not assessed until after the entity's reporting date. If the liability can be settled by issuing equity instruments of the reporting entity because of an option of the counterparty, it is clarified that this does not affect the classification of the liability as current or non-current, provided that the option is presented separately as an equity component of a compound financial instrument in accordance with IAS 32.

The amendments need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2024. Earlier application is permitted. The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

EU endorsement still pending:

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements

The amendments relate in particular to additional mandatory disclosures in the explanatory notes in connection with reverse factoring agreements, which are intended to increase the transparency of such agreements and their effects on liabilities, cash flows and liquidity risk in the financial statements. Subject to the still-pending adoption into EU law, the amendments need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2024. Earlier application is permitted. The amendments have no impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability

The amendments to IAS 21 supplement the standard with regulations on currency translation, which are to be applied if a currency cannot be converted into another currency. Subject to the still-pending adoption into EU law, the amendments need to be applied for the first time in the

first reporting period in a financial year starting on or after 1 January 2025. Earlier application is permitted. The amendments have no impact on the consolidated financial statements of Hamburg Commercial Bank.

Going concern assumption

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

2. Change in previous year's figures

In the reporting period, a retrospective adjustment was made in the explanatory notes, in the Group statement of financial position and in the Group statement of income for the following:

I. Report on business in derivatives

Previously, Hamburg Commercial Bank reported the "Negative market values" and "Positive market values" in the note "Report on business in derivatives" excluding counterparty netting. Starting with the 2023 annual financial statements, the market values including counterparty netting will be used in the aforementioned note when disclosing "Positive market values" and "Negative market values", provided that counterparty netting is also included in the disclosure in the statement of financial position. This relates to derivative positions with central counterparties as well as with banks with which Hamburg Commercial Bank has concluded netting agreements. The information on the nominal value in the disclosure of derivatives is not affected and continues to be recognised on a gross basis (excluding counterparty netting).

As a result, the positive and negative market values reported in the note "Report on business in derivatives" are now consistent with the market values recognised in the Group statement of financial position, and the legally enforceable right to offset is now also reflected in the note. It also means that the disclosures in the note will now be consistent with the FinRep disclosures.

The above adjustment only affects the disclosure in the notes.

For the current reporting period ending 31 December 2023, the consideration of counterparty netting results in changes in the market value in the following items in the "Report on business in derivatives":

Derivatives transactions with interest rate risks

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
Interest rate swaps	132	397	74	307
Caps, floors	24	33	22	22

Derivatives transactions with interest rate and foreign exchange risks

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
CCY interest rate swaps	–	–	25	29

Derivatives transactions with foreign exchange risks

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
Forward exchange transactions	67	68	12	12

Derivatives transactions with structured products

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
Structured products	11	11	37	39

Derivatives transactions in fair value hedge accounting

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
Interest rate swaps	–	97	62	219

Counterparty classification

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
OECD banks	91	463	140	536

Maturities

(€ m)	Positive market value of derivatives		Positive market value of derivatives from fair value hedging		Negative market value of derivatives		Negative market value of derivatives from fair value hedging	
	2023 after adjust-ment	2023 before adjust-ment	2023 after adjust-ment	2023 before adjust-ment	2023 after adjust-ment	2023 before adjust-ment	2023 after adjust-ment	2023 before adjust-ment
Residual maturity								
Up to 3 months	59	62	–	6	12	11	–	–
3 months to 1 year	15	23	–	7	42	56	–	22
1 year to 5 years	39	176	–	83	87	192	–	118
More than 5 years	131	257	–	1	39	158	62	79

For the previous year’s reporting period ending 31 December 2022, the consideration of counterparty netting results in changes in the market value in the following items in the “Report on business in derivatives”:

Derivative transactions with interest rate risks

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
Interest rate swaps	156	645	147	388
Caps, floors	44	56	41	41

Derivatives transactions with interest rate and foreign exchange risks

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
CCY interest rate swaps	3	3	22	26

Credit derivatives

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
Guarantor position	–	3	–	–

Derivatives transactions with structured products

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
Structured products	8	8	46	47

Derivatives transactions in fair value hedge accounting

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
Interest rate swaps	-	76	65	402

Counterparty classification

(€ m)	Positive market values		Negative market values	
	2022 after adjustment	2022 before adjustm.	2022 after adjustment	2022 before adjustm.
OECD banks	141	720	150	732

Maturities

(€ m)	Positive market value of derivatives		Positive market value of derivatives from fair value hedging		Negative market value of derivatives		Negative market value of derivatives from fair value hedging	
	2022 before adjust-ment	2022 after adjust-ment	2022 before adjust-ment	2022 after adjust-ment	2022 before adjust-ment	2022 after adjust-ment	2022 before adjust-ment	2022 after adjust-ment
Residual maturity								
3 months to 1 year	15	7	-	-	15	11	2	-
1 year to 5 years	327	52	20	-	373	204	197	1
More than 5 years	384	164	56	-	131	58	203	65

The previous year's amounts in the note "Report on business in derivatives" have been adjusted accordingly (cf. Note 56).

II. Reconciling asset and liability items from the fair value hedge portfolio

Previously, the cumulative changes in value of the hedged assets or liabilities (underlying transactions) from portfolio fair value hedges attributable to the hedged risk were recognised by Hamburg Commercial Bank in two separate items in the statement of financial position ("Positive adjustment item from portfolio fair value hedges" and "Negative adjustment item from portfolio fair value hedges"). Starting with the 2023 annual financial statements, these changes in value will no longer be recognised in the two aforementioned items in the statement of financial position. The changes in value are now recognised directly in the respective item in the statement of financial position, in which the carrying amount of the assets or liabilities to which the change in value is attributable is also reported. As a result, the statement of financial position shows the assets or liabilities to which the change in value is attributable in relation to the hedged risk. This leads to a more precise and causal presentation of the effects of portfolio fair value hedge accounting in the financial statements.

From now on, the amounts from portfolio fair value hedge accounting recognised in a certain item in the statement of financial position are explicitly stated in the corresponding notes to the respective item in the statement of financial position.

The above adjustment affects the presentation in the Group statement of financial position and the related disclosures in the notes.

For the current reporting period ending 31 December 2023, this adjustment results in the following changes in the Group statement of financial position:

(€ m)	2023 after adjustment	2023 before adjustment
Positive adjustment item from portfolio fair value hedges	–	–114
Financial investments	7,795	7,909

(€ m)	2023 after adjustment	2023 before adjustment
Liabilities to banks	4,671	4,659
Liabilities to customers	13,616	13,593
Securitised liabilities	7,575	7,624
Negative adjustment item from portfolio fair value hedges	–	–12
Subordinated capital	921	919

For the previous year's reporting period, this change in presentation as at 31 December 2022 led to the following changes:

(€ m)	2022 after adjustment	2022 before adjustment
Positive adjustment item from portfolio fair value hedges	-	-152
Financial investments	5,338	5,490

(€ m)	2022 after adjustment	2022 before adjustment
Liabilities to banks	4,604	4,606
Liabilities to customers	13,246	13,243
Securitised liabilities	6,873	7,065
Negative adjustment item from portfolio fair value hedges	-	-192
Subordinated capital	929	930

The previous year's figures in the Group statement of financial position have been adjusted (cf. Group statement of financial position).

The above-described change resulted in adjustments to the previous year's figures in the following notes:

Hedge accounting (Note 26); Financial investments (Note 28); Deferred tax assets (Note 32), Liabilities to banks (Note 34); Liabilities to customers (Note 35); Securitised liabilities (Note 36); Deferred tax liabilities (Note 41); Subordinated capital (Note 43); Information on the development of loan loss provisions and the carrying amounts of financial instruments not measured at fair value through profit or loss (Note 47); Disclosure of fair value in accordance with IFRS 7 and IFRS 13 (Note 49); Credit risk analysis of impaired financial assets (Note 51)

III. Current payments from interest rate derivatives

Starting this financial year, Hamburg Commercial Bank reports the current cash flow from interest rate derivatives in the result from financial instruments categorised as FVPL. This excludes current payments from investment swaps and cross currency swaps as well as the amortisation from hedge accounting of interest rate derivatives from active micro fair value hedge relationships.

In previous years, all interest cash flows from interest rate derivatives were reported in net interest income. However, the corresponding valuation effects of these interest rate derivatives are reported in the result from financial instruments categorised as FVPL. This applies in particular to interest rate swaps, which is why this has led in the past to a mismatch between net interest income and the result from financial instruments categorised as FVPL. In order to reduce the resulting complexity in the Group income statement, the reporting of current cash flow from these interest rate derivatives was adjusted. Since 1 January 2023, the disclosure on the basis of IFRS 7.B5(e) is made in the result from financial instruments categorised as FVPL and not in net interest income. The uniform presentation of valuation effects and current cash flow from interest rate derivatives in the same item of the Group income statement provides the users of the financial statements with a more accurate overview of the Group's earnings situation.

The aforementioned adjustment affects the presentation in the Group income statement and the related disclosures in the notes.

For the current reporting period from 1 January 2023 to 31 December 2023, the shift from net interest income to the result from financial instruments categorised as FVPL that results from this adjustment amounts to € 131 million (result from financial instruments categorised as FVPL: plus € 131 million, net interest income: minus € 131 million).

For the previous year's period from 1 January 2022 to 31 December 2022, the aforementioned change in presentation results in a shift of € 77 million (result from financial instruments categorised as FVPL: plus € 77 million, net interest income: minus € 77 million). The reduction/increase of € 77 million in net interest income results from of a reduction of € 243 million in interest income from derivative financial instruments and a reduction of € 166 million in interest expenses from derivative financial instruments. The previous year's figures in the Group income statement and notes were adjusted accordingly (cf. Group income statement and Note 8 and Note 11).

IV. Currency translation effect from loan loss provisions

For monetary items, currency translation differences are generally recognised in profit or loss in accordance with IAS 21.28 et seqq. At Hamburg Commercial Bank, these differences are reported for all items in the statement of financial position in the result from financial instruments categorised as FVPL. The only exception so far were the currency translation differences from loan loss provisions on foreign currency items, which were previously reported under loan loss provisions. With the above-stated change in presentation, this exception has been abolished. All currency translation differences are therefore from now on recognised uniformly in the result from financial instruments categorised as FVPL. This means that the effects from credit ratings and the currency effects are no longer blended in the loan loss provisions.

The uniform presentation of currency translation effects in the same item of the Group income statement provides the users of the financial statements with a more accurate overview of the Group's earnings situation.

The aforementioned adjustment affects the presentation in the Group income statement and the related disclosures in the notes.

For the current reporting period from 1 January 2023 to 31 December 2023, the shift from loan loss provisions to the result from financial instruments categorised as FVPL that results from this adjustment is marginal (below € 0.1 million).

For the previous year's period from 1 January 2022 to 31 December 2022, the aforementioned change in presentation results in a shift of € 1 million (result from financial instruments categorised as FVPL: minus € 1 million, loan loss provisions: plus € 1 million).

The previous year's figures in the Group income statement and notes were adjusted accordingly (cf. Group income statement and Note 11 and Note 14).

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

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

In order to control and coordinate the transition process, a dedicated IBOR project was set up at Hamburg Commercial Bank. In the previous years 2021 and 2022, new business capacities for contracts on an RFR basis were already available and the conversion of existing transactions in the relevant non-USD currencies (EUR / GBP / CHF / JPY) was fully implemented. Following the discontinuation of the USD LIBOR quotation on 30 June 2023, the portfolio migration of transactions in USD has also been completed in 2023. As at 31 December 2023, Hamburg Commercial Bank therefore no longer has any significant LIBOR-based portfolios.

4. Consolidation principles

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

Disclosures on the nature of risks associated with interests in consolidated structured entities are provided in Note 5. Reference is made to Note 53 with regard to unconsolidated structured entities.

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

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

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

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

Shares held by third parties in the equity of the subsidiary are shown as non-controlling interests in Group equity, provided these are not shares of external shareholders in consolidated commercial partnerships. Non-controlling interests are that part of the net results for the period and net assets of a subsidiary related to shares not directly held by the parent company or by a Group subsidiary. Non-controlling equity shares in subsidiaries and the resulting profit or loss as well as summarised financial information on subsidiaries with material non-controlling shares are presented in Note 5. Shares of external shareholders in consolidated commercial partnerships constitute puttable financial instruments, which are to be classified as debt in the Group financial statements under IAS 32 and disclosed under Other liabilities. Changes in value are recognised in Other operating income/expenses in the consolidated statement of income.

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

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

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

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

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

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

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

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

5. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg, the scope of consolidation includes 15 fully consolidated subsidiaries (31 December 2022: 14).

As at 31 December 2022, there are no associates or joint ventures accounted for using the equity method.

The subsidiaries included in the Group financial statements and those subsidiaries, joint ventures and associates that are not included due to their immateriality for the presentation of net assets, financial position and results of operations of the Hamburg Commercial Bank Group can be found in the list of shareholdings (Note 61). The list of shareholdings also includes explanatory information regarding classification as a subsidiary, joint venture or associate that differs from that indicated by voting rights.

The changes in the scope of consolidation during the financial year relate to the following subsidiaries:

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

A) ADDITIONS

The following companies are fully consolidated and included for the first time in the Group financial statements in 2023:

- BSP Michel Unlevered Direct Lending Fund SCSp, Luxembourg
- Elbe CA Holdings, LLC, Wilmington
- Elbe CA Subsidiary, SCSp, Luxembourg

Due to contractual regulations, the Bank exercises control over BSP Michel Unlevered Direct Lending Fund SCSp founded on 19 September 2023, as the regulations mean that the operating decision-makers of the company must be classified as agents of Hamburg Commercial Bank. The primary business purpose of this special fund (loan fund) is the investment in third-party receivables. It was established for the purpose of the Bank diversifying its activities in the international corporates business through the loan fund, with a focus on North America and Western Europe.

The two companies Elbe CA Holdings, LLC and Elbe CA Subsidiary, SCSp are directly associated with the subsidiary HPS Elbe Unlevered Direct Lending Fund, SCSp, Luxembourg, a special fund (loan fund) the primary business purpose of which is the acquisition of receivables from third-party customers, which has already been fully consolidated since 31 December 2021. One of these receivables was not acquired via the special fund itself, but via its above-mentioned subsidiaries. These subsidiaries do not have any significant assets or liabilities beyond this receivable.

For reasons of transparency and on the basis of the indirect possibility of a transfer of control, Elbe CA Holdings, LLC and Elbe CA Subsidiary, SCSp were included as subsidiaries for the first time as at 30 June 2023. Since the receivable held via these subsidiaries was previously recognised indirectly in the Group financial statements because of the full consolidation of the special fund, the further inclusion of the two entities has no effect on the net assets, financial position and results of operations of the Hamburg Commercial Bank Group.

B) DISPOSALS

Compared to 31 December 2022, the following companies are no longer included in the group of consolidated companies:

- Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz
- RESPARCS Funding Limited Partnership I, Hong Kong

The property company Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, whose business purpose was to hold and let a property located in Kiel, sold this property, which was previously let to Hamburg Commercial Bank AG, to HCOB in December 2023. The closing of the transaction means that HCOB no longer exerts control over the company, which led to a corresponding deconsolidation.

RESPARCS Funding Limited Partnership I, a former refinancing vehicle for an earlier capital market transaction, was liquidated in the reporting year.

The deconsolidation of the two aforementioned companies had no significant effect on earnings.

C) MODIFICATION OF HOLDINGS IN SUBSIDIARIES

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

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

A) GENERAL INFORMATION

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

III. Information on consolidated structured entities

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

With regard to the nature of any risks in connection with business relationships with consolidated structured entities, the following can be stated:

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

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

6. Management estimates and discretionary decisions

Estimates:

As permitted, estimates and assumptions for the measurement of assets and liabilities have been incorporated into the Group financial statements of Hamburg Commercial Bank. All estimates and judgements necessary for accounting and measurement according to IFRS were undertaken in accordance with the appropriate standard in each case, are continuously reassessed and are based on past experience and other factors including expectations of future events which appear reasonable under the circumstances. In particular, the following topics are affected by estimation uncertainties (please refer also to the explanatory information under Note 7):

- the allocation to stages and the determination of the amount of loan loss provisions under the impairment provisions set out in IFRS 9
- the allocation to provisions for litigation risks
- allocations to provisions for pensions and similar obligations and other provisions
- the recognition and measurement of deferred taxes
- the calculation of fair values

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

Discretionary decisions:
With the exception of estimates, major discretionary decisions by management in the application of accounting and measurement methods relate in particular to the following topics (please also refer to explanations under Note 7):

- the allocation to stages and the determination of the amount of loan loss provisions under the impairment provisions set out in IFRS 9
- the allocation to provisions for litigation risks
- the definition of business models and the classification of financial instruments in accordance with IFRS 9
- the determination of fair values for certain financial instruments, including the assessment of whether an active or inactive market exists
- the utilisation of the fair value option for financial instruments
- the assessment whether Hamburg Commercial Bank controls another entity

Within the context of the impairment provisions set out in IFRS 9, both significant estimates and significant discretionary decisions are made with regard to the allocation to stages and the calculation of the amount of the loan loss provisions (cf. Note 7 and Note 25).

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

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

The calculation of Stage 3 loan loss provisions also involves estimates. In particular, the estimates for various scenarios, including associated probabilities of occurrence and the recoverable amount in the respective scenario, involve discretionary decisions.

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

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

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

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

7. Accounting and measurement principles

I. Financial instruments

A) CATEGORISATION OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

Financial instruments are allocated to the business models based on groups of homogeneous portfolios. The internal rules and objectives, which are applied in practice in the strategic management and administration of the portfolios, are decisive when it comes to identifying and allocating the holdings.

In addition, the definition and differentiation of the business models take into account how the results of the portfolios are assessed, which risks influence these earnings contributions and how these risks are managed.

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial obligations are measured at amortised cost under IFRS 9 in the "Not held for trading" category. Derivatives and instruments that are held for trading are allocated to the "Held for trading" category and are measured at fair value through profit or loss.

This measurement standard is also applied, in general, to financial liabilities irrevocably designated within the fair value option, although the amount of the fair value change resulting from the change in the Bank's own credit risk is recognised directly in OCI.

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

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

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

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

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

For those instruments stated at fair value through profit or loss in the FVPL Held for Trading, FVPL Designated and FVPL Other reporting categories, the fair valuation and the realised gains and losses are reflected via the result from financial instruments categorised as FVPL. Commission results in the FVPL Held for Trading category resulting from non-round tripping transactions in securities and promissory note loans are also shown under this item.

Ongoing earnings contributions and amortisation from non-derivatives recognised at fair value through profit or loss, such as dividends, interest income and prepayment penalties, are included in net interest income. Current cash flows and amortisation from interest rate derivatives – with the exception of investment swaps, cross currency swaps and the amortisation of hedge amortised costs of interest rate derivatives from active micro fair value hedge relationships – are recognised in the Result from financial instruments categorised as FVPL. Only the interest from investment swaps, cross-currency swaps and the amortisation of derivatives in a micro fair value hedge relationship are shown in under Net interest income.

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

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

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

a. Financial assets in the "AC assets" reporting category are allocated to the "Hold to collect" business model and meet the cash flow criterion.

b. Liabilities that neither fall under the trading portfolios nor belong to the FVPL Designated reporting category, are allocated to the "AC liabilities".

c. For instruments on both the assets and the liabilities side, subsequent measurement is at amortised cost; premiums or discounts are amortised according to the effective interest method over the term and are recognised in net interest income.

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

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

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

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

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

a. At Hamburg Commercial Bank, the category FVPL Trading includes all financial instruments held for trading that are assigned to the "Held for trading" business model accordingly, and all derivatives that are not part of a hedging relationship (hedge accounting). They are initially and subsequently measured at fair value. Transaction costs are recognised through profit or loss on acquisition date. In accordance with IFRS 9.5.1.1, transaction costs are only included in the initial recognition in the case of financial assets or liabilities not measured at fair value through profit or loss. Where a market price is available in the form of a stock exchange listing, this is used for the purposes of measurement. In other cases, the market price of comparable instruments or recognised measurement models, especially net present value methods and option pricing models, are used to determine fair value.

b. The financial assets in the FVPL Other category are assigned to the "Hold to collect", "Hold & sell" and "Other not hold to collect (remaining)" business models. The instruments in the "Hold to collect" and "Hold & sell" business models within this category do not meet the cash flow criterion.

c. The financial assets and liabilities in the FVPL Designated reporting category relate primarily to securities and loans that form part of an economic hedging relationship with interest rate derivatives and do not meet the requirements for hedge accounting, as well as complex structured registered and bearer securities with embedded interest, currency, equity and other risks. In such cases, the fair value option serves to prevent/reduce any accounting mismatch. In addition, designation within the fair value option can be applied, within Hamburg Commercial Bank, to portfolios of financial liabilities whose management and performance measurement is based on the fair value in line with the documented risk management strategy in order to allow the instruments to be accounted for in line with the internal control system.

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

B) CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

C) MODIFICATIONS

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

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

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

D) LOAN LOSS PROVISIONS AND IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

Input parameters, assumptions and methods for calculating expected credit losses at Stage 1 and 2
Expected credit losses at Stage 1 and 2 are calculated based on the following credit risk parameters:

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

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

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

The rating classifications resulting from rating procedures each correspond to a specific 12-month PD which is used to calculate the loan loss provisions at Stage 1. At Stage 2, the 12-month PD is adjusted over a multi-year horizon to arrive at lifetime PDs on the basis of migration matrices. The migration matrices used reflect the observed rating migrations of debtors within a year and are calculated based on an extensive cross-economic historical observation period. The 12-month and lifetime PDs calculated in this manner are enhanced to reflect macroeconomic information where necessary. This involves aggregating internal and external macroeconomic forecasts to arrive at economic scenarios that are used as standard for various bank functions. The impact of the scenarios on the PDs is determined using statistical methods.

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

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

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

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

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

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

Incorporation of forward-looking information
Hamburg Commercial Bank uses the same economic forecasts for planning, internal control and loan loss provisions. At the end of each quarter, the Bank takes into account the main macroeconomic forecasts in two weighted scenarios (base and stress scenario).

Forecasts are made for the next five financial years (end of year). The base scenario reflects the development that is deemed most likely to occur. This can be both an economic upswing and an economic downturn. The other two scenarios reflect more optimistic (upside) or more pessimistic (stress) developments in relation to the base scenario.

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

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

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

The impact of this forward-looking information on the credit risk parameters PD and LGD is determined using statistical procedures and is taken into account when calculating the expected credit losses. Within this context, PD and LGD are adjusted to reflect base scenario forecasts. In addition, regular checks are performed to see whether other scenarios have a material non-linear impact on the amount of loan loss provisions. Model overlays take risk factors that are relevant to the valuation into account, unless they are already included in the calculation parameters of the models. In this case, the loan loss provisions are adjusted either directly or indirectly by altering the credit risk parameters to reflect these effects. In addition, the Bank's portfolios are regularly screened for potential climate risks based on the already implemented ESG risk management and ESG stress testing functions. At the moment, the Bank's main portfolios do not show any significant, unconsidered climate-related credit risks. The only area with potential ESG issues is tanker financing. However, these have already been taken into account in the forecasts of charter and ship prices in this segment and are thus included in the risk provisioning calculation based on the inclusion of macroeconomic scenarios.

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

At Hamburg Commercial Bank, the assessment object that is relevant for the purposes of allocating financial instruments to specific stages is the individual financial instrument as a general rule.

The rating of the corresponding debtor that applies at the time of addition to allocated to each financial instrument. One exception relates to securities for which different purchases of the same security are assessed jointly. This involves dividing the purchases in terms of similar credit quality at the time of initial recognition. The securities are then categorised at the level of the ISIN based on the best initial securities rating.

The rating expected, based on the time at which a financial instrument was recognised for the first time, for the reporting date in question serves as a benchmark for assessing a significant deterioration in credit quality. The expected rating is compared with the current rating to determine whether the change in rating that is defined as significant is exceeded. As such, a sector-specific deviation of three or two rating levels was defined as significant. If this is the case then the financial instrument in question is allocated to Stage 2. Otherwise, it remains at Stage 1.

In addition, financial instruments are allocated to Stage 2 at the latest if forbearance measures have been applied to the financial instrument, the default has lasted more than 30 days or the PD has increased by more than 3% in absolute terms since the transaction was entered into. In addition, the level of supervision and any covenant breaches are also included as indicators of a significant deterioration in credit quality. Furthermore, the Bank added another transfer criterion to the stage transfer concept in the current reporting year: In close cooperation between the front and back office, the Bank closely monitors affected exposures for credit risks using the credit watch list in line with its strategy to early monitor customers with a potential risk of a deterioration in creditworthiness. I they were assigned to Stage 1 when they were first assessed, customers on the credit watch list with a rating of BB or lower are also transferred to Stage 2

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

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

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

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

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

The criteria for the impairment of loans essentially comprise considerable financial difficulties of the debtor as well as indications of a massive and permanent inability to service debt, whereby an improvement in the situation cannot be demonstrated. In the case of securities, Hamburg Commercial Bank's holdings are first filtered using a trigger test, and the triggered securities are then approved.

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

Price-based trigger events

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

or

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

or

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

Rating-oriented trigger events

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

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

or

- Rating downgrades to the sub-investment grade range

or

- any rating downgrade within the sub-investment grade range

  or

- Rating below B / B2.

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

The specific loan loss provision is set up in the amount of the average losses from among the various scenarios, weighted to reflect the probability of occurrence.

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

If the estimate of the expected cash flows leads to the complete reversal of a debtor's specific loan loss provisions, the sustainability of the debtor's recovery must be determined: a recovery is only deemed to have occurred after various conditions have been fulfilled. These include the condition that the "90 days in arrears" or "unlikeliness to pay" criteria no longer apply, the reversal of the setting of transactions to a non-accrual basis and measures to make up for the debt servicing that was not provided during the default period. In addition, a good conduct period must be observed. Depending on the default event, this lasts at least 92 or 366 days, respectively. During this period of good conduct, the debtor is still considered to be in default.

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

a. Financial instruments which are measured at amortised cost

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

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

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

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

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

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

E) DETERMINING FAIR VALUE

Under IFRS 13, the fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is determined on the basis of the listed price on an active market (mark-to-market), or if this is not possible on the basis of recognised valuation techniques and models (mark-to-matrix or mark-to-model). Irrespective of whether and to what extent the inputs applied in determining the fair value are observable in the market, financial instruments are assigned to one of the three fair value hierarchy levels as defined in IFRS 13.

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

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

VALUATION TECHNIQUES AND MODELS

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

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

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

VALUATION ADJUSTMENTS

If the value of a financial instrument measured at fair value as determined by a valuation technique or model does not take adequate account of factors such as bid-offer spreads or closing costs, liquidity, model risks, parameter uncertainties and credit and/or counterparty default risks, the Bank makes corresponding valuation adjustments, which a purchaser of similar positions would also take into account. The methods used make partial use of parameters that are not observable on the market in the form of estimates.

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

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

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

DAY ONE PROFIT AND LOSS

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

MEASUREMENT PROCESSES

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

Fair values of financial instruments assigned to Level 3 are determined again on a periodic basis – but at least on a monthly basis. Any changes in value that have occurred since the previous period are reviewed for plausibility. If the relevant market to be used to determine the fair value differs from the market in which the transaction was contracted and the valuation model is based on significant unobservable parameters such differences (so-called day one profits and losses) are deferred as a day one profit and loss reserve. If there are material differences between the fair values determined by the Bank and prices offered by counterparties, the valuation model used is subjected to an ad hoc validation process.

F) HEDGE ACCOUNTING

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

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

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

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

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

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

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

Income and expenses from the amortisation of changes in value recognised in the carrying amount of the hedged item for portfolio fair value hedge relationships are reported in Net interest income. Amounts reversed on the disposal of these hedged items are reported in Net interest income or Net income from financial investments in the amount they were realised.

G) DERECOGNITION

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

H) REPURCHASE AGREEMENTS AND SECURITIES LENDING TRANSACTIONS

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

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

Receivables arising from repos are not netted against liabilities from repos involving the same counterparty, since the criteria for netting are not met.

Securities lending transactions are carried on the statement of financial position in a similar way to genuine repurchase agreements. Lent securities remain in the securities portfolio, while borrowed securities are not capitalised on the statement of financial position. Cash collateral furnished for securities lending transactions is shown as a receivable, while collateral received is shown as a liability. Repo and securities lending transactions are carried out primarily in bonds.

I) FINANCIAL GUARANTEE CONTRACTS

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

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

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

CASH RESERVE

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

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

RECEIVABLES

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

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

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

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

POSITIVE AND NEGATIVE MARKET VALUES OF HEDGING DERIVATIVES

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

The change in value attributable to the hedged risk from portfolio fair value hedge relationships is recognised directly in the carrying amount of the transaction in accordance with IAS 39.89 (b).

TRADING ASSETS AND TRADING LIABILITIES

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

The valuation results from changes in fair value are recognised in the Result from financial instruments categorised as FVPL. Interest income and expenses for derivatives are also recognised under this item. Only the interest income from investment swaps, cross-currency swaps and the amortisation of derivatives in a micro fair value hedge relationship are reported in the Net interest income. Commission income and expenses are recognised in Net commission income.

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

FINANCIAL INVESTMENTS

Financial investments include all securities not acquired for trading purposes (mainly debentures and equities) and equity holdings in non-affiliated companies under commercial law. The equities and equity holdings in non-affiliated companies are mainly categorised as FVPL RES.

The dominant business model for debentures is Hold & Sell, meaning that most of them are categorised as FVOCIR HAS.

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

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

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

FINANCIAL INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

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

The realisable amount is defined as the greater of fair value less costs to sell and value in use (for information on the calculation of the value in use, please refer to Note 7.III.).

LIABILITIES

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

Financial liabilities are recognised at fair value at the time of issue plus transaction costs, which generally corresponds to the transaction price. In subsequent periods, debt classed as AC liabilities are measured at amortised cost applying the effective interest method. Changes in the value of these financial instruments are only recognised when the relevant instrument is sold. Differences between acquisition costs and the repayment amount (e.g. premiums and discounts) are allocated within Net interest income through profit or loss in line with the effective interest rate method. Valuation results resulting from financial instruments in the "FVPL Designated" reporting category are recognised in the Result from financial instruments categorised as FVPL.

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

SUBORDINATED CAPITAL

Subordinated liabilities, silent participations and profit-sharing certificates are shown under Subordinated capital, due to their different nature compared with other liabilities. No obligation to other creditors for premature redemption of subordinated liabilities is possible. In the case of liquidation or insolvency, subordinated liabilities may only be repaid after the claims of all senior creditors have been met.

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

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

INTANGIBLE ASSETS

Software acquired or developed in-house and acquired goodwill are accounted for under Intangible assets. In accordance with IAS 38.21, Hamburg Commercial Bank capitalises software development costs if the production of the in-house software is likely to generate an economic benefit and the costs can be reliably determined. If the criteria for capitalisation are not met, expenses are recognised in profit or loss in the year they are incurred. Subsequent costs are only to be capitalised if they lead to a significant improvement of the software in the form of an expansion of the software's functionality. Since Hamburg Commercial Bank does not apply the full goodwill approach, goodwill arises on acquisition of subsidiaries, when the cost of acquisition exceeds the Group's share in the remeasured net assets (shareholders' equity) of the company acquired.

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

Classes of property, plant and equipment

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

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

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

INVESTMENT PROPERTY

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

The capitalised income method is used in determining the fair value of investment properties, using market data from internal certified appraisers. The fair value is disclosed in Note 30.

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

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

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

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

PROVISIONS

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

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

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

In the case of the defined benefit plans, the amount of benefit depends on various factors, such as age, salary and length of service. Pension plans include specifically retirement and disability pensions and survivor benefits. They are based primarily on employment contracts of Landesbank Schleswig-Holstein Girozentrale, the retirement plan of Hamburgische Landesbank Girozentrale, retirement pension guidelines of the Hamburgische Landesbank Girozentrale relief fund, the pension plan of Hamburgische Landesbank Girozentrale and Section 2 (4) of the Investment Bank Act in the version of 23 January 1998. The pension payment depends on the final salary paid immediately prior to retirement, the salary trend up to retirement is irrelevant (no performance components). The pension plans provide for on-going pension payments and not capital payments. Minimum guarantees are not provided for. Pension provisions for defined benefit plans are equivalent to the net present value of the pension entitlements earned as of the reporting date, factoring in anticipated wage and salary increases and the trend in annuities. Calculations are based solely on actuarial reports based on IAS 19, which are prepared by independent actuaries using the projected unit credit method.

These defined benefit plans were closed in 2002.

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

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

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

Actuarial assumptions

	2023	2022
Discount rate		
Domestic	3.56 %	4.20 %
Foreign (weighted)	3.56 %	4.20 %
Salary growth (weighted)	2.0 %	2.0 %
Adjustment rate for pensions		
Domestic		
Employment contract 1/od pension provision rules	individual	individual
New pension provision rules (weighted)	2.0 %	2.0 %
Employment contract 4 (weighted)	2.0 %	2.0 %
Mortality, invalidity etc.	Based on the 2018 G tables of K. Heubeck	Based on the 2018 G tables of K. Heubeck

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

Defined benefit pension plans are partly financed from assets and qualified insurance policies used exclusively for pensions (plan assets). Most of the plan assets result from a trust structure set up by Hamburg Commercial Bank in 2020. This involved the establishment of an association, HCOB Trust e.V. ("Trust"), Hamburg, which has concluded a bilateral contractual trust agreement (CTA) with the Bank. With the CTA, the Bank has established an insolvency-protected asset fund, which provides additional security for pension liabilities in the event of the Bank's insolvency. This structure enables the Bank to actively manage its pension 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 plan assets under IAS 19.8. Plan assets are measured at fair value and recognised in the statement of financial position as reducing provisions. Where the fair value of the plan assets exceeds the amount of the obligations, the excess amount is disclosed under Other assets as capitalised plan assets. Claims for reimbursement for pension benefits paid from the plan assets that have not yet paid out to the Bank are recognised as receivables in Other assets.

Other provisions

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

Provisions in the lending business are created, among other reasons, for any sudden calls to pay under warranty bonds, guarantees and letters of credit. The parameters used for the calculation are presented in the section Loan loss provisions and impairment of financial instruments (Note 7.I.D).

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

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

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

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

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

INCOME TAX EXPENSE

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

Deferred tax assets are recognised for all deductible timing differences between the value of an asset and liability as measured by IFRS standards and its assigned value in tax terms and for tax loss carryforwards, to the extent that it is probable that future taxable profit will be available against which these deductible timing differences and tax loss carryforwards can be utilised. Deferred tax liabilities are created for all taxable temporary differences.

Deferred tax liabilities are calculated using the tax rates and rules anticipated to be valid at the time when the deferred tax assets are to be realised. The effects of tax rate changes on deferred taxes are taken into account on adoption of the legislative amendments. Deferred tax assets are recognised and measured as deferred income tax claims and deferred tax liabilities as Deferred income tax liabilities.

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

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

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

OTHER ASSETS AND OTHER LIABILITIES

All remaining assets and liabilities not allocable to any other item are stated in the Other assets or Other liabilities. These include, for example, accrued expenses and income.

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

IV. Leasing transactions

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

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

LESSEE

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

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

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

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

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

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

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

Rights of use and lease liabilities are recognised at their present value on addition. In the absence of sufficient information on the interest rate inherent in each lease, Hamburg Commercial

Bank uses a uniform marginal borrowing rate appropriate to the term of the lease to determine the present value of the lease liability, based on the Bank's liquidity costs.

LESSOR

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

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

Finance lease

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

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

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

Operating lease

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

V. Currency translation

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

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

PRESENTATION OF FOREIGN CURRENCY TRANSACTIONS IN THE GROUP FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Notes on the Group statement of income

8. Net interest income

Net interest income

(€ m)	2023	2022
Interest income from		
lending and money market transactions categorised as AC and FVOCI	1,220	701
fixed-interest securities categorised as AC and FVOCI	209	52
impaired financial assets	14	6
Discounting of provisions	4	2
Interest income from financial assets categorised as AC and FVOCI	**1,447**	**761**
thereof attributable to financial assets measured at AC	1,166	686
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	281	75
Interest income from		
other lending and money market transactions	13	7
other fixed-interest securities	23	19
other miscellaneous non-fixed-interest securities	1	7
trading transactions	5	2
derivative financial instruments	23	46
Interest income from other financial instruments	**65**	**81**
Negative interest on investments categorised as AC and FVOCI	**-**	**-13**
thereof attributable to financial assets measured at AC	–	-13
Negative interest on other cash investments and derivatives	**-**	**-32**
Interest expenses for		
Liabilities to banks	117	26
Liabilities to customers	392	151
Securitised liabilities	222	42
Subordinated capital	38	12
Derivative financial instruments	83	59
Interest expenses	**852**	**290**
Positive interest on		
Liabilities to banks	-3	-3
Liabilities to customers	–	-10
Derivative financial instruments	–	-30
Positive interest on borrowings and derivatives	**-3**	**-43**
thereof attributable to financial liabilities not measured at fair value through profit or loss	**-3**	-13
Total	**663**	**550**

Net interest income includes income and expenses from the amortisation of the line item of hedged items from portfolio fair value hedge relationships as well as corresponding reversal amounts on disposal of these hedged items, provided that the realised result is to be recognised in the Net interest income.

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

9. Net commission income

Net commission income

(€ m)	2023	2022
Commission income from		
Lending business	15	16
Securities business	1	2
Guarantee business	4	5
Payments and account transactions as well as documentary business	18	18
Other commission income	1	1
Commission income	**39**	**42**
Commission expense from		
Lending business	3	3
Payments and account transactions as well as documentary business	2	2
Other commission expenses	11	4
Commission expenses	**16**	**9**
Total	**23**	**33**

Financial instruments that are not measured at fair value through profit or loss account for € 24 million of Net commission income. In the previous year, € 32 million of Net commission income was attributable to these financial instruments.

10. Result from hedging

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

Result from hedging

(€ m)	2023	2022
Fair value changes from hedging transactions	86	15
Micro fair value hedge	-25	164
Portfolio fair value hedge	111	-149
Fair value changes from heeding transactions	-73	-13
Micro fair value hedge	25	-161
Portfolio fair value hedge	-98	148
Total	**13**	**2**

11. Result from financial instruments categorised as FVPL

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

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

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

Result from financial instruments categorised as FVPL

(€ m)	2023	2022
Loans, bonds and interest rate derivatives		
FVPL Held For Trading	43	135
FVPL Designated	3	25
FVPL Other	1	-80
Total	**47**	**80**
Equities and equity derivatives		
FVPL Held For Trading	–	-3
FVPL Other	-8	7
Total	**-8**	**4**
Other products		
FVPL Held For Trading	11	5
FVPL Other	22	-3
Total	**33**	**2**
Total	**72**	**86**

The Result from financial instruments categorised as FVPL includes net income from foreign currency of € 24 million (previous year: € -4 million).

Of this amount, € -1 million (previous year: -1 € million) of the changes in fair value of the financial assets categorised as FVPL Designated in the reporting period related to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € 5 million (previous year: € 2 million) is attributable to changes in the credit spread.

12. Net income from financial investments

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

Net income from financial investments

(€ m)	2023	2022
Realised results from financial assets categorised as FVOCI	-2	-1
Total	**-2**	**-1**

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

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

In the reporting period, the "Result from the disposal of financial assets classified as AC" largely results from disposals of receivables in connection with early repayments/redemptions.

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

Result from the disposal of financial assets classified as AC

(€ m)	2023	2022
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	2	4
Financial investments	1	-
Total gains	**3**	**4**
Losses from the disposal of financial assets classified as AC		
Loans and advances to customers	9	1
Total losses	**9**	**1**
Total	**-6**	**3**

14. Loan loss provisions

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

Loan loss provisions

(€ m)	2023	2022
Loans and advances to customers		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	52	45
thereof AC	52	45
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-27	10
thereof AC	-27	10
Impaired credit rating (Stage 3/lifetime ECL)	-116	-48
thereof AC	-116	-48
Loans that are purchased or originated credit-impaired (POCI)	-3	-2
thereof AC	-3	-2
Result from the change in loan loss provisions on loans and advances to customers	**-94**	**5**
Off-balance-sheet business		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	-2	1
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-8	-1
Impaired credit rating (Stage 3/lifetime ECL)	8	10
Provisions in lending business in accordance with IAS 37	–	1
Result from changes in provisions in the lending business	**-2**	**11**
- Direct write-downs	5	9
+ Recoveries on loans and advances previously written off	21	5
+ Result of non-substantial modifications	1	-1
Result from other changes to loan loss provisions	**17**	**-5**
Total loan loss provisions	**-79**	**11**

15. Administrative expenses

Administrative expenses

(€ m)	2023	2022
Personnel expenses	147	154
Operating expenses	180	174
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	5	4
Total	**332**	**332**

Personnel expenses

(€ m)	2023	2022
Wages and salaries	125	131
Social security contributions	21	17
thereof employer contributions to government-sponsored pension plans	8	8
Expenses for pensions and support	1	6
Total	**147**	**154**

Operating expenses

(€ m)	2023	2022
IT costs	101	98
Costs for information services	9	8
Costs for external services and project work	22	19
Legal service costs	17	15
Expenses for land and buildings	5	5
Mandatory contributions and expenses under company law	–	1
Costs of advertising, PR and promotional work	5	2
Other operating expenses	21	26
Total	**180**	**174**

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

Depreciation and amortisation

(€ m)	2023	2022
Scheduled depreciation/amortisation on		
Plant and equipment	1	1
Acquired software	2	2
Software developed in-house	1	–
Right-of-use assets from leasing	1	1
Total	**5**	**4**

16. Other operating result

Other operating result

(€ m)	2023	2022
Income		
from reversal of other provisions and release of liabilities	68	46
from cost allocations and reimbursement of expenses	9	11
from interest on receivables from the tax office	3	31
Other income	47	20
Total income	**127**	**108**
Expenses		
from additions to other provisions	9	6
from expenses paid in advance for transaction fees, legal fees, servicing	9	10
for interest expenses pursuant to Section 233 AO	3	2
Other expenses	9	15
Total expenses	**30**	**33**
Total	**97**	**75**

The other operating result amounted to € 97 million (previous year: € 75 million). In the reporting year, the earnings item was supported in particular by income from the Reversal of other provisions (€ 68 million, of which € 54 million for litigation risks), which exceeded the expenses from Additions to other provisions, the same as in the previous year. The earnings item also includes net interest income from taxes (€ 3 million) and other income, mainly from earn-out agreements in connection with subsidiaries sold in previous financial years (€ 40 million).

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

Expenses for regulatory affairs, deposit guarantee fund and banking associations

(€ m)	2023	2022
Expenses for European bank levy	12	19
Expenses for deposit guarantee fund	7	7
Expenses for banking supervisory authority	2	3
Expenses for banking associations	-	1
Total	**21**	**30**

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

18. Result from restructuring and transformation

Result from restructuring and transformation

(€ m)	2023	2022
Income from restructuring	–	24
Result from restructuring	**–**	**24**
Expenses from transformation	–	58
Result from restructuring and transformation	**–**	**-34**

No Result from restructuring and transformation was recognised in the reporting year (previous year: € -34 million).

The Bank's restructuring and transformation programme has been completed.

19. Income tax expense

Income tax expense

(€ m)	2023	2022
Corporate tax and solidarity surcharge		
Domestic	20	46
Trade income tax		
Domestic	21	48
Current income taxes	**41**	**94**
Income tax from previous years	-18	-66
Subtotal current income tax	**23**	**28**
Income from deferred tax		
from temporary differences	86	-127
from losses carried forward	47	37
from consolidation	–	–
Subtotal deferred income tax	**133**	**-90**
Income tax expense (+)/income (–)	**156**	**-62**

The current tax income for previous years relates to the expected results of tax audits and adjustments in the tax returns for previous years compared to the respective calculations in the financial statements.

The expense relating to deferred taxes on temporary differences in the reporting year is attributable to the reduction of temporary differences in the head office.

Deferred taxes on tax loss carryforwards are measured on the basis of a recoverability analysis, which is based on the corporate planning. As a result of this corporate planning, a reduction in the value of deferred taxes on loss carryforwards in the Luxembourg branch is recognised in the reporting year. Together with the utilisation of loss carryforwards in the financial year, this resulted in an expense of € 23 million from the reversal of deferred taxes on loss carryforwards for the Luxembourg branch. In addition, the utilisation of loss carryforwards at the head office led to a further expense from deferred taxes on loss carryforwards of € 24 million.

Reconciliation of income taxes

(€ m)	2023	2022
Group net result	271	425
Income tax expense	156	-62
Net income before taxes	427	363
Domestic income tax rate to be applied in %	32.15	32.14
Imputed income tax expenses in the financial year	**137**	**116**
Tax effects due to		
changes in the write-down of deferred taxes on losses carried forward	13	-109
differing effective tax rates in Germany and abroad	-12	-4
non-deductible expenses	21	7
changes in tax rate	-	-1
Taxes for previous years	8	-66
Tax-free income	-11	-6
Write-down of deferred taxes on temporary differences and miscellaneous	-	1
Total tax expense (+)/income (–)	**156**	**-62**

In calculating taxes for 2023, a tax rate of 32.15% (previous year: 32.14%) was used for domestic taxes. For the Group entities in Luxembourg, the tax rate applied was 24.94% (previous year: 24.94%). Variations between the locally applied tax rates and the Group tax rate result in a theoretical reduction of tax expense of € 12 million.

The main effects in the reconciliation of the theoretical to the actual tax expense are the change in the recoverability of deferred taxes on losses carried forward and non-tax-deductible expenses as well as tax-free income. The expense from the change in the recoverability of deferred taxes on tax loss carryforwards relates to the Luxembourg branch, as the usability of the loss carryforwards was reassessed on the basis of current corporate planning. The Non-deductible expenses item also includes the changes in permanent measurement differences between IFRS and tax value as well as effects concerning the deconsolidation of Group companies.

The provisions of the Minimum Tax Act (MinStG) of 21 December 2023 (Federal Law Gazette 2023 I No. 397), which has been in force since 28 December 2023, generally apply for the first time to financial years beginning after 30 December 2023 (cf. Section 101 MinStG).

As a multinational group of companies, the HCOB Group generates consolidated revenue of more than € 750 million within the meaning of Section 1 (1) German Minimum Tax Act (MinStG) and is therefore affected by the minimum taxation regulations, with business units currently identified in at least eight countries. HCOB acts as the ultimate parent company and thus the Group parent.

For the HCOB Group, the regulations in the respective domestic and foreign participating countries will only come into effect for financial years from 2024 onwards, so there will be no impact on the actual tax expense for 2023. Based on the application of IAS 12.4A, no effects on deferred taxes are recognised.

At the reporting date, the Group has performed a first indicative analysis to determine the general impact and the jurisdictions in which the Group is exposed to a potential impact in relation to a Pillar two top-up tax. Based on the data available for the 2023 financial year, the first step was to assess whether the CbCR Safe Harbour provisions would be relevant. On the grounds of this indicative analysis, at least one of the three possible alternative CbCR Safe Harbour rules can potentially be used in all countries of the Group, which means that there would be no increase in taxes.

HCOB is currently preparing its processes for the future application of simplification regulations, examining potentially advantageous options, monitoring the legislative process and examining further implementation requirements (e.g. Pillar 2 tax compliance, introduction of a Pillar 2 reporting tool).

20. Net gains and losses from financial instruments

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

Net gains and losses from financial instruments

(€ m)	2023	2022
FVPL Held For Trading, Other, Designated	72	86
AC assets and liabilities	-85	14
FVOCI Mandatory	-2	-1
Total	**-15**	**99**

21. Earnings per share

To calculate earnings per share, the Group net result attributable to Hamburg Commercial Bank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review.

As in the previous year, Hamburg Commercial Bank AG has not issued any diluted forms of capital as at 31 December 2023, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

Earnings per share

	2023	2022
Attributable Group net result (€ m) – undiluted/diluted	271	425
Number of shares (millions)		
Average number of ordinary shares outstanding undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.90	1.41
Diluted	0.90	1.41

Notes on the Group statement of financial position

22. Cash reserve

Cash reserve

(€ m)	2023	2022
Balances with central banks	3,857	4,974
thereof at the Deutsche Bundesbank	3,857	4,974
Total	**3,857**	**4,974**

23. Loans and advances to banks

Loans and advances to banks

(€ m)	2023			2022		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	177	256	433	211	241	452
Other loans and advances	9	50	59	275	50	325
Total before loan loss provisions	**186**	**306**	**492**	**486**	**291**	**777**
Loan loss provisions	-	-	-	-	-	-
Total after loan loss provisions	**186**	**306**	**492**	**486**	**291**	**777**

Of loans and advances to banks, holdings in the amount of € 9 million (previous year: € 8 million) have a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 50 million (previous year: € 650 million).

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

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

24. Loans and advances to customers

Loans and advances to customers

(€ m)	2023			2022		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Retail customers	95	12	107	148	4	152
Corporate clients	6,194	11,492	17,686	6,984	11,749	18,733
Public authorities	512	204	716	592	115	707
Total before loan loss provisions	**6,801**	**11,708**	**18,509**	**7,724**	**11,868**	**19,592**
Loan loss provisions	124	242	366	253	161	414
Total after loan loss provisions	**6,677**	**11,466**	**18,143**	**7,471**	**11,707**	**19,178**

Of loans and advances to customers, holdings in the amount of € 14,223 million (previous year: € 15,372 million) have a residual maturity of more than one year.

Loans and advances to customers include money market transactions in the amount of € 0 million (previous year: € 4 million).

Loans and advances to customers include receivables under finance lease transactions in the amount of € 28 million (previous year: € 33 million).

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

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

25. Loan loss provisions

Loan loss provisions

(€ m)	2023	2022
Loan loss provisions for loans and advances to customers classified as AC, incl. leasing	366	414
Loan loss provisions in the lending business	**366**	**414**
Loan loss provisions for items in the statement of financial position	**366**	**414**
Provisions in the lending business	43	35
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	**409**	**449**

In accordance with IFRS 9, the Loan loss provisions item is only set up for transactions categorised as AC and FVOCI. As in the previous year, loan loss provisions as at 31 December 2023 mainly relate to transactions categorised as AC.

Out of the total loan loss provisions of € 409 million as at the reporting date (previous year: € 449 million), € 85 million (previous year: € 144 million) pertain to the adjustment of loan loss provisions because of model overlays. Here, € 19 million are allocated to Stage 1 loan loss provisions and € 66 million to Stage 2 loan loss provisions. No model overlays have been formed for Stage 3 loan loss provisions. For explanations regarding the need for these adjustments and details with regard to their composition, please refer to the next section of this Note (“Model Overlays”).

As at the reporting date, € 242 million of the loan loss provisions for items in the statement of financial position were attributable to loan commitments allocated to Stage 3 (incl. POCI) in the IFRS 9 loan loss provisioning model (previous year: € 238 million) and € 124 million to Stage 1 and 2 (previous year: € 176 million).

For off-balance sheet items, loan loss provisions of € 30 million (previous year: € 31 million) were created at Stage 3 and loan loss provisions of € 13 million (previous year: € 4 million) at Stages 1 and 2. The calculation of loan loss provisions for off-balance sheet items as at 31 December 2023 includes for the first time exposures for which the Bank recognised loan loss provisions in accordance with IAS 37 in the amount of € 7 million in the previous year, which were recognised under provisions in the lending business.

The development of loan loss provisions over time is shown in Note 47 in connection with the development of the gross carrying amounts, broken down by item in the statement of financial position.

I. Model Overlays

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 2024”) 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.

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 used to determine the original loan loss provisions. Loan loss provisions are then adjusted either directly or indirectly by altering the credit risk parameters to reflect these effects.

As at the reporting date, the model overlays are structured as follows:

Composition of model overlays

(€ m)	2023	2022
Effect of macroeconomic forecasts	25	47
Address and portfolio related adjustments		
Individual cases (credit watch list)	-	27
Individual cases of borrowers potentially impacted by the war in Ukraine	-	21
Office buildings sub-portfolio	47	-
Retail sub-portfolio	6	12
Land financing sub-portfolio	5	-
Tankers sub-portfolio	-	29
Additions to ECL method	2	8
Total	**85**	**144**

II. Effect of macroeconomic forecasts

The impact of the macroeconomic environment of Hamburg Commercial Bank's business activities on the forward-looking information is calculated in separate scenarios. For this purpose, the Bank takes into account two weighted scenarios (base and stress scenario). These scenarios are based on the following macroeconomic forecasts:

Macroeconomic forecasts for 2024 (as at 31 December 2023)

	Base scenario	Stress scenario
GDP USA (%)	1.40	-1.00
GDP eurozone (%)	0.80	-1.50
Unemployment rate Germany (%)	0.40	-2.00
Fed Funds rate (%)	5.38	5.38
ECB MRO rate (%)	4.13	4.63
3M EURIBOR (%)	2.31	3.70
10Y Bunds (%)	2.19	2.50
EUR/USD exchange rate	1.11	0.98
Unemployment rate Germany (%)	5.80	6.50
Inflation rate Germany (%)	2.80	3.80

The base scenario (60% probability of occurrence) represents the expected development, while the stress scenario (40% probability of occurrence) takes into account the additional uncertainties arising from economic and geopolitical developments, in particular the uncertainties regarding the development of inflation and interest rates and the associated economic impact. Depending on the macroeconomic scenarios for determining the model overlays, the risk parameters (PD and LGD) are adjusted for the entire portfolio. The difference between the result of the calculation with the adjusted risk parameters and the original loan loss provisions is included in the loan loss provisions as a model overlay.

The additional loan loss provisions required as a result of the two scenarios amount to € 25 million (previous year: € 47 million). Compared to the previous year, the decline in these overlays can mainly be explained by lower scenario premiums on the risk parameters for the Corporates and Shipping sub-portfolios, as the change in risk factors could be taken into account in the calculation of the original loan loss provisions.The effects deriving from macroeconomic forecasts are also taken into account for exposures of the special credit funds. As at the reporting date, € 4 million (previous year: € 2 million) of the model overlays in this category are attributable to these exposures.

III. Address and portfolio related adjustments

In addition to the macroeconomic forecasts, the model overlays also take into account potential adverse macroeconomic effects on sub-portfolios.

The overlays recognised in the previous year for counterparties on the credit watch list and for individual exposures with a potential negative impact from the effects of the war in Ukraine no longer apply as at the reporting date. As a result of the trigger introduced in the reporting year for the transition to Stage 2 for individual counterparties on the credit watch list, potential overlays for these counterparties are already taken into account in the original calculation of loan loss provisions (previous year: € 27 million, cf. explanations on Loan loss provisions and impairment of financial instruments in Note 7: Accounting and measurement principles).

The potential risks to individual exposures from the effects of the war in Ukraine were fully reflected in the ratings of the customers affected, and as a result no overlays were required at the reporting date (previous year: € 21 million). Further potential economic impact is recognised in the overlays for macroeconomic forecasts.

Due to the current deterioration in the economic outlook, parts of the real estate portfolio in particular are included in the valuation basis for the calculation of model overlays at the portfolio level. The respective risk parameters (PD and LGD) for the exposures to these sub-portfolios are adjusted by the relevant experts to determine the overlays. As a result of the sharp increase in the PD for the national real estate portfolio and the ongoing market corrections, the Bank has simulated rating downgrades in the calculation of the overlays for severely impacted sub-portfolios. In addition, the real estate market is currently experiencing buyer reluctance, and the Bank expects further price discounts on sold properties. As office and retail properties as well as land financing are considered particularly affected, the Bank accounts for potential impairments in these sub-portfolios by increasing the LGD in the calculation of the overlays. Other than in the previous year, however, these exposures are no longer generally transferred to Stage 2; instead, the original stage applicable on the reporting date is used, i.e. the adjustment of risk parameters is not generally applied to the multi-year ECL.

In the office buildings sub-portfolio, the changed demand structure with the trend towards remote working and a shift in the tenant market towards ESG-compliant properties are further drivers of the less favourable market conditions. In total, the sub-portfolio comprises an EaD of € 3,448 million, with model overlays totalling € 47 million. Part of this exposure relates to customers with mixed use in the property portfolio that were still included in the assessment basis for the overlays of the retail property sub-portfolio in the previous reporting year,which could be further reduced as a result.

The retail portfolio (in particular department stores, shopping centres and specialist shops) continues to be affected by the current loss of purchasing power, the structural shift towards e-commerce (at the expense of stationary retail) and the sharp rise in interest rates. In total, this portfolio has EaD of € 1,372 million (previous year: € 1,351 million). The corresponding model overlays amount to € 6 million (previous year: € 12 million).

Land financing was identified as another portfolio particularly affected by high inflation, rising construction costs and, above all, the increase in interest rates. The underlying EaD of € 424 million includes overlays totalling € 5 million.

Due to the positive development of the market situation and the medium-term forecasts for charter rates and ship prices in the tankers portfolio of the Shipping segment, the overlays in this segment were released in full (previous year: € 29 million).

IV. Additions to ECL method

Independently of adjustments to loan loss provisions because of macroeconomic developments as well as borrower or portfolio risks, the Bank determines mark-ups for pending adjustments to internal models. As at the reporting date, these amount to € 2 million (previous year: € 8 million).

V. Sensitivity analyses

The sensitivity of Hamburg Commercial Bank's ECL model to expert adjustments of borrower and portfolio related risk parameters is shown by an upward and downward shift in the forecast assumptions.

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 borrowers and portfolios affected by two notches would result in an increase in the total loan loss provisions of € 83 million, while a downgrade by one notch would result in an increase of € 35 million. A rating upgrade by two notches would reduce the model overlays by € 42 million, while an upgrade by one notch would lead to a reduction of € 25 million.

A change in the weighting between the base and the stress scenario of 10 % would result in an increase or decrease in the macroeconomic model overlays of € 2 million.

26. Hedge accounting

Hamburg Commercial Bank continues to apply the portfolio fair value hedge approach in accordance with IAS 39, making use of the option under IFRS 9.6.1.3. Furthermore, Hamburg Commercial Bank now uses the micro fair value hedge approach in accordance with IFRS 9 for financial instruments measured at fair value directly in equity under IFRS 9.

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

The following section provides a description of the hedging and underlying transactions used for hedging purposes, including the risk management strategy, the impact on cash flows and the effects on the net assets, statement of comprehensive income and statement of changes in equity.

I. Risk management strategy

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

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

Hedge accounting is exclusively used for interest rate and for foreign exchange risks in connection with net investments in foreign operations (please also refer to explanations on currency translation in Note 7: Accounting and measurement principles).

II. Effects on cash flows

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

Micro fair value hedges

(€ m)	Maturity date	
	2037	2038
Nominal value of hedging instruments	200	200
Average swap rate	3.69	3.633

III. Effects on net assets and statement of comprehensive income

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

HEDGING INSTRUMENTS

This section presents the nominal values, hedge adjustment and the positive and negative fair values of derivatives used in hedge accounting. At present, only interest rate swaps are taken into account as hedging instruments for interest rate risks. If a derivative is only designated pro rata in hedge accounting, the Positive/negative fair value of hedging derivatives item contains the corresponding share of the derivative's fair value, nominal value and hedge adjustment. The remaining balance is reported under trading assets/liabilities or in the result from financial instruments categorised as FVPL.

Bearer bonds and time deposits are currently taken into account as hedging instruments for the hedging of net investments in foreign operations in accordance with IFRS 9.6.5.13.

Hedging instruments[1]

(€ m)		2023			2022		
Hedge type/type of risk	Balance sheet item	Nominal value	Carring amount	Hedge adjust-ment (ytd)	Nomnal value	Carrying amount	Hedge adjust-ment (ytd)
Fair value hedge/interest rate risk							
Interest rate derivatives (assets side)	Positive fair value of hedg-ing derivatives	3,703	–	-56	588	–	34
Interest rate derivatives (liabilities side)	Negative fair value of hedg-ing derivatives	5,363	62	29	5,771	65	96
Hedging of net investments in foreign operations/for-eign exchange risk							
Time deposits (liabilities side)	Liabilities due to customers	419	419	-11	278	278	7
Debentures	Subordinated capital	189	190	-7	196	197	-11

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

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

At present, foreign exchange risks from net investments in foreign operations are exclusively hedged with liability-side transactions in the Subordinated capital and Liabilities to customers items in the statement of financial position.

UNDERLYING TRANSACTIONS

This section presents financial instruments on the assets and liabilities side used in hedge accounting. The following table shows the carrying amounts, accumulated changes in value (ltd) and since the beginning of the financial year (ytd). The underlying transactions currently include assets (receivables and securities) and liabilities. Hedge accounting is exclusively used to hedge interest and foreign exchange risks in connection with net investments in foreign operations at present.

Underlying transactions[1]

(€ m)		2023			2022		
Hedge type/type of risk	Balance sheet item	Carrying amount	Cum. hedge adjust-ment (ltd)	Hedge adjust-ment (ytd)	Carring amount	Cum. hedge adjust-ment (ltd)	Hedge adjust-ment (ytd)
Fair value hedge/interest rate risk							
Portfolio fair value hedge: Fixed-interest rate loans, debentures, securities	Loans and dvances to custom-ers/banks Financial in-vestments	5,467	-115	39	5,163	-152	-182
Micro fair value hedge	Loans and ad-vances to customers	457	56	-34	508	90	31
Portfolio fair value hedge: Fixed-interest issues	Liabilities due to custom-ers/banks, se-curitised liabili-ties, subordi-nated capital	9,149	-12	180	7,101	-192	-373
Portfolio fair value hedge (inactive)	Loans and ad-vances to cus-tomers/banks	53	2	-	53	-	-3
Micro fair value hedge (inactive)	Loans and ad-vances to customers	71	1	-2	68	3	-1
Micro fair value hedge (inactive)	Subordinated capital	24	3	-3	25	6	-1
Hedging of net investments in foreign operations/foreign ex-change risk							
USD hedging	Equity (cur-rency conver-sion reserve)	609	11	18	475	-7	-4

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

27. Trading assets

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

Of the trading assets, holdings of € 262 million (previous year: € 302 million) have a residual maturity of more than one year.

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

Trading assets

(€ m)	2023	2022
Bonds and debentures		
from other issuers	92	-
negotiable and not listed	92	-
Debentures and other fixed-interest securities	**92**	**-**
Positive fair value of financial derivatives		
Interest-related transactions	166	213
Currency-related transactions	67	101
Other transactions	10	8
Positive fair value of financial derivatives	**243**	**322**
Other, including promissory notes held for trading	-	87
Receivables from syndication transactions	-	32
Total	**335**	**441**

28. Financial investments

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

Financial investments

(€ m)	2023	2022
Debentures and other fixed-interest securities	7,681	5,327
negotiable and listed	4,035	3,583
negotiable and not listed	3,646	1,744
Shares and other non-fixed-interest securities	108	1
negotiable and listed	72	-
negotiable and not listed	32	1
Long-term equity investments	6	10
negotiable and not listed	-	2
Total	**7,795**	**5,338**

Of the financial investments, holdings of € 7,359 million (previous year: € 4,553 million) have a residual maturity of more than one year.

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

29. Intangible assets

Intangible assets

(€ m)	2023	2022
Software	27	13
developed in-house	5	2
acquired	22	11
Software in development	48	42
developed in-house	1	2
acquired	47	40
Total	**75**	**55**

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

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

Changes in the carrying amounts of intangible assets are as follows:

Development of intangible assets

(€ m)		Software		Software in development		
2023	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	Total
Acquisition costs as at 1 January 2023	**171**	**2**	**16**	**2**	**40**	**231**
Additions	-	2	4	1	16	23
Reclassifications	-	2	9	-2	-9	-
As at 31 December 2023	**171**	**6**	**29**	**1**	**47**	**254**
Amortisation as at 1 January 2023	**171**	**-**	**5**	**-**	**-**	**176**
Additions	-	1	2	-	-	3
As at 31 December 2023	**171**	**1**	**7**	**-**	**-**	**179**
Carrying amount as at 31 December 2023	**-**	**5**	**22**	**1**	**47**	**75**
Carrying amount as at 1 January 2023	**-**	**2**	**11**	**2**	**40**	**55**

Reclassifications in the amount of € 11 million from Software under development to Software were recognised in the reporting year. This mainly relates to the acquisition costs of the completed finance and reporting modules, which were implemented as part of the bank-wide IT transformation.

Development of intangible assets

(€ m)		Software		Software in development		
2022	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	Total
Acquisition costs as at 1 January 2022	**171**	**7**	**158**	**-**	**31**	**367**
Adjustment to carry forward	**-**	**-**	**-1**	**-**	**-**	**-1**
As at 1 January 2022 adjusted	**171**	**7**	**157**	**-**	**31**	**366**
Additions	-	-	4	2	16	22
Disposals	-	5	151	-	1	157
Reclassifications	-	-	6	-	-6	-
As at 31 December 2022	**171**	**2**	**16**	**2**	**40**	**231**
Amortisation as at 1 January 2022	**171**	**5**	**156**	**-**	**1**	**333**
Adjustment to carry forward	**-**	**-**	**-1**	**-**	**-**	**-1**
As at 1 January 2022 adjusted	**171**	**5**	**155**	**-**	**1**	**332**
Additions	-	-	2	-	-	2
Disposals	-	5	152	-	1	158
As at 31 December 2022	**171**	**-**	**5**	**-**	**-**	**176**
Carrying amount as at 31 December 2022	**-**	**2**	**11**	**2**	**40**	**55**
Carrying amount as at 1 January 2022	**-**	**2**	**2**	**-**	**30**	**34**

In the previous year, reclassifications from Software under development to Software in the amount of € 6 million were recognised.

The disposals of acquisition costs and amortisation of acquired software recognised in the previous year mainly resulted from disposals of assets already written off as part of the IT migration to SAP S/4 HANA.

No research costs were incurred in the year under review in connection with the implementation of software developed in-house (previous year: € 1 million).

30. Property, plant and equipment and investment property

Property, plant and equipment

(€ m)	2023	2022
Land and buildings	9	8
Plant and equipment	2	2
Right-of-use assets from leasing	6	6
Total	**17**	**16**

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

Investment property

(€ m)	2023	2022
Investment property	1	1
Total	**1**	**1**

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

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

Development of Property, plant and equipment and Investment property

(€ m)	Property, plant and equipment			Investment property
2023	Land and buildings	Plant and equipment	Rights-of-use from leasing	
Acquisition costs as at 1 January 2023	**12**	**21**	**12**	**1**
Additions	–	1	5	–
Disposals	–	5	2	–
As at 31 December 2023	**12**	**17**	**15**	**1**
Depreciation as at 1 January 2023	**4**	**19**	**6**	**–**
Additions	–	1	3	–
Disposals	–	5	–	–
Write-ups	–1	–	–	–
As at 31 December 2023	**3**	**15**	**9**	**–**
Carrying amount as at 31 December 2023	**9**	**2**	**6**	**1**
Carrying amount as at 1 January 2023	**8**	**2**	**6**	**1**

Further details on depreciation are presented in Note 15.

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

Development of Property, plant and equipment and Investment property

(€ m)	Property, plant and equipment			Investment property
2022	Land and buildings	Plant and equipment	Rights-of-use from leasing	
Acquisition costs as at 1 January 2022	**23**	**41**	**12**	**1**
Adjustment to carry forward	–11	–9	–1	–
As at 1 January 2022 adjusted	**12**	**32**	**11**	**1**
Additions	–	–	1	–
Disposals	–	11	–	–
As at 31 December 2022	**12**	**21**	**12**	**1**
Depreciation as at 1 January 2022	**15**	**38**	**4**	**–**
Adjustment to carry forward	–11	–9	–1	–
As at 1 January 2022 adjusted	**4**	**29**	**3**	**–**
Additions	–	1	3	–
Disposals	–	11	–	–
As at 31 December 2022	**4**	**19**	**6**	**–**
Carrying amount as at 31 December 2022	**8**	**2**	**6**	**1**
Carrying amount as at 1 January 2022	**8**	**3**	**8**	**1**

31. Current tax assets

Current tax assets

(€ m)	2023	2022
Domestic	28	78
Foreign	–	3
Total	**28**	**81**

The decrease in current tax assets in the reporting period is attributable in particular to the reimbursement of taxes for previous years in Germany.

32. Deferred tax assets

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

Deferred tax assets

(€ m)	2023	2022
Assets		
Loans and advances to banks	78	33
Loans and advances to customers	29	57
Loan loss provisions	44	63
Trading assets	116	-
Positive adjustment item from portfolio fair value hedges	-	-
Financial investments	54	176
Other assets	38	70
Liabilities		
Liabilities to banks	-	14
Liabilities to customers	4	1
Negative fair value of hedging derivatives	20	21
Subordinated capital	1	1
Provisions	121	100
Other liabilities	1	1
Tax losses carried forward	271	318
Subtotal for deferred tax assets	**777**	**855**
Netting of deferred tax liabilities	-241	-158
Total	**536**	**697**

Out of the deferred tax assets after offsetting, € 438 million is attributable to Germany and € 98 million to abroad.

Deferred taxes on loss carryforwards were recognised in the amount of € 271 million (previous year: € 318 million) at Stages 1 and 2. As at 31 December 2023, € 173 million of this amount is attributable to the head office (previous year: € 197 million) and € 98 million to the Luxembourg branch (previous year: € 121 million). For the head office and the Luxembourg branch, the recoverability of the deferred taxes on loss carryforwards results from planned future taxable income.

Unused tax loss carryforwards amounted to € 2,533 million as at the reporting date (previous year: € 2,600 million), for which no deferred tax assets were recognised. Most of these are recognised for the Luxembourg branch. In addition, there are loss carryforwards at subsidiaries in Germany that cannot currently be utilised due to the income tax consolidation with HCOB.

The decrease in deferred tax assets before offsetting in the amount of € 78 million is the result of the reduction in deferred taxes on loss carryforwards as well as changes in measurement differences for several items in the statement of financial position. In particular, the measurement of trading assets, financial investments, provisions, loans and advances to banks and customers, including the loan loss provisions recognised for these, influenced the development of deferred tax assets in the reporting year.

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

Of the reduction in deferred tax assets, € 3 million is attributable to deferred taxes for financial investments recognised directly in equity. On the other hand, an increase in deferred tax assets of € 1 million in relation to pension obligations was also recognised directly in equity.

In accordance with IAS 12.4A, no deferred tax assets in connection with the minimum tax are recognised.

33. Other assets

Other assets

(€ m)	2023	2022
Other prepaid expenses	12	12
Receivables from other taxes	11	2
Capitalised plan assets	145	141
Claim for reimbursement from plan assets	62	91
Other assets	31	14
Total	**261**	**260**

Other assets of € 211 million (previous year: € 236 million) have a residual maturity of more than one year.

€ 97 million of the assets reported here (previous year: € 111 million) pertain to financial instruments. As at 31 December 2023, the fair value of the plan assets exceeds the pension obligations covered by the plan assets, as the present value of the corresponding pension obligations has fallen more sharply than the fair value of the plan assets compared to the previous year's reporting date. The excess amount of € 145 million (previous year: € 141 million) is reported under Other assets as Capitalised plan assets.

The Bank has contractual rights to reimbursement from the plan assets in the amount of the pension benefits paid. In the reporting period, € 59 million (previous year: € 0 million) was repaid to the Bank for pension benefits paid in the years 2020 and 2021. The remaining claims for reimbursement of € 62 million (previous year: € 91 million) are recognised in Other assets. Other assets include an earn-out agreement in connection with a subsidiary sold in previous years totalling around € 22 million. This financial instrument was measured on the basis of scenarios in the reporting year and is allocated to Level 3 of the fair value hierarchy. The scenarios are based on different probabilities of occurrence of economic developments and their impact on the inflow of funds. The final payment is expected in 2024.

34. Liabilities to banks

Liabilities to banks

(€ m)	2023			2022		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	108	34	142	124	67	191
Other term liabilities	3,214	1,315	4,529	3,922	491	4,413
Total	**3,322**	**1,349**	**4,671**	**4,046**	**558**	**4,604**

Liabilities to banks of € 2,442 million (previous year: € 3,742 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated FVPL and their nominal value, which corresponds to the contractually agreed repayment amount at the due date, amounted to less than € 1 million as at 31 December 2023 (previous year: less than € 1 million). Changes in value caused by credit risk accounted for less than € 1 million (previous year: less than € 1 million).

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

Liabilities to banks as at 31 December 2023 include liabilities from a TLTRO III transaction (TLTRO: "targeted longer-term refinancing operations") with the ECB in the amount of € 1 billion (previous year: € 1,55 billion). The transaction was entered in 2021 with a term of three years (due in 2024). Since 23 November 2022, this liability has been in the so-called "final interest period" that lasts until its maturity. Since then, the interest has been based on the average interest rate for main refinancing operations of the Euro system. As at 31 December 2023, the TLTRO III liabilities account for € 39 million in interest expense.

As Hamburg Commercial Bank has failed to meet the lending conditions required to receive a premium in the so-called "special interest period" that expired in June 2022 in previous years, the Bank did not receive a premium.

35. Liabilities to customers

Liabilities to customers by customer group

(€ m)	2023	2022
Corporate clients	10,568	10,927
Public authorities	2,897	2,270
Retail customers	151	49
Total	**13,616**	**13,246**

Liabilities to customers

(€ m)	2023			2022		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Other liabilities						
Payable on demand	2,685	1,786	4,471	2,832	1,910	4,742
Term liabilities	6,198	2,947	9,145	6,485	2,019	8,504
Total	**8,883**	**4,733**	**13,616**	**9,317**	**3,929**	**13,246**

Of liabilities to customers, holdings in the amount of € 2,481 million (previous year: € 3,443 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated FVPL and their nominal value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € 8 million as at 31 December 2023 (previous year: € 61 million). Changes in value caused by credit risk account for € -2 million of this amount (previous year: € 0 million).

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

36. Securitised liabilities

Securitised liabilities

(€ m)	2023	2022
Debentures issued	7,575	6,873
Total	**7,575**	**6,873**

Securitised liabilities of € 6,194 million (previous year: € 4,575 million) have a residual maturity of more than one year.

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

In the Securitised liabilities item, repurchased own debentures in the amount of € 1,159 million (previous year: 1,270 million) were deducted.

The difference between the carrying amount of the Securitised liabilities designated FVPL and their nominal value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € 1 million as at 31 December 2023 (previous year: € 8 million). Changes in value caused by credit risk account for € 2 million of this amount (previous year: € 0 million).

37. Trading liabilities

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

Trading liabilities

(€ m)	2023	2022
Negative fair value from derivative financial instruments		
Interest-related business	130	222
Currency-related business	12	25
Other business	38	48
Other	4	40
Total	**184**	**335**

Trading assets of € 130 million (previous year: € 301 million) have a residual maturity of more than one year.

Information on collateral transferred is presented in Note 57.

38. Provisions

Provisions

(€ m)	2023	2022
Provisions for pension obligations and similar obligations	76	87
Other provisions		
Provisions for personnel expenses	58	57
Provisions in the lending business	43	42
Provisions for restructuring	7	20
Provisions for litigation risks and costs	53	110
Other provisions	50	45
Total	**287**	**361**

Of the provisions, holdings of € 151 million (previous year: € 167 million) have a residual maturity of more than one year.

Further information regarding Provisions in the lending business can be found in Note 25.

€ 5 million of the Provisions for restructuring (previous year: € 16 million) related to personnel expenses and € 2 million (previous year: € 4 million) to operating expenses The provisions for restructuring measures were formed in 2018 in connection with the restructuring programme for the privatisation respectively the transformation of Hamburg Commercial Bank AG.

The decrease in this item is due to current utilisations in the reporting year.

At the reporting date, there were still agreements in place relating to restructuring measures in connection with the social plan, which expired on 31 December 2023. These will result in future cash outflows.

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

Changes in pension provisions are presented in Note 39.

Hamburg Commercial Bank has made provisions for litigation risks and costs as at the reporting date. To determine for which claim the possibility of a loss is likely, and in order to estimate the amount of the potential payment obligations, Hamburg Commercial Bank takes a variety of factors into account. These include, among other things, the type of claim and the underlying facts of the case, the status of the individual proceedings, (provisional) decisions made by courts and arbitration bodies, the experience of the Hamburg Commercial Bank and third parties in comparable cases (as far as they are known to the Bank), prior settlement negotiations, as well as the expert opinions and assessments of the Bank's internal and external legal advisors and other professionals. Some of the risk assessments have improved in the reporting year. As a result, reversals were made for litigation risks, which led to a decrease in this item. These provisions essentially result from legal disputes in the Bank's lending business.

Further information on the Bank's legal risks is described in the risk report, section "Non-Financial Risk – Non-Financial Risk in the Reporting Year".

Other provisions have changed as follows:

Changes in other provisions

(€ m) 2023	For personnel expenses	In the lending business (non-financial instruments)	For restructuring	For litigation risks and costs	Other	Total
As at 1 January 2023	**57**	**7**	**20**	**110**	**45**	**239**
Additions	33	–	–	4	16	53
Reversals	–	–	–	56	2	58
Reclassifications	-4	-7	-10	1	-1	-21
Utilisation in the financial year	28	–	3	6	8	45
As at 31 December 2023	**58**	**-**	**7**	**53**	**50**	**168**

Provisions in the lending business for non-financial instruments were reclassified to loan loss provisions for off-balance sheet business. This is disclosed in Note 47 (Loan loss provisions).

Changes in other provisions

(€ m) 2022	For personnel expenses	In the lending-business (non-financial instruments)	For restructuring	For litigation risks and costs	Other	Total
As at 1 January 2022	**42**	**8**	**69**	**124**	**56**	**299**
Additions	43	3	–	11	18	75
Reversals	1	4	24	15	18	62
Reclassifications	-4	–	-11	–	–	-15
Utilisation in the financial year	23	–	14	10	11	58
As at 31 December 2022	**57**	**7**	**20**	**110**	**45**	**239**

39. Pension obligations and similar obligations

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

Provisions for pension obligations and similar obligations

(€ m)	2023	2022
Net present value of obligations, wholly or partly financed through funds	691	648
Net present value of obligations not financed through funds	76	87
Net present value of pension obligations and similar obligations	**767**	**735**
Fair value of plan assets	836	789
Reclassification to Capitalised plan assets	-145	-141
Pension plan net liability (provisions for pensions and similar obligations)	76	87

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

Changes in net present value

(€ m)	2023	2022
Net present value as at 1 January	**735**	**1,097**
Actuarial losses/gains (-)		
due to changed financial assumptions	55	-325
due to experience-based adjustments	-8	-2
Interest expenses	29	12
One-off expense/gain	–	-8
Current service cost	2	4
Benefits paid	-53	-52
Reclassifications	7	9
Net present value as at 31 December	**767**	**735**

The change in actuarial gains and losses is mainly attributable to an increase in the discount rate.

Early retirement arrangements were negotiated as part of the restructuring and associated reduction in staff, and the corresponding provisions of € 7 million (previous year: € 9 million) were transferred from restructuring provisions to early retirement liabilities.

The fair value of plan assets has changed as follows.

Changes in fair values of plan assets

(€ m)	2023	2022
Fair value of plan assets as at 1 January	**789**	**948**
Expected return on plan assets	33	14
Actuarial losses (-) / gains	46	-141
Pension benefits paid	-	-1
Claim for reimbursement from plan assets	-32	-31
Fair value of plan assets as at 31 December	**836**	**789**

The Bank has a contractual claim for reimbursement in the amount of the pension benefits already paid. These unreimbursed rights are recognised under Other assets as they do not meet

the requirements for classification as plan assets within the meaning of IAS 19. In the 2023 financial year, these claims for reimbursement amount to € 62 million (previous year: € 91 million).

The net interest of € 4 million is composed of the interest expense of the pension and similar liabilities of € 29 million and the interest income of the plan assets of € 33 million. The changes in the measurement of pension and similar liabilities amounting to € 47 million are netted in OCI with the changes in the measurement of plan assets amounting to € 46 million, which mainly result from changes in financial adjustments.

The total actuarial gains for the financial year before deferred taxes amounts to € 2 million (previous year: € 186 million). Allowing for deferred taxes, this results in a loss of € 2 million (previous year: € 127 million), which is recognised in Other comprehensive income and disclosed in retained earnings on an accumulated basis. As at 31 December 2023, the balance of actuarial losses in retained earnings before tax amounts to -7 € m(previous year: € -5 million) and after taxes to € -5 million (previous year: € -3 million).

Breakdown of plan assets

(€ m)	2023	2022
Cash and cash equivalents	161	158
Investment funds	712	709
thereof exchanged trade funds equity	57	106
thereof exchanged trade funds bonds	131	147
thereof hedge funds	256	258
thereof private debt funds	198	141
thereof real estate & infrastructure funds	70	57
Debentures and other fixed-interest securities	11	11
Derivatives	-1	-11
Qualified insurance policies	9	10
Other assets	4	3
Shares and other non-fixed-interest securities	2	-
Total	**898**	**880**
Claims for reimbursement from plan assets	62	91
Fair value of plan assets	836	789

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

Expenses of € 31 million were incurred for defined benefit pension plans in the 2023 reporting year (previous year: € 8 million).

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

An increase or decrease in the actuarial assumptions (cf. Note 7) would have had the following impact on the present value of pension liabilities as at 31 December 2023:

Sensitivity of pension liabilities

(€ m)	Increase	Decrease
2023		
Discount rate (+/-0.25%)	-22	24
Discount rate (+/-1%)	-82	103
Salary trend (+/-0.25%)	21	-20
Salary trend (+/-0.5%)	43	-40
Life expectancy (+1 year)	28	

Sensitivity of pension liabilities

(€ m)	Increase	Decrease
2022		
Discount rate (+/-0.25%)	-21	22
Discount rate (+/-1%)	-72	89
Salary trend (+/-0.25%)	20	-19
Salary trend (+/-0.5%)	37	-35
Life expectancy (+1 year)	25	

The average duration of the pension obligations determined as at 31 December 2023 was used as the basis for the sensitivity calculations. The impact of the major assumptions on the present value of the pension obligations is presented. As the sensitivity analyses are based on the average duration of the expected pension obligations, and expected payment dates are therefore not taken into account, the figures represent only approximate values. Furthermore, where a change in an actuarial assumption is analysed, the other assumptions are kept constant.

Hamburg Commercial Bank expects to make payments of € 52 million to beneficiaries under defined benefit pension plan commitments for the 2024 financial year (previous year: € 55 million).

The weighted average duration of the defined benefit obligation is 14.0 years as at 31 December 2023 (previous year: 13.3 years).

Expenses for defined contribution plans were € 9 million in the reporting period 2023 (previous year: € 9 million). This includes payments to statutory pension schemes in the amount of € 8 million (previous year: € 8 million).

40. Current tax liabilities

Current tax liabilities

(€ m)	2023	2022
Provisions for income taxes	95	90
Total	**95**	**90**

Provisions for income taxes include tax liabilities for which no legally binding tax assessment notice has been received as at the reporting date. They mainly relate to the expected tax payments for the head office for the reporting year and for financial year 2022.

41. Deferred tax liabilities

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

Deferred tax liabilities

(€ m)	2023	2022
Assets		
Financial investments	3	–
Trading assets	–	21
Property, plant and equipment	1	2
Intangible assets	2	1
Liabilities		
Liabilities to banks	24	–
Securitised liabilities	125	111
Trading liabilities	64	5
Negative adjustment item from portfolio fair value hedges	–	–
Other liabilities	25	18
Total	**244**	**158**
Netting of deferred tax assets	-241	-158
Total	**3**	**-**

The € 86 million increase in deferred tax liabilities before netting is mainly due to the change in existing temporary differences on trading assets and liabilities, securitised liabilities, liabilities to banks and other liabilities.

€ 28 million of the total change is attributable to reductions of deferred tax liabilities recognised directly in equity relating to the measurement of receivables, liabilities and financial investments.

Deferred tax liabilities in connection with shares in subsidiaries (so-called outside basis differences) in the amount of € 1 million (previous year: € 6 million) were not recognised in accordance with IAS 12.39, as it is unlikely that they will be realised.

In accordance with IAS 12.4A, no deferred tax assets in connection with the minimum tax are recognised.

42. Other liabilities

Other liabilities

(€ m)	2023	2022
Collateral provided for liabilities assumed	47	47
Liabilities for outstanding invoices	36	50
Liabilities for restructuring	5	7
Personnel liabilities	6	12
Deferred income	2	2
Other tax liabilities	6	5
Liabilities for leases	10	14
Other	6	13
Total	**118**	**150**

Other liabilities in the amount of € 51 million (previous year: € 60 million) have a residual maturity of more than one year.

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

€ 101 million of the liabilities reported here (previous year: € 118 million) pertain to financial instruments.

43. Subordinated capital

Subordinated capital

(€ m)	2023	2022
Subordinated debt	921	929
Maturing in less than two years	8	5
Total	**921**	**929**

Subordinated capital of € 913 million (previous year: € 924 million) have a residual maturity of more than one year. In the year under review, there were no silent participations or profit participation rights in place.

44. Equity

Equity

(€ m)	2023	2022
Share capital	302	302
Capital reserve	1,533	1,529
Retained earnings	1,838	2,915
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-7	-5
thereof: deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	2	2
Revaluation reserve	65	-6
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	3	2
thereof: valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	62	-8
Currency conversion reserve	-1	-
Group net result	271	425
Total before non-controlling interests	**4,008**	**5,165**
Non-controlling interests	1	-
Total	**4,009**	**5,165**

Equity
The change in equity compared to the previous year is due to the positive Group net result of € 271 million and the distribution of € 1,500 million in dividends.

Share capital
Subscribed capital of Hamburg Commercial Bank AG was divided into 301,822,453 no-par value shares, each with a notional par value of € 1 per share. All shares issued are fully paid up.

As at 31 December 2023, several funds launched by Cerberus Capital Management L.P., New York, indirectly held a total of 40.60% of the voting rights via three acquisition companies (Promontoria Holding 221 B.V. 9.44%, Promontoria Holding 231 B.V. 13.26% and Promontoria Holding 233 B.V. 17.89%). Funds advised by J.C. Flowers & Co LLC, New York, indirectly hold a 33.30% 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 11.94% 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 7.13% 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 2.38% and the members of the Management Board or former members of the Management Board of HCOB hold a share of 4.66%.

JCF IV Neptun Holdings S.à r.l., Luxembourg has 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) since 2018. In addition, the following companies and natural persons have 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) since 2018:

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

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

Changes in ordinary shares

(Number of shares)	2023	2022
Number at the beginning of the year	301,822,453	301,822,453
Number at the end of the year	**301,822,453**	**301,822,453**

Retained earnings

Retained earnings were reduced in the reporting year by the distribution of a dividend totalling € 1,500 million. Retained earnings still mainly comprise the retained earnings from previous years and the reporting year. There are no statutory reserves or legal reserves within the meaning of Section 150 (2) of the German Stock Corporation Act (AktG).

Capital reserve

The Capital reserve contains share-based remuneration in accordance with IFRS 2 of € 20 million in the reporting year (previous year: € 16 million).

Revaluation reserve

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

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

Currency conversion reserve

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

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

In addition, the hedge adjustment resulting from the hedging of net investments in foreign operations is also recognised in this item. The amount reported in the currency conversion reserve includes a hedge adjustment of € 10 million as at 31 December 2023 (previous year: € -7 million).

Dividends
By resolution of the Annual General Meeting of 18 April 2023, a dividend of € 1.5 billion or € 4.97 per no-par share was approved for distribution. The distribution was made from retained earnings. For the 2023 financial year, Hamburg Commercial Bank has earmarked dividends totalling € 302 million for distribution, subject to the corresponding approval by shareholders, which will be proposed to the Annual General Meeting in April 2024 (€ 1.00 per share).

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

The regulatory capitalisation is in accordance with the provisions of the European Capital Requirements Regulation (CRR) in conjunction with the Supervisory Review and Evaluation Process (SREP). Hamburg Commercial Bank determines the capital requirements for counterparty risk in accordance with the approach permitted by the Federal Financial Supervisory Authority based on internal ratings (Advanced IRBA) and based on the CSA (standard approach). The reporting of capital adequacy to the supervisory authorities is done for each quarter. The capital ratios required under supervisory law were complied with on each reporting date in the course of the year under review. For further information, please refer to the risk report section "Requirements under the supervisory review and evaluation process".

Regulatory figures

(%)	2023	2022
Overall capital ratio	25.0	26.8
Tier 1 capital ratio	19.5	20.5
CET1 capital ratio	19.5	20.5

Notes to the Group cash flow statement

45. Additional disclosures on the Group cash flow statement

The obtaining or loss of control over subsidiaries in the financial year and in the previous year did not result in any cash flows or effects on assets and liabilities

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

Reconciliation Cash flow from financing activities

(€ m)	Other subordinated capital
Balance sheet value as at 1 January 2023	**930**
Cash changes	
Deposits	-4
Non-cash changes	
Other changes	-5
Balance sheet value as at 31 December 2023	**921**

Reconciliation Cash flow from financing activities

(€ m)	Other subordinated capital
Balance sheet value as at 1 January 2022	**921**
Cash changes	
Payments made	-3
Non-cash changes	
Changes in fair value	10
Other changes	2
Balance sheet value as at 31 December 2022	**930**

Segment reporting

46. Segment report

2023 (€ m/%)	Real Estate	Shipping	Project Finance	Corporates	Lending Units	Treasury & Group Functions	Reconciliation	Group
Net interest income	199	159	90	182	630	34	-1	663
Net commission income	4	11	5	4	24	1	-2	23
Other income	6	10	7	-	23	35	18	76
Total income	**209**	**180**	**102**	**186**	**677**	**70**	**15**	**762**
Loan loss provisions	-177	11	37	38	-91	11	1	-79
Administrative expenses & regulatory costs	-99	-89	-52	-95	-335	-18	-	-353
Other operating result	-	-	-	-	-	97	-	97
Result from restructuring and transformation	-	-	-	-	-	-	-	-
Net income before taxes	**-67**	**102**	**87**	**129**	**251**	**160**	**16**	**427**
Income tax	14	-21	-18	-27	-52	-34	-70	-156
Earnings after taxes	**-53**	**81**	**69**	**102**	**199**	**126**	**-54**	**271**
NIM - Net interest margin (%)	2.57	5.60	2.62	3.61	3.33	-0.02	-	2.04
Cost/income ratio (CIR - %)	43	47	47	47	46	13	-	39
RoE after taxes (%)	**-8.3**	**22.9**	**22.2**	**17.0**	**10.5**	**49.6**	**-**	**12.5**
Average segment assets (€ bn)	7.7	2.8	3.4	5.2	19.1	11.9	-	31.0
Average risk weighted assets (€ bn)	4.9	2.7	2.4	4.6	14.6	2.0	-	16.6
Loan loss provisions – expected loss	-15	-4	-7	-12	-38	-	-	-38

31 December 2023 (€ bn/%)								
Segment assets	**7.8**	**2.4**	**3.4**	**6.0**	**19.6**	**11.9**	**-**	**31.5**
NPE ratio (%)	6.9	-	3.3	1.3	3.6	-	-	2.3

2022 (€ m/%)	Real Estate	Ship-ping	Project Finance	Corpo-rates	Lending Units	Treas-ury & Group Func-tions	Recon-ciliation	Group
Net interest income	171	150	63	133	517	29	4	550
Net commission income	5	12	7	10	34	1	-2	33
Other income	-1	15	-	-6	8	19	63	90
Total income	**175**	**177**	**70**	**137**	**559**	**49**	**65**	**673**
Loan loss provisions	11	18	-7	-11	11	2	-2	11
Administrative expenses & regulatory costs	-80	-83	-35	-58	-256	-106	-	-362
Other operating result	-	-	-	-	-	75	-	75
Result from restructuring and transformation	-	-	-	-	-	-34	-	-34
Net income before taxes	**106**	**112**	**28**	**68**	**314**	**-14**	**63**	**363**
Income tax	-22	-24	-6	-14	-66	69	59	62
Earnings after taxes	**84**	**88**	**22**	**54**	**248**	**55**	**122**	**425**
NIM - Net interest margin (%)	2.14	4.00	1.74	3.06	2.61	0.12	-	1.68
Cost/income ratio (CIR - %)	40	44	45	38	41	82	-	44
RoE after taxes (%)	**13.7**	**24.1**	**7.6**	**11.1**	**14.2**	**18.1**	**-**	**20.8**
Average segment assets (€ bn)	8.0	3.8	3.6	4.1	19.5	11.6	-	31.1
Average risk weighted assets (€ bn)	4.7	2.8	2.2	3.7	13.4	2.3	-	15.7
Loan loss provisions – expected loss	-10	-6	-6	-19	-41	-	-	-41

31 December 2022 (€ bn/%)								
Segment assets	**8.1**	**3.5**	**3.4**	**4.6**	**19.6**	**12.2**	**-**	**31.8**
NPE ratio (%)	2.1	1.0	1.2	2.3	1.8	-	-	1.2

General information

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

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

Segment structure

In line with the responsibilities of the Chief Investment Officer (CIO) on the Management Board, the segment structure bundles all credit-related units in the four segments "Real Estate", "Shipping", "Project Finance" and "Corporates". The Aviation division, which was established in the reporting year, is allocated to the Corporates segment. The four credit-related segments are additional presented together as "lending units". Main focus of the credit-related segments' business activities is on offering financing solutions in the lending business.

The remaining segment "Treasury & Group Functions" comprises the capital market activities that focus on the management of strategic investments, and the Treasury function as well as the remaining staff and service functions. The capital market activities comprise the management of the portfolios in the banking book (liquidity buffer, cover pools, strategic investment portfolio and management of pension liabilities) as well as the bank-wide asset liability management (ALM) and the management of the cash position. The financing business with institutional clients as well as the bank-wide syndication activities are also reported in the "Treasury & Group Functions" segment.

The contributions to operating earnings from the positions of the ALM book in the Treasury & Group Functions segment are allocated to the market-related segments. The investment and financing income, the other effects from equity and the transformation contribution are allocated to the market-related segments according to the liquidity costs that have been offset.

Segment reporting methodology
Segment earnings are recognised on the basis of internal performance measurement. Net interest income for the purpose of internal reporting to management is calculated in accordance with Fund Transfer Pricing (FTP). In addition, the net interest margin (NIM) is reported as a basis for the assessment of the net interest income. The NIM puts the operating net interest income in relation to the average segment assets. The operating net interest income results from the adjustment of the net interest income for non-operating effects. In contrast to previous reporting, the segment results no longer include the OCI effects (2023: € 101 million / 2022: € 19 million), as these previously had to be adjusted as equity items in the reconciliation. In addition, the loan loss provisions (income statement) – previously reported as a key figure below the segment results for information purposes – are now included in net income before taxes instead of the imputed loan loss provisions (expected loss) in the segment results. The imputed loan loss provisions (expected loss), which represent the expected loss of the transactions (through-the-cycle), are shown below the segment results for information purposes. This change in the reporting of segment results reduces the reconciliation to the Group net result and improves the transparency of the composition of the Group net result by segment. The prior-year figures have been adjusted for purposes of comparability.

In accordance with IFRS 8.28, the corresponding reconciliation effects on the individual items of the Group statement of income (IFRS) are shown separately under the "Reconciliation" item and explained in greater detail below.

Reconciliation effects in accordance with IFRS 8.28
With the change in IFRS accounting from 2023 (cf. Note 2: Change in previous year's figures), current payments from interest rate derivatives are recognised in the Result from financial instruments categorised as FVPL, together with the corresponding measurement effects (previously in Net interest income). This eliminates the previous mismatch and the resulting reconciliation effect in net interest income and other income in the segment report. In addition, the foreign currency effects from loan loss provisions are reported in the result from financial instruments categorised as FVPL from 2023 (previously reported under loan loss provisions in the income statement). The previous year's amounts were also adjusted in the segment report.

In the other income in the segment report, this leaves minor reconciliation effects in the Result from financial instruments categorised as FVPL and in the Result from hedging. This is due to differences in the presentation of capital market transactions between the internal management system and IFRS accounting, as well as from the hedging of financial instruments that can be included in the portfolio fair value hedge in full in the internal recognition of the interest rate hedge transaction, whereas under the IFRS, they cannot, or can only partly, be included in the portfolio fair value hedge.

In the segments, administrative expenses and regulatory costs are reported based on the regulatory costs allocated in the internal performance measurement (expenses for regulatory affairs, deposit guarantee fund and banking associations) and the standard processing costs applied (for administrative expenses). The difference to the administrative expenses at Group level is reported in the Treasury & Group Functions segment.

The income taxes of the segments are calculated using a planned tax rate of 21.0 percent on the respective net income before taxes. The difference to actual income taxes at Group level is reported in the Reconciliation item.

The return on equity (RoE after taxes) is based on a normalised equity backing (average risk weighted assets (RWA) and normalised CET1 ratio of 13 percent). The allocation of RWA to the individual segments also comprises the RWA for operational risks and the RWA for the asset liability management (ALM) holdings. The RWA for deferred taxes will no longer be allocated from 2023, following the full recognition of tax loss carryforwards as DTA and the conversion to the planned tax rate of 21.0 percent (previously: 12.8 percent minimum tax rate). The previous year's amounts have been adjusted for purposes of comparability.

Definitions
For the definition of the KPIs CIR and NPE ratio, please refer to the explanations provided in the Combined management report (Chapter "Basis of the Group", Section "Management system").

Disclosures on financial instruments

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

The following table shows the development of the gross carrying amounts of financial instruments not measured at fair value through profit or loss in the items in the statement of financial position Loans and advances to banks, Loans and advances to customers, Financial investments, Non-current assets held for sale and disposal groups, and for the off-balance sheet business.The development in loan loss provisions for financial instruments not measured at fair value through profit or loss is also shown separately by balance sheet item.

Development in gross carrying amounts for loans and advances to banks

(€ m)	2023				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2023	**777**	**–**	**–**	**–**	**777**
thereof AC	768	–	–	–	768
thereof FVOCI	9	–	–	–	9
Transfer to 12M ECL	2	– 2	–		–
thereof AC	2	– 2	–		–
Other changes	– 287	2	–	–	– 285
thereof AC	– 287	2	–	–	– 285
Carrying amounts as at 31 December 2023	**492**	**–**	**–**	**–**	**492**
thereof AC	483	–	–	–	483
thereof FVOCI	9	–	–	–	9

Development in gross carrying amounts for loans and advances to banks

(€ m)	2022				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2022	**1,236**	**-**	**-**	**-**	**1,236**
thereof AC	1,218	-	-	-	1,218
thereof FVOCI	18	-	-	-	18
Other changes	-459	-	-	-	-459
thereof AC	-450	-	-	-	-450
thereof FVOCI	-9	-	-	-	-9
Carrying amounts as at 31 December 2022	**777**	**-**	**-**	**-**	**777**
thereof AC	768	-	-	-	768
thereof FVOCI	9	-	-	-	9

Development in loan loss provisions for loans and advances to banks

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

Development of gross carrying amounts for loans and advances to customers

(€ m)	2023				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2023	**17,436**	**1,577**	**378**	**9**	**19,400**
thereof AC	16,702	1,573	378	9	18,662
thereof FVOCI	701	4	-	-	705
thereof receivables under finance leases	33	-	-	-	33
Transfer to LECL Stage 2	-2650	2,662	-12		-
thereof AC	-2650	2,662	-12		-
Transfer to LECL Stage 3	-241	-411	652		-
thereof AC	-241	-411	652		-
Transfer to 12M ECL	783	-783	-		-
thereof AC	783	-783	-		-
Other changes	-7	-784	-230	-9	-1030
thereof AC	41	-781	-230	-9	-979
thereof FVOCI	-43	-3	-	-	-46
thereof receivables under finance leases	-5	-	-	-	-5
Carrying amounts as at 31 December 2023	**15,321**	**2,261**	**788**	**-**	**18,370**
thereof AC	14,635	2,260	788	-	17,683
thereof FVOCI	658	1	-	-	659
thereof receivables under finance leases	28	-	-	-	28

Development of gross carrying amounts for loans and advances to customers

(€ m)	2022				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2022	**17,300**	**2,169**	**425**	**15**	**19,909**
thereof AC	16,354	2,164	425	15	18,958
thereof FVOCI	910	5	–	–	915
thereof receivables under finance leases	36	–	–	–	36
Transfer to LECL Stage 2	– 495	500	– 4		1
thereof AC	– 495	500	– 4		1
Transfer to LECL Stage 3	– 19	– 15	34		–
thereof AC	– 19	– 15	34		–
Transfer to 12M ECL	774	– 774	–		–
thereof AC	774	– 774	–		–
Other changes	-124	-303	-77	-6	– 510
thereof AC	88	-302	-77	-6	– 297
thereof FVOCI	-209	-1	–	–	– 210
thereof receivables under finance leases	-3	-	–	–	– 3
Carrying amounts as at 31 December 2022	**17,436**	**1,577**	**378**	**9**	**19,400**
thereof AC	16,702	1,573	378	9	18,662
thereof FVOCI	701	4	–	–	705
thereof receivables under finance leases	33	–	–	–	33

Development of loan loss provisions for loans and advances to customers

(€ m)	2023				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2023	**75**	**101**	**232**	**6**	**414**
Transfer to LECL Stage 2	-29	29	–	–	–
Transfer to LECL Stage 3	-1	-26	27	–	–
Transfer to 12M ECL	42	-42	–	–	–
Reversals due to disposals, repayments and other reductions	156	178	23	–	357
Additions due to new additions and other increases	104	205	139	3	451
Utilisation	–	–	143	7	150
Other changes incl. change is exchange rate	–	–	10	-2	8
Loan loss provisions as at 31 December 2023	**35**	**89**	**242**	**–**	**366**

Development of loan loss provisions for loans and advances to customers

(€ m)	2022				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2022	**68**	**169**	**204**	**5**	**446**
Transfer to LECL Stage 2	-3	3	–	–	–
Transfer to LECL Stage 3	–	-6	6	–	–
Transfer to 12M ECL	54	-54	–	–	–
Reversals due to disposals, repayments and other reductions	119	73	25	1	218
Additions due to new additions and other increases	74	63	73	2	212
Other changes incl. change is exchange rate	1	-1	4	–	4
Loan loss provisions as at 31 December 2022	**75**	**101**	**232**	**6**	**414**

As in the prior-year period, changes in loans and advances to customers in the reporting period relate only to transactions classified as AC.

Development of gross carrying amounts for financial investments

(€ m)	2023				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2023	**4,833**	**-**	**-**	**-**	**4,833**
thereof AC	80	-	-	-	80
thereof FVOCI	4,753	-	-	-	4,753
Other changes	2,347	-	-	-	2,347
thereof AC	86	-	-	-	86
thereof FVOCI	2,261	-	-	-	2,261
Carrying amounts as at 31 December 2023	**7,180**	**-**	**-**	**-**	**7,180**
thereof AC	166	-	-	-	166
thereof FVOCI	7,014	-	-	-	7,014

Development of gross carrying amounts for financial investments

(€ m)	2022				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2022	**4,049**	**16**	**-**	**-**	**4,065**
thereof AC	91	-	-	-	91
thereof FVOCI	3,958	16	-	-	3,974
Transfer to 12M ECL	36	-36	-	-	-
thereof FVOCI	36	-36	-	-	-
Transfer to LECL Stage 2	-31	31	-	-	-
thereof FVOCI	-31	31	-	-	-
Other changes	780	-12	-	-	768
thereof AC	-11	-	-	-	-11
thereof FVOCI	791	-12	-	-	779
Carrying amounts as at 31 December 2022	**4,834**	**-1**	**-**	**-**	**4,833**
thereof AC	80	-	-	-	80
thereof FVOCI	4,754	-1	-	-	4,753

Development in loan loss provisions for financial investments

(€ m)	2023				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2023	**1**	**–**	**–**	**–**	**1**
Reversals due to disposals and other reductions	1	–	–	–	1
Additions due to new additions and other increases	1	–	–	–	1
Loan loss provisions as at 31 December 2023	**1**	**–**	**–**	**–**	**1**

Development in loan loss provisions for financial investments

(€ m)	2022				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2022	**1**	**–**	**–**	**–**	**1**
Reversals due to disposals	1	–	–	–	1
Additions due to new additions	1	–	–	–	1
Loan loss provisions as at 31 December 2022	**1**	**–**	**–**	**–**	**1**

As in the prior-year period, changes in financial investments in the reporting period relate only to transactions classified as FVOCI.

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

(€ m)	2023				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2023	**–**	**–**	**–**	**–**	**–**
New additions and increases	11	–	–	–	11
Other changes	– 11	–	–	–	– 11
Carrying amount as at 31 December 2023	**–**	**–**	**–**	**–**	**–**

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

(€ m)	2022				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2022	**10**	**–**	**–**	**–**	**10**
Other changes	– 10	–	–	–	– 10
Carrying amount as at 31 December 2022	**–**	**–**	**–**	**–**	**–**

Carrying amounts off-balance-sheet business

(€ m)	2023				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 01 January 2023	**3,537**	**91**	**26**	**-**	**3,654**
Transfer to LECL Stage 2	57	-70	13	-	-
Transfer to 12M ECL	-4	4	-	-	-
Other changes	536	582	25	-	1,143
Carrying amounts as at 31 December 2023	**4,126**	**607**	**64**	**-**	**4,797**

Carrying amounts off-balance-sheet business

(€ m)	2022				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2022	**3,859**	**222**	**64**	**-**	**4,145**
Transfer to LECL Stage 2	-1	1	-	-	-
Other changes	-321	-132	-38	-	-491
Carrying amounts as at 31 December 2022	**3,537**	**91**	**26**	**-**	**3,654**

Development in loan loss provisions for off-balance sheet business

(€ m)	2023				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2023	**2**	**1**	**31**	**–**	**34**
Transfer to LECL Stage 2	-2	2	–	–	–
Transfer to 12M ECL	2	-2	–	–	–
Reversals due to disposals and other reductions	-11	-14	-13	–	-38
Additions due to new additions and other increases	13	22	5	–	40
Reclassifications	–	–	7	–	7
Loan loss provisions as at 31 December 2023	**4**	**9**	**30**	**–**	**43**
thereof provisions for contingent liabilities	–	1	8	–	9
thereof provisions for irrevocable loan commitments	4	8	22	–	34

Development in loan loss provisions for off-balance sheet business

(€ m)	2022				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2022	**2**	**1**	**41**	**–**	**44**
Transfer to 12M ECL	1	-1	–	–	–
Reversals due to disposals and other reductions	-3	-4	-11	–	-18
Additions due to new additions and other increases	2	5	1	–	8
Loan loss provisions as at 31 December 2022	**2**	**1**	**31**	**–**	**34**
thereof provisions for contingent liabilities	–	–	8	–	8
thereof provisions for irrevocable loan commitments	2	1	23	–	26

48. Residual maturity breakdown of financial instruments

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

Residual maturity breakdown

(€ m) 2023	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Liabilities						
Liabilities to banks	144	415	2,137	1,732	418	4,846
Liabilities to customers	4,614	4,655	2,593	1,289	772	13,923
Securitised liabilities	–	403	1,147	6,347	164	8,061
Negative fair value of hedging derivatives	–	44	49	75	26	194
Trading liabilities	–	33	97	195	63	388
thereof: Derivatives	–	33	97	195	60	385
Other liabilities	3	51	13	49	2	118
Subordinated capital	–	10	34	127	1,034	1,205
Contingent liabilities	634	–	–	–	–	634
Irrevocable loan commit-ments	4,163	–	–	–	–	4,163
Total	**9,558**	**5,611**	**6,070**	**9,814**	**2,479**	**33,532**

Residual maturity breakdown

(€ m) 2022	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Liabilities						
Liabilities to banks	309	123	959	2,914	492	4,797
Liabilities to customers	4,743	3,403	2,732	1,854	859	13,591
Securitised liabilities	–	28	2,338	4,225	577	7,168
Negative fair value of hedging derivatives	–	10	16	76	45	147
Trading liabilities	1	22	77	168	28	296
thereof: Derivatives	1	21	75	158	–	255
Other liabilities	1	66	16	60	–	143
Subordinated capital	–	5	31	146	1,129	1,311
Contingent liabilities	831	–	–	–	–	831
Irrevocable loan commit-ments	3,294	–	–	–	–	3,294
Total	**9,179**	**3,657**	**6,169**	**9,443**	**3,130**	**31,578**

Interest rate swaps, cross currency interest rate swaps and equity swaps are presented on the basis of their future net payment obligations. Other derivatives are assigned to maturity bands by overall maturity at their carrying amount. Liquidity management is described in detail in the risk report included in the combined management report of HCOB.

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

I. Fair values of financial instruments

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

Fair values of financial instruments

Assets

(€ m) 2023	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVOCI Mandatory	**7,682**	**7,682**	**3,482**	**3,685**	**515**
Loans and advances to banks	9	9	–	9	–
Loans and advances to customers	659	659	–	659	–
Financial investments	7,014	7,014	3,482	3,017	515
FVPL Designated	**90**	**90**	**34**	**56**	**-**
Financial investments	90	90	34	56	–
FVPL Held For Trading	**335**	**335**	**-**	**332**	**3**
Trading assets	335	335	–	332	3
FVPL Other	**664**	**664**	**269**	**167**	**228**
Loans and advances to customers	139	139	–	3	136
Financial investments	525	525	269	164	92
AC assets	**21,920**	**21,982**	**-**	**5,104**	**16,878**
Cash reserve	3,857	3,857	–	3,857	–
Loans and advances to banks	483	482	–	478	4
Loans and advances to customers	17,317	17,381	–	593	16,788
Financial investments	166	165	–	79	86
Other assets	97	97	–	97	–
No IFRS 9 category	**28**	**28**	**-**	**-**	**-**
Receivables under finance leases	28	28	n.r.	n.r.	n.r.
Total assets	**30,719**	**30,781**	**3,785**	**9,344**	**17,624**

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

The information on the one-off valuation of an earn-out valuation has already been provided in Note 33 for other assets and is not shown here or in the following tables.

Fair values of financial instruments

Assets

(€ m) 2022	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVOCI Mandatory	**5,468**	**5,468**	**2,695**	**2,213**	**560**
Loans and advances to banks	10	10	-	10	-
Loans and advances to customers	705	705	-	705	-
Financial investments	4,753	4,753	2,695	1,498	560
FVPL Designated	**83**	**83**	**32**	**51**	**-**
Financial investments	83	83	32	51	-
FVPL Held For Trading	**441**	**441**	**-**	**315**	**126**
Trading assets	441	441	-	315	126
FVPL Other	**614**	**614**	**248**	**164**	**202**
Loans and advances to customers	192	192	-	-	192
Financial investments	422	422	248	164	10
AC assets	**24,179**	**24,094**	**-**	**10,985**	**13,109**
Cash reserve	4,974	4,974	-	4,974	-
Loans and advances to banks	767	765	-	765	-
Loans and advances to customers	18,247	18,168	-	5,059	13,109
Financial investments	80	76	-	76	-
Other assets	111	111	-	111	-
No IFRS 9 category	**34**	**34**	**-**	**-**	**-**
Receivables under finance leases	34	34	-	-	-
Value adjustments from the portfolio fair value hedge	-	-	-	-	-
Total assets	**30,819**	**30,734**	**2,975**	**13,728**	**13,997**

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

Fair values of financial instruments

Liabilities

(€ m) 2023	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	**240**	**240**	**-**	**155**	**85**
Liabilities to banks	3	3	–	–	3
Liabilities to customers	110	110	–	38	72
Securitised liabilities	127	127	–	117	10
FVPL Held For Trading	**184**	**184**	**-**	**180**	**4**
Trading liabilities	184	184	–	180	4
AC liabilities	**26,644**	**26,361**	**-**	**23,796**	**2,565**
Liabilities to banks	4,668	4,478	–	2,797	1,681
Liabilities to customers	13,506	13,476	–	13,373	103
Securitised liabilities	7,448	7,340	–	6,559	781
Other liabilities	101	101	–	101	–
Subordinated capital	921	966	–	966	–
No IFRS 9 category	**62**	**62**	**-**	**62**	**-**
Negative fair value of hedging derivatives	62	62	–	62	–
Total liabilities	**27,130**	**26,847**	**-**	**24,193**	**2,654**

Fair values of financial instruments

Liabilities

(€ m) 2022	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	**268**	**268**	**-**	**167**	**101**
Liabilities to banks	3	3	–	–	3
Liabilities to customers	123	123	–	35	88
Securitised liabilities	142	142	–	132	10
FVPL Held For Trading	**335**	**335**	**-**	**280**	**55**
Trading liabilities	335	335	–	280	55
AC liabilities	**25,502**	**25,042**	**-**	**24,255**	**787**
Liabilities to banks	4,601	4,290	–	4,290	–
Liabilities to customers	13,123	13,093	–	13,067	26
Securitised liabilities	6,731	6,556	–	5,795	761
Other liabilities	118	118	–	118	–
Subordinated capital	929	985	–	985	–
No IFRS 9 category	**65**	**65**	**-**	**65**	**-**
Negative fair value of hedging derivatives	65	65	–	65	–
Value adjustments from the portfolio fair value hedge	–	–	–	–	–
Total liabilities	**26,170**	**25,710**	**-**	**24,767**	**943**

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

Transfer, assets

(€ m) 2023	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Trading assets (FVPL Trading)	–	–	6	–	–	-6
Financial investments						
thereof FVOCI Mandatory	37	-331	719	-37	–	-388
thereof FVPL Designated	3	-1	1	-3	–	–
thereof FVPL Other	34	-99	99	-81	47	–
Total	**74**	**-431**	**825**	**-121**	**47**	**-394**

Transfer, assets

(€ m) 2022	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Trading assets (FVPL Trading)	–	–	1	-2	2	-1
Financial investments						
thereof FVOCI Mandatory	2,268	-1209	1,209	-2268	–	–
thereof FVPL Designated	2	-3	3	-2	–	–
thereof FVPL Other	172	-2	50	-172	–	-48
Total	**2,442**	**-1214**	**1,263**	**-2444**	**2**	**-49**

Transfer, liabilities

(€ m) 2023	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Trading assets (FVPL Trading)	–	–	8	–	–	–8
Total	**-**	**-**	**8**	**-**	**-**	**-8**

Transfer, liabilities

(€ m) 2022	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Trading liabilities (HfT)	–	–	–	–3	3	–
Total	**-**	**-**	**-**	**-3**	**3**	**-**

IFRS 13 contains the requirements for fair value determination, which are further specified by IDW RS HFA 47. They also include the guidelines for assigning input factors to the fair value hierarchy levels. Hamburg Commercial Bank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities that are commonly traded on the OTC market. Average prices determined on the basis of binding offers or transaction-based prices are Level 2 input factors within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities were accordingly transferred from Level 1 to Level 2 or vice versa in the reporting period – depending on the prices used for measurement. On the basis of a more liquid price supply by the market data provider, a significant part of the CLO portfolio in financial assets was reclassified from fair value level 3 to fair value level 2 in the period under review.

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

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Quantitative changes	
2023	1 January 2023	Realised net income (income statement)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	192	-12	-	10	-15
Trading assets (FVPL Trading)	126	10	-	-	-4
Financial investments					
thereof FVOCI Mandatory	560	-	5	340	-3
thereof FVPL Other	10	-5	-	42	-
Total	**888**	**-7**[1]	**5**	**392**	**-22**

[1] Of the net income in the income statement recognised in profit or loss, € -10 million relate to the result from financial instruments categorised as FVPL and € 3 million to the net interest result.

Quantitative changes		Transfers					
Issues	Settle-ments	From Level 3	To Level 3	Transfer/ recatego-risation	Exchange rate changes	31 Decem-ber 2023	Net income from assets held as at 31 December 2023
–	-37	–	–	2	-4	136	-14
–	-123	-6	–	–	–	3	-3
–	–	-388	–	–	1	515	–
–	-2	–	47	–	–	92	-4
-	**-162**	**-394**	**47**	**2**	**-3**	**746**	**-21**

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Changes in volume	
2022	1 January 2022	Realised net in-come (income state-ment)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	291	-14	-	-	-52
Trading assets (FVPL Trading)	119	-16	-	37	-
Financial investments					
thereof FVOCI Mandatory	242	2	-11	343	-
thereof FVPL Other	59	-2	-	1	-
Total	**711**	**-30**	**-11**	**381**	**-52**

[1] Of the net income in the income statement recognised in profit or loss, € -32 million relate to the result from financial instruments categorised as FVPL and € 2 million to the net interest result

Quantitative changes		Transfers					
Issues	Settle-ments	From Level 3	To Level 3	Transfer/ recatego-risation	Exchange rate changes	31 Decem-ber 2022	Net income from assets held as at 31 December 2022
–	-42	–	–	–	9	192	-19
–	-14	-1	2	-1	–	126	-15
–	-23	–	–	–	7	560	–
–	–	-48	–	–	–	10	–
-	**-79**	**-49**	**2**	**-1**	**16**	**888**	**-34**

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Quantitative changes	
2023	1 January 2023	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	3	-	-	-	-
Liabilities to customers					
FVPL Designated	88	2	-	-	-2
Securitised liabilities					
FVPL Designated	10	-	-	-	-
Trading assets (FVPL Trading)	55	-	-	-	-
Total	**156**	**2**[1]	**-**	**-**	**-2**

[1] Of the net income in the income statement recognised in profit or loss, € 2 million relate to the result from financial instruments categorised as FVPL

Quantitative changes		Transfers					
New business	Settle-ments	From Level 3	To Level 3	Transfer/ recatego-risation	Exchange rate changes	31 Decem-ber 2023	Net income from assets held as at 31 December 2023
–	–	–	–	–	–	3	–
–	-16	–	–	–	–	72	2
–	–	–	–	–	–	10	–
–	-41	-8	–	-2	–	4	3
-	**-57**	**-8**	**-**	**-2**	**-**	**89**	**5**

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Quantitative changes	
2022	1 January 2022	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	15	-2	-	-	-10
Liabilities to customers					
FVPL Designated	126	-11	-1	-	-26
Securitised liabilities					
FVPL Designated	12	-2	-	-	-
Trading assets (FVPL Trading)	56	-9	-	8	-
Total	**209**	**-24**[1]	**-1**	**8**	**-36**

[1] Of the net income in the income statement, € -22 million relate to the result from financial instruments categorised as FVPL and € -2 million to the net interest result

Quantitative changes		Transfers					
New business	Settlements	From Level 3	To Level 3	Transfer/ recategorisation	Exchange rate changes	31 December 2022	Net income from assets held as at 31 December 2022
–	–	–	–	–	–	3	1
–	–	–	–	–	–	88	11
–	–	–	–	–	–	10	3
–	-2	–	3	-1	–	55	4
-	**-2**	**-**	**3**	**-1**	**-**	**156**	**19**

II. Information on significant unobservable inputs

QUANTITATIVE INFORMATION ON SIGNIFICANT UNOBSERVABLE INPUTS

The following overview contains quantitative information on significant unobservable inputs.

Fair Value

(€ m) 2023		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	136		DCF method	Spread (bps)	163–1,306
Trading assets/ trading liabilities	FVPL Held For Trading	3	4	DCF method	Spread	163–1,306
				Option pricing model	Swaption volatility	10%-26%
				Option pricing model	Spread	10%-253%
Financial investments	FVPL Other	92		Price	Price	1–99
				DCF method	Spread	0–315
	FVOCI Mandatory	515		Price	Price	1–99
Liabilities to banks	FVPL Designated		3	Option pricing model	Swaption volatility	10%-26%
Liabilities to customers	FVPL Designated		72	Option pricing model	Swaption volatility	10%-26%
Securitised liabilities	FVPL Designated		10	Option pricing model	Swaption volatility	10%-26%
Total		**746**	**89**			

Fair Value

2022		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	192		DCF method	Spread (bps)	1-13
Trading assets/ trading liabilities	FVPL Held For Trading	126	55	DCF method	Spread	1-13
				Option pricing model	Swaption volatility	11%-26%
					Interest rate FX correlation	-39%-26%
				Option pricing model	FX correlation	10%-67%
Financial invest-ments	FVPL Other	10		Price	Price	14,610-34,053
				DCF method	Capital costs	9%-10%
	FVOCI Mandatory	560		DCF method	Spread (bps)	167-251
				Price	Price	95-100
Liabilities to banks	FVPL Designated		3	Option pricing model	Interest rate FX correlation	-39%-26%
Liabilities to customers	FVPL Designated		88	Option pricing model	Interest rate FX correlation	-39%-26%
				Price	Price	1
Securitised liabilities	FVPL Designated		10	Option pricing model	Interest rate FX correlation	-39%-26%
Total		**888**	**156**			

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

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

SENSITIVITIES OF FAIR VALUE IN RELATION TO UNOBSERVABLE INPUT
The following describes how the fair value of financial instruments can change as a result of fluctuations in significant unobservable outputs.

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

value of several currencies. Share correlations express the relationship between yields on different shares. A high degree of correlation means that there is a close relationship between the changes in value of the respective underlyings.

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

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

The fair value of options typically increases if volatility increases. The sensitivity of the fair value of options to changes in volatility can vary considerably. For example, the sensitivity of the fair value to changes in volatility is comparatively high, if the price of the underlying is close to the agreed exercise price ("at-the-money"). By contrast, sensitivity to changes in volatility is lower, if the price of the underlying is far from the exercise price ("(far-out-of-the-money" or "far-in-the-money").

PRICE
Prices can represent an important unobservable input for the measurement of financial instruments. These prices represent pricing information of third parties within the meaning of IFRS 13.93(d) sentence 4, whereby the Bank does not produce any quantitative, unobservable input factors for measuring the fair value of the respective financial instrument. More detailed quantitative information on these input factors is therefore not required. The fair value increases, if the price increases, and it falls, if the price declines.

Reciprocal effects between unobservable inputs
Reciprocal effects between unobservable inputs can exit in principle. If several unobservable inputs are used in determining fair value, the range of the possible characteristics for another unobservable input can be restricted or increased by the characteristic used for one of the relevant unobservable inputs.

Effects of unobservable inputs
If the measurement of a financial instrument is based partly on unobservable inputs, the fair value determined is the best estimated value in accordance with a discretionary decision made by the Bank. However, it remains subjective in that there may be alternative input selection options that cannot be refuted by observable market data. For many of the financial instruments included (such as derivatives), the unobservable inputs only represent a subset of the total inputs required for the measurement. The remaining inputs are observable inputs.

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had certain effects on the fair values of the financial instruments in question. Advantageous and disadvantageous changes to fair value have been determined by recalculating the fair values based on possible alternative values to the relevant unobservable inputs. The interest volatilities were changed by +/-5%, all correlations by +/-20% (capped at +/-100%), price parameters by +/-2% and spreads by +/-50 bp. Overall, this would then have had a positive/negative effect on the fair values of the financial instruments in question in the amount of € 17 million (previous year: € 28 million). Of this amount, € 7 million (previous year: € 17 million) was recognised in the income statement as income/expense and € 10 million (previous year: € 11 million) in the revaluation reserve

III. Day one profit and loss

The day one profit and loss reserve developed as follows:

(€ m)	2023	2022
Holdings as at 1 January	**4**	**4**
Additions not recognised in profit or loss	-	-
Reversals recognised in profit or loss	-	-
Holdings as at 31 December	**4**	**4**

The day one profit and loss reserve is solely attributable to financial instruments classified as FVPL Trading.

50. Offsetting of financial instruments

Financial assets and financial liabilities are netted and disclosed as a net amount on the statement of financial position, if there is a legal entitlement to do so at the current point in time and there is the intention to settle the claims on a net basis or to settle the associated liability at the time the asset concerned is realised.

In the following, those financial instruments on the statement of financial position are presented that were netted as at the reporting date as well as financial instruments, which are subject to a legally enforceable global netting agreement, irrespective of whether the financial instruments concerned are actually netted on the face of the statement of financial position. Master agreements commonly used at Hamburg Commercial Bank are master agreements for repo transactions and, for OTC transactions, ISDA master agreements and the German master agreement for financial derivatives (DRV). These provide for offsetting of mutual claims and obligations only in the event of termination of all individual transactions under a master agreement based on certain events and therefore do not entitle the parties to offset the recognised assets and liabilities. Hamburg Commercial Bank has entered into clearing agreements with brokers for certain OTC derivatives enabling the Bank to access central counterparties (clearing houses). The contractual provisions for these transactions include a legal right to offset financial assets and financial liabilities that can be enforced at any time and thus, in accordance with IAS 32.42, result in the offsetting of the positive and negative fair values of the derivative financial instruments and collateral provided and received included in loans and advances to banks and customers or liabilities to banks and customers for accounting purposes.

In addition, loans and advances to banks and customers actually netted and liabilities to banks and customers arising from genuine repo transactions are shown on the basis of netting agreements.

Financial assets

(€ m) 2023	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
Loans and advances to banks	358	124	234	-	134	100
Loans and advances to customers	8	-	8	-	8	-
Derivatives	595	372	223	8	74	141

Of the net amount of derivatives disclosed in the statement of financial position, € 0 million is attributable to positive market values of hedging derivatives and € 223 million to trading assets.

Financial liabilities

(€ m) 2023	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	205	99	106	-	74	32
Liabilities to customers	-	-	-	-	-	-
Derivatives	619	397	222	8	142	72

Of the net amount of derivatives disclosed on the statement of financial position, negative market values of hedging derivatives account for € 62 million and trading liabilities for € 160 million.

Financial assets

(€ m) 2022	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
Loans and advances to banks	350	103	247	-	128	119
Loans and advances to customers	4	-	4	-	4	-
Derivatives	850	580	270	28	118	124

Of the net amount of derivatives disclosed on the statement of financial position, positive market values of hedging derivatives account for € 0 million and trading assets for € 270 million.

Financial liabilities

(€ m) 2022	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	504	100	404	-	115	289
Liabilities to customers	4	-	4	-	4	-
Derivatives	873	583	290	28	131	131

Of the net amount of derivatives disclosed on the statement of financial position, negative market values of hedging derivatives account for € 65 million and trading liabilities for € 225 million.

51. Credit risk analysis of impaired financial assets

I. Credit quality

The following table contains information on the credit quality of all financial instruments held by the Bank. It shows the credit risk exposures by classifying the gross carrying amounts of financial assets and the nominal amounts of off-balance sheet transactions by credit risk level and assigning them to rating categories. This is based on the DSGV master scale, which is used in all rating procedures.

Credit quality

(€ m) 2023	1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12-month ECL)				
Cash reserve				
thereof AC assets	3,857	–	–	–
Loans and advances to banks				
thereof AC assets	75	398	–	11
thereof FVOCI Mandatory	9	–	–	–
Loans and advances to customers				
thereof AC assets	368	3,456	6,663	4,048
thereof FVOCI Mandatory	574	84	–	–
Financial investments				
thereof AC assets	–	60	19	87
thereof FVOCI Mandatory	2,729	2,671	344	1,272
Other assets				
thereof AC assets	–	97	–	–
No holding category				
Receivables under finance leases	–	28	–	–
Contingent liabilities	14	154	57	15
Irrevocable loan commitments	21	1,091	1,626	1,036
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)				
Loans and advances to customers				
thereof AC assets	–	8	101	1,582
thereof FVOCI Mandatory	–	–	1	–
Financial investments				
thereof FVOCI Mandatory	–	–	–	–
No holding category				
Contingent liabilities	20	99	53	175
Irrevocable loan commitments	–	1	101	201
Credit-impaired (LECL Stage 3)				
Loans and advances to customers				
thereof AC assets	–	–	–	–
No holding category				
Contingent liabilities	–	–	–	–
Irrevocable loan commitments	–	–	–	–
Financial instruments that are purchased or originated credit-impaired (POCI)				
Loans and advances to customers				
thereof AC assets	–	–	–	–
Total	**7,667**	**8,147**	**8,965**	**8,427**

Credit quality

(€ m) 2023	10 to 12	13 to 15	16 to 18	Total
Financial instruments without any significant deterioration in credit quality (12-month ECL)				
Cash reserve				
thereof AC assets	–	–	–	3,857
Loans and advances to banks				
thereof AC assets	–	–	–	484
thereof FVOCI Mandatory	–	–	–	9
Loans and advances to customers				
thereof AC assets	94	6	–	14,635
thereof FVOCI Mandatory	–	–	–	658
Financial investments				
thereof AC assets	–	–	–	166
thereof FVOCI Mandatory	–	–	–	7,016
Other assets	–	–	–	–
thereof AC assets	–	–	–	97
No holding category				
Receivables under finance leases	–	–	–	28
Contingent liabilities	–	1	–	241
Irrevocable loan commitments	3	2	–	3,779
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)				
Loans and advances to customers				
thereof AC assets	479	90	–	2,260
thereof FVOCI Mandatory	–	–	–	1
Financial investments				
thereof FVOCI Mandatory	–	–	–	–
No holding category				
Contingent liabilities	15	6	–	368
Irrevocable loan commitments	60	7	–	370
Credit-impaired (LECL Stage 3)				
Loans and advances to customers				
thereof AC assets	–	142	645	787
No holding category				
Contingent liabilities	–	–	24	24
Irrevocable loan commitments	–	–	15	15
Financial instruments that are purchased or originated credit-impaired (POCI)				
Loans and advances to customers				
thereof AC assets	–	–	–	–
Total	**651**	**254**	**684**	**34,795**

The Bank does not apply the simplified approach under IFRS 9.5.5.15, meaning that the disclosure under IFRS 7.35 M(b)(iii) is not relevant.

Credit quality

(€ m) 2022	1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12-month ECL)				
Cash reserve				
thereof AC assets	4,974	–	–	–
Loans and advances to banks				
thereof AC assets	470	284	5	9
thereof FVOCI Mandatory	–	10	–	–
Loans and advances to customers				
thereof AC assets	374	4,959	6,934	4,334
thereof FVOCI Mandatory	509	111	82	–
Financial investments				
thereof AC assets	–	–	80	–
thereof FVOCI Mandatory	2,063	2,114	565	14
Other assets				
thereof AC assets	–	111	–	–
No holding category				
Receivables under finance leases	–	33	–	–
Contingent liabilities	9	130	169	13
Irrevocable loan commitments	42	1,070	1,246	852
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)				
Loans and advances to customers				
thereof AC assets	–	–	372	899
thereof FVOCI Mandatory	–	–	3	–
Financial investments				
thereof FVOCI Mandatory	–	–	–	–
No holding category				
Contingent liabilities	–	–	3	11
Irrevocable loan commitments	–	–	10	43
Credit-impaired (LECL Stage 3)				
Loans and advances to customers				
thereof AC assets	–	–	–	–
No holding category				
Contingent liabilities	–	–	–	–
Irrevocable loan commitments	–	–	–	–
Financial instruments that are purchased or originated credit-impaired (POCI)				
Loans and advances to customers				
thereof AC assets	–	–	–	–
Total	**8,441**	**8,822**	**9,469**	**6,175**

Credit quality

(€ m) 2022	10 to 12	13 to 15	16 to 18	Total
Financial instruments without any significant deterioration in credit quality (12-month ECL)				
Cash reserve				
thereof AC assets	–	–	–	4,974
Loans and advances to banks				
thereof AC assets	–	–	–	768
thereof FVOCI Mandatory	–	–	–	10
Loans and advances to customers				
thereof AC assets	85	18	–	16,704
thereof FVOCI Mandatory	–	–	–	702
Financial investments				
thereof AC assets	–	–	–	80
thereof FVOCI Mandatory	–	–	–	4,756
Other assets	–	–	–	
thereof AC assets	–	–	–	111
No holding category				
Receivables under finance leases	–	–	–	33
Contingent liabilities	–	–	–	321
Irrevocable loan commitments	–	6	–	3,216
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)				
Loans and advances to customers				
thereof AC assets	283	18	–	1,572
thereof FVOCI Mandatory	–	–	–	3
Financial investments				
thereof FVOCI Mandatory	–	–	–	0
No holding category				
Contingent liabilities	6	–	–	20
Irrevocable loan commitments	13	5	–	71
Credit-impaired (LECL Stage 3)				
Loans and advances to customers				
thereof AC assets	–	–	377	377
No holding category				
Contingent liabilities	–	–	19	19
Irrevocable loan commitments	–	–	8	8
Financial instruments that are purchased or originated credit-impaired (POCI)				
Loans and advances to customers				
thereof AC assets	–	–	8	8
Total	**387**	**47**	**412**	**33,753**

II. Credit risk exposure

With the exception of loans and advances to banks and customers, the credit risk exposure as at the reporting date corresponds to the carrying amount of financial assets, as presented in Note 47, as well as the nominal value of off-balance sheet liabilities as presented in Note 55.

In the case of loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount after loan loss provisions as presented in Note 25. The maximum default risk of the loans and advances recognised at fair value through profit or loss (FVPL) is not reduced by associated credit derivatives.

Collateral and other risk-reducing agreements are not reflected in these amounts.

III. Collateral received

A) COLLATERAL VALUES OF FINANCIAL ASSETS THAT MINIMISE THE DEFAULT RISK AND ARE NOT SUBJECT TO THE IMPAIRMENT PROCEDURE

The following information quantifies the extent to which the collateral retained and other loan collateralisation reduce the maximum default risk for financial instruments that are not subject to the impairment procedure pursuant to IFRS 9. The amount of risk reduction from the value of each form of collateral is indicated for each class of financial instruments.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio.

The following table shows the respective carrying amount for each class of financial instrument as well as the collateral value that reduces default risk.

Financial assets and associated collateral

(€ m)		Value of collateral received		
2023	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Financial investments	90	–	–	–
FVPL Other				
Loans and advances to customers	139	–	–	–
Financial investments	525	–	–	–
FVPL Held For Trading				
Trading assets	335	2	2	101
Total assets	**1,089**	**2**	**2**	**101**

Financial assets and associated collateral

(€ m)		Value of collateral received		
2022	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Financial investments	83	–	–	–
FVPL Other				
Loans and advances to customers	192	36	–	–
Financial investments	422	–	–	–
FVPL Held For Trading				
Trading assets	441	93	2	145
Total assets	**1,138**	**129**	**2**	**145**

B) IMPAIRED FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

The following overview shows the volume and concentration of collateral held by Hamburg Commercial Bank to reduce the default risk and other loan collateralisation for impaired financial assets.

(€ m)		Value of collateral received		
2023	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	787	418	–	61
No holding category				
Contingent liabilities	24	–	2	10
Irrevocable loan commitments	15	13	–	–
Total assets	**826**	**431**	**2**	**71**

(€ m)		Value of collateral received		
2022	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	385	112	4	73
No holding category				
Contingent liabilities	19	–	2	10
Irrevocable loan commitments	8	–	–	–
Total assets	**412**	**112**	**6**	**83**

For loans and advances to customers in the amount of € 0 million (previous year: € 0 million), no impairment losses were recognised despite default due to the collateral available.

Collateral is a key instrument for managing default risks. They are included in the main procedures for managing and monitoring default risks to reduce risks. The methods and processes for the valuation and management of collateral are set out in Hamburg Commercial Bank's Collateral Guideline.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio. Only collateral listed in the collateral catalogue is included as valuable collateral. Upon initial recognition, the value of movable property and real estate recognised as collateral is determined by an appraiser who is independent of the market. Depending on the type of collateral, the recoverability and realisation options are reviewed regularly at set intervals, and more frequently in the event of considerable market fluctuations.

Collateral values are predominantly provided by domestic collateral providers. The creditworthiness of the collateral providers is mainly in the 1(AAA) to 1(A-) rating categories.

Information on the risk concentrations for the collateral provided can be found in the Risk Report in the Default risk section.

C) THEREOF COLLATERAL RECEIVED FOR WHICH THERE ARE NO RESTRICTIONS ON DISPOSAL OR REALISATION EVEN IF THERE IS NO DEFAULT IN PAYMENT

Hamburg Commercial Bank received collateral from counterparties with a total fair value of € 107 million (31 December 2022: € 145 million). The collateral received is broken down as follows: € 107 million (31 December 2022: € 145 million) is attributable to over-the-counter derivative and structured transactions. The collateral received includes cash collateral in the amount of € 107 million (31 December 2022: € 145 million). Collateral received was not resold or pledged. There are no restrictions on disposal or realisation. Hamburg Commercial Bank is obliged to return all collateral resold or pledged to the guarantor without exception.

Hamburg Commercial Bank carries out securities repurchase and lending transactions as well as tri-party repo transactions under standard master agreements with selected counterparties. The same conditions and collateralisation methods apply as for collateral transferred and received.

D) OTHER COLLATERAL RECEIVED

As in the previous year, no assets from the realisation of collateral were capitalised in the reporting period.

IV. Assets that have been written off and are still subject to an enforcement measure

In the current reporting period, financial assets that are still subject to an Authorisations measure were written off in the amount outstanding under contract law of € 7 million (previous year: € 10 million).

52. Restructured or modified loans

The following table shows the carrying amounts of loans and loan commitments that have been restructured or whose contractual terms and conditions have been modified in order to place the debtor in a position to continue to service or resume servicing its capital debt despite financial difficulties.

Forbearance exposure

(€ m) 2023	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	348	432	780
Irrevocable and revocable loan commitments	24	1	25
Total	**372**	**432**	**805**

Forbearance exposure

(€ m) 2022	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	418	354	772
Irrevocable and revocable loan commitments	12	8	20
Total	**430**	**362**	**792**

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 184 million have already been set up for the portfolios measured at amortised cost (previous year: € 261 million).

53. Information on unconsolidated structured entities

I. Interests in unconsolidated structured entities

Hamburg Commercial Bank maintains business relationships with unconsolidated structured entities, within the meaning of an interest pursuant to IFRS 12, if Hamburg Commercial Bank is exposed to variable returns based on equity, debt instruments, derivatives, guarantees, etc.

These unconsolidated structured entities relate to ABS investments, securitisation and refinancing vehicles, investment funds and other structured entities.

With a total of 121 unconsolidated structure entities (previous year: 91), Hamburg Commercial Bank maintains a business relationship (i.e. holds an interest). The following table shows the accumulated total assets of the unconsolidated structured entities with which Hamburg Commercial Bank maintains a business relationship within the meaning of an interest:

Information on the size of unconsolidated structured entities

(€ m)	Number		Total assets	
	2023	2022	2023	2022
ABS investments	68	38	15,683	9,364
Investment funds	8	12	3,080	7,190
Securitisation and refinancing vehicles	22	20	3,725	587
Other	23	21	15,811	9,549
Total	**121**	**91**	**38,299**	**26,690**

Refinancing and securitisation vehicles refinance their assets via securities, SSDs (promissory notes) or refinancing facilities, etc. These companies are involved in the (revolving) purchase and, in certain cases, securitisation of loan, trading and lease receivables, including refinancing with investors. They are mainly financed through issuing debentures (and promissory notes) as well as via loans and subordinated loans. In addition, there are 68 units in connection with ABS investments ABS structures are financed by the issuance of debentures. In addition, investments in ABS structures are backed up by collateral. These companies are involved in the (revolving) purchase and securitisation of loan receivables, including refinancing via investors.

The main corporate purposes of investment funds are to finance assets, participate in non-listed companies and hold shares in real estate funds. The main activities of such investment funds are to carry out research for analysing markets, making decisions on investment and disinvestment in order to adjust portfolios and to attract investors. Investment funds raise their funds by the issuing of equity and debt instruments. The investment funds are funds launched by third parties, to which Hamburg Commercial Bank has mainly granted loans.

The business purpose of the other structured entities is to finance company acquisitions in various sectors of the economy or direct investments in loan portfolios with defined investment guidelines. Refinancing of these vehicles is usually based on long-term senior secured loans in which the Bank participates as syndicate.

II. Risks from interests in unconsolidated structured entities

The following information concerning risk refers not just to the current reporting period but also to risks which result from business relationships with unconsolidated structured entities in earlier reporting periods.

The risks from unconsolidated structured entities are presented in the form of the maximum potential loss which may arise from these business relationships based on an interest within the meaning of IFRS 12. Hamburg Commercial Bank discloses the carrying amounts of these transactions as a maximum potential loss. In the case of irrevocable loan commitments and contingent liabilities, the carrying amount matches the par value.

There are no credit derivatives relating to unconsolidated structured entities as at the reporting date.

The following table shows the IFRS carrying amounts of exposures involving unconsolidated structured entities as at 31 December 2023, broken down into items of financial position.

Type of business relationship

(€ m) 2023	Investment funds	ABS	Securitisation and refinancing vehicles	Other structured entities	Total
Loans and advances to customers	180	-	466	627	1,273
Financial investments	-	1,257	133	-	1,390
Total assets	**180**	**1,257**	**599**	**627**	**2,663**
Liabilities to customers	8	-	2	1	11
Total liabilities	**8**	**-**	**2**	**1**	**11**

Type of business relationship

(€ m) 2022	Investment funds	ABS	Securitisation and refinancing vehicles	Other structured entities	Total
Loans and advances to customers	269	-	334	469	1,072
Financial investments	-	560	-	-	560
Total assets	**269**	**560**	**334**	**469**	**1,632**
Liabilities to customers	4	-	10	2	16
Total liabilities	**4**	**-**	**10**	**2**	**16**

The above table contains loans, debentures, deposits and derivatives in respect of unconsolidated structured entities.

In addition, there are maximum potential losses from irrevocable loan commitments of € 1,334 million (previous year: € 561 million), of which € 0 million result from investment funds (previous year: € 32 million), € 667 million from ABS investments (previous year: € 0 million) and € 507 million from securitisation and refinancing vehicles (previous year: € 471 million).

There are no business relationship risks based on an interest in unconsolidated structured entities as defined in IFRS 12.B26 that exceed the maximum potential loss, such as contractual terms under which Hamburg Commercial Bank would have to grant financial support, liquidity arrangements, guarantees extended or support provided by Hamburg Commercial Bank in the event of difficulties in refinancing unconsolidated structured entities.

Furthermore, Hamburg Commercial Bank has not entered into any loss-transfer agreements with unconsolidated structured entities. Mainly net interest income for granting loans and commission income were generated from business relationships with unconsolidated structured entities based on an interest within the meaning of IFRS 12.

III. Sponsoring

Hamburg Commercial Bank has sponsor relationships within the meaning of IFRS 12 if Hamburg Commercial Bank is exposed to variable return flows, although there is no business relationship in the form of an interest within the meaning of IFRS 12. Hamburg Commercial Bank is a sponsor if it was involved in establishing an unconsolidated structured entity, if it stands to gain the main profit from the entity or is the main collateral taker, if Hamburg Commercial Bank provides implicit guarantees or if the name of Hamburg Commercial Bank is part of the name of the structured entity or of the products issued by such entity.

HCOB currently has no sponsor relationships in the aforementioned sense.

IV. Provision of support

During the current reporting period, Hamburg Commercial Bank has not supported any unconsolidated structured entity financially or in any other way without a contractual commitment to do so. Hamburg Commercial Bank also has no intention of granting financial support to any unconsolidated structured entity or helping to procure financial support from third parties.

54. Non-substantially modified financial instruments

As far as modifications are concerned, a distinction is made between substantial and non-substantial modifications.

The following overview shows the amortised cost, taking into account the loan loss provisions before adjustments, and the net results of all financial instruments at Stages 2 and 3 that were not substantially modified during the reporting period. The gains or losses resulting from the modification are based on the change in the gross carrying amount of the financial instrument as a result of the modification.

Assets

(€ m)	Amortised cost for Stage 2, Stage 3 financial instruments modified in the reporting period before modification		Gains or losses from the modification at Stage 2, 3 and POCI in the reporting period	
	2023	2022	2023	2022
AC				
Loans and advances to customers	–	85	1	–
Total	**-**	**85**	**1**	**-**

Transfers

(€ m)	Gross carrying amounts since addition of modified assets transferred from Stage 2 or 3 to Stage 1 in the reporting period	
	2023	2022
AC		
Loans and advances to customers	49	-
Total	**49**	**-**

55. Contingent liabilities and irrevocable loan commitments

Contingent liabilities

(€ m)	2023	2022
Contingent liabilities from guarantees and warranty agreements		
Loan guarantees	4	5
Letters of credit	96	110
Other guarantees	534	716
Total	**634**	**831**

Loan commitments

(€ m)	2023	2022
Loan commitments for		
Open account loans to customers	4,153	3,233
Guarantees	10	3
Other	-	59
Total	**4,163**	**3,295**

Information on collateral transferred is presented in Note 57.

In addition to the values shown in the table, there are other contingent liabilities arising from litigation. The addition results from some new legal disputes in the Bank's lending business in the amount of € 68 million (previous year: € 64 million).

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

Please also refer to the Note on Provisions and the explanations set out in the Risk Report, which forms part of the combined management report, with respect to existing uncertainties regarding risks arising from legal disputes.

Other disclosures

56. Report on business in derivatives

Derivative financial instruments are used to a considerable degree in order to hedge risk efficiently, to take advantage of market opportunities and to cover special customer financing needs. The derivatives business of Hamburg Commercial Bank is predominantly transacted with banks based in OECD countries.

Positive and negative fair values are presented on the basis of net values after offsetting in accordance with IAS 32.42.

I. Volume

Derivative transactions with interest rate risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2023	2022	2023	2022	2023	2022
Interest rate swaps	15,873	16,506	132	156	74	147
Swaptions						
Purchases	–	25	–	–	–	–
Sales	7	7	–	–	–	–
Caps, floors	4,493	4,091	24	44	22	41
Exchange-traded contracts	–	2	–	–	–	–
Other forward interest rate transactions	49	114	9	11	10	14
Total	**20,422**	**20,745**	**165**	**211**	**106**	**202**

Derivatives transactions with interest rate and foreign exchange risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2023	2022	2023	2022	2023	2022
Cross-currency interest rate swaps	77	622	–	3	25	22
Total	**77**	**622**	**–**	**3**	**25**	**22**

Derivatives transactions with foreign exchange risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2023	2022	2023	2022	2023	2022
Forward exchange transactions	5,189	4,669	67	101	12	25
Total	**5,189**	**4,669**	**67**	**101**	**12**	**25**

Derivatives transactions with equity and other price risks

(€ m)	Nominal values		Positive market values		Negative market values	
	2023	2022	2023	2022	2023	2022
Exchange-traded contracts	–	–	–	–	–	–
Equity/index-based swaps	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**

Credit derivatives

(€ m)	Nominal values		Positive market values		Negative market values	
	2023	2022	2023	2022	2023	2022
Guarantor position	–	195	–	–	–	–
Total	**–**	**195**	**–**	**–**	**–**	**–**

Derivatives transactions with structured products

(€ m)	Nominal values		Positive market values		Negative market values	
	2023	2022	2023	2022	2023	2022
Structured products	671	713	11	8	37	46
Total	**671**	**713**	**11**	**8**	**37**	**46**

Derivatives transactions in fair value hedge accounting

(€ m)	Nominal values		Positive market values		Negative market values	
	2023	2022	2023	2022	2023	2022
Fair value hedges						
Interest rate swaps	9,016	6,359	-	-	62	65
Total	**9,016**	**6,359**	**-**	**-**	**62**	**65**

II. Counterparty classification

Counterparty classification

(€ m)	Nominal values		Positive market values		Negative market values	
	2023	2022	2023	2022	2023	2022
OECD banks	29,249	26,254	91	141	140	150
Non-OECD banks	-	-	-	-	-	-
Non-banks[1)]	6,068	6,984	151	180	100	209
Public authorities	59	64	2	2	2	3
Total	**35,376**	**33,302**	**244**	**323**	**242**	**362**

[1)] Including exchange-traded contracts.

III. Maturities

Maturities

(€ m)	Positive market value of derivatives		Positive market value of derivatives from fair value hedging		Negative market value of derivatives		Negative market value of derivatives from fair value hedging	
	2023	2022	2023	2022	2023	2022	2023	2022
Residual maturity								
Up to 3 months	59	100	-	-	12	23	-	-
3 months to 1 year	15	7	-	-	42	11	-	-
1 year to 5 years	39	52	-	-	87	204	-	1
More than 5 years	131	164	-	-	39	58	62	65
Total	**244**	**323**	**-**	**-**	**180**	**296**	**62**	**66**

57. Disclosures on collateral transferred and financial assets transferred with retention of rights and/or obligations

I. Collateral transferred

As at 31 December 2023, Hamburg Commercial Bank had transferred assets as collateral that do not meet the requirements for derecognition under IFRS 9. The assets transferred as collateral continue to be recognised in the Group statement of financial position as the interest rate risk, credit risk and other material risks as well as the prospects of appreciation and interest income largely reside with Hamburg Commercial Bank.

The following table mainly shows the collateral used to collateralise OTC derivative transactions and funds raised at central banks and other credit institutions. Information on repurchase agreements is disclosed in separate thereafter.

Carrying amounts of transferred collateral

(€ m)	2023	2022
Receivables	2,506	3,531
Loans and advances to banks	284	650
Loans and advances to customers	2,222	2,881
Trading assets/Financial investments	684	746
Total	**3,190**	**4,277**

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. It is not possible to resell or pledge in the interim.

In addition, Hamburg Commercial Bank concludes repurchase agreements under repo master agreements both on a national and international scale. The associated liabilities are recognised under Liabilities to banks or Liabilities to customers. Repo and securities lending transactions are monitored by measuring transactions on a daily basis. If there is a shortfall in collateral, the counterparty may require Hamburg Commercial Bank to provide additional securities to increase collateral. Where Hamburg Commercial Bank has provided collateral and the market situation changes such that the cover provided is excessive, it is entitled to require the counterparty to release collateral. The collateral provided is subject to a full transfer of rights, i.e. the party receiving collateral may act like an owner and in particular may transfer or pledge such collateral. In the case of securities collateral, securities of the same type and quality ("the same sort") must be delivered or returned unencumbered. Where collateral has been provided in the form of securities, it may not be returned in cash.

The above conditions and collateral modalities apply to tri-party repo transactions between Hamburg Commercial Bank and its counterparties accordingly. The transactions are executed via a tri-party agent.

II. Financial assets transferred with retention of rights and/or obligations

Hamburg Commercial Bank has transferred assets to third parties outside the Group that meet the conditions for full derecognition. The retained rights and obligations of these transfers were insignificant overall and expired contractually at the end of the year.

58. Trust transactions

The following table shows the volume of trust transactions not recognised in the statement of financial position.

Trust transactions

(€ m)	2023	2022
Loans and advances to customers	20	23
Trust assets	**20**	**23**
Liabilities to banks	–	9
Liabilities to customers	20	14
Trust liabilities	**20**	**23**

59. Related parties

Hamburg Commercial Bank does business with related parties and companies.

These include the funds and accounts managed by Cerberus Capital Management, L.P. and J.C. Flowers & Co. LLC, which exert a significant influence over HCOB.

Furthermore, business relationships exist with subsidiaries which are controlled but not included in the Group financial statements, for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of Hamburg Commercial Bank AG.

In the course of the normal business operations, transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, call and fixed-term deposits, derivatives and securities transactions.

I. Companies with a significant influence over HCOB

The following table shows transactions with companies with a significant influence over the Bank:

Companies with a significant influence – Liabilities

(€ m)	2023	2022
Liabilities to customers	–	1
Total	**-**	**1**

II. Subsidiaries

The following table shows the transactions with unconsolidated subsidiaries:

Subsidiaries – Liabilities

(€ m)	2023	2022
Liabilities to customers	–	2
Total	**-**	**2**

III. Associates

The following table shows the transactions with unconsolidated associates:

Associates – Liabilities

(€ m)	2023	2022
Liabilities to customers	–	6
Total	**-**	**6**

IV. Joint ventures

The following table shows the transactions with unconsolidated joint venture:

Joint ventures – Assets

(€ m)	2023	2022
Loans and advances to customers	2	4
Total	**2**	**4**

Joint ventures – Liabilities

(€ m)	2023	2022
Liabilities to customers	1	2
Total	**1**	**2**

Joint ventures – Income statement

(€ m)	2023	2022
Result from financial instruments categorised as FVPL	-9	-
Total	**-9**	**-**

V. Other related parties and companies

No significant transactions have been entered into with individuals in key positions at Hamburg Commercial Bank AG and their close relatives or companies controlled by these individuals as at the reporting date.

VI. Remuneration of persons in key management positions

The remuneration of persons in key positions at Hamburg Commercial Bank is based on the German Remuneration Regulation for Institutions (Institutsvergütungsverordnung). In addition to the fixed annual salary, the fixed remuneration of the Management Board includes a pension contribution corresponding to up to 20% of the fixed annual salary, other fringe benefits and appropriate remuneration in kind.

LONG-TERM VARIABLE REMUNERATION PROGRAMME, INCLUDING SHARE-BASED PAYMENT

In addition, each member of the Management Board receives performance-related variable remuneration. This means that the members of the Management Board receive 50% of their annual bonus for the agreed performance years in cash (cash bonus) and 50% in the form of shares in Hamburg Commercial Bank AG (share bonus).

The 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 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. The Bank's Supervisory Board uses an independent valuation for each performance year to determine the price at which the share bonus earned in euros is converted into shares in Hamburg Commercial Bank AG. 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 2022, 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 2023, a total of 360,049 shares were transferred to eligible persons under the share bonus programme (previous year: 254,207 shares). Until 31 December 2023, a total of 964,009 shares have been transferred under the share bonus programme (until 31 December 2022: 603,960 shares).

The share bonus represents a share-based payment settled in equity instruments and is accounted for in accordance with IFRS 2. In accordance with IFRS 2, the performance-related variable remuneration under the share bonus represents a service received that is recognised as personnel expense in the consolidated statement of income. Pursuant to IFRS 2.7, the consideration for the service received is recognised in equity. At Hamburg Commercial Bank, the consideration is recognised in the Capital reserve item.

As at 31 December 2023, the Capital reserve includes an amount of € 20 million for share-based remuneration (increase of € 4 million in 2023). This includes an amount of € 8 million attributable to shares already transferred by the shareholders.

The following table shows remuneration of persons in key management positions.

Remuneration of persons in key management positions

(€ k)	Management Board		Supervisory Board		Total	
	2023	2022	2023	2022	2023	2022
Short-term benefits	13,862	14,002	4,316	4,335	18,178	18,337
Termination benefits	2,113	6,264	-	-	2,113	6,264
Other long-term benefits	3,932	4,532	-	-	3,932	4,532
Post-employment benefits	796	1,247	-	-	796	1,247
Share-based payment	3,932	4,870	-	-	3,932	4,870
Total remuneration	**24,635**	**30,915**	**4,316**	**4,335**	**28,951**	**35,250**

VII.Additional disclosures under Section 315e HGB

Hamburg Commercial Bank is obliged to provide additional disclosures in its Group financial statements under Section 315e HGB. The following differences compared to the IFRS disclosures should be borne in mind in this regard: Termination benefits are not included in the total remuneration of active Management Board members, unless this pertains to remuneration for activities prior to the termination of the membership in the Management Board. This remuneration is disclosed instead under total remuneration payable to former members of the Management Board.

Remuneration of corporate bodies

(€ k)	2023	2022
Total remuneration of all active members of corporate bodies		
Management Board	22,523	27,650
Supervisory Board	4,316	4,335
Total	**26,839**	**31,985**
Total remuneration of former members of corporate bodies and their surviving dependants		
Management Board	**4,725**	**5,894**

As at 31 December 2023, a total of €k 39,071 (previous year: €k 36,947) 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 Managemen Board or the Supervisory Board as at 31 December 2023.

VIII.Disclosure of Supervisory Board remuneration

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

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

Remuneration system

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

The maximum remuneration amounts to €k 850. The remuneration is paid pro rata temporis based on the membership in a committee

An amount of €k 3,251 was paid to the members of the Supervisory Board for their activities in the Supervisory Board in financial year 2023. For the portion of Supervisory Board remuneration for financial year 2023 (fourth quarter) paid out at the beginning of 2024, a provision of €k 1,065 was recognised as at 31 December 2021.

For this purpose, a provision of €k 1,084 had been formed as at 31 December 2022 for the Supervisory Board remuneration for the fourth quarter of 2022. The amount paid out to the members of the Supervisory Board for this purpose in the 2023 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 2023 paid to the members of the Supervisory Board in 2023 and at the beginning of 2024 breaks down as follows:

Members of the Supervisory Board

(€)	Fixed remuneration		Total	
Members of the Supervisory Board	2023	2022	2023	2022
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	226,250	230,000	226,250	230,000
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	441,250	445,000	441,250	445,000
Manuel Lagares Gómez-Abascal (from 27 October 2023)[1)]	–	–	–	–
Chad Leat	426,250	430,000	426,250	430,000
Rieka Meetz-Schawaller	215,000	215,000	215,000	215,000
Mark Neporent (until 26 October 2023)[1)]	–	–	–	–
Dr Ilinca Rosetti	211,250	215,000	211,250	215,000
Stefan Schlatermund	215,000	215,000	215,000	215,000
Mag. Friedrich Spandl	215,000	215,000	215,000	215,000
Mark Werner	226,250	230,000	226,250	230,000
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	**4,316,250**	**4,335,000**	**4,316,250**	**4,335,000**

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 2023. Accordingly, no additional remunerations were granted.

The IT Transformation Committee established on 1 July 2021 was dissolved on 1 October 2023.

60. Other financial obligations

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

In the area of equity investments, a payment obligation to a fund of approximately € 37 million that existed in the previous year expired in 2023.

IT service agreements result in obligations totalling € 18 million (previous year: € 28 million).

In addition, Hamburg Commercial Bank AG had concluded a lease agreement in 2020 for the "Elbtower" in Hamburg, which had not yet been built. This was terminated by the Bank because the future existence of the Signa Group is subject to significant uncertainties and the planned handover of the leased property in 2025 is currently not possible.

As part of its former guarantor function, the Bank also has a general liability towards Deka Bank Deutsche Girozentrale together with other former shareholders. This applies to liabilities entered into before 18 July 2001, irrespective of their term.

There are no material other financial obligations apart from those listed above.

61. List of shareholdings

The following information is based on German commercial law.

Consolidated subsidiaries with a share of voting rights of the Bank of more than 50%

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg[2]	100.00	100.00	EUR	843,373.72	156,372.43
2	GmbH Altstadt Grundstücksgesellschaft, Hamburg[1, 2, 6]	89.90	89.90	EUR	138,695.43	– 37,372.43
3	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,718,749.25	– 11,266.82
4	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	290,251.79	– 33,148.13
5	HCOB Private Equity GmbH, Hamburg[2]	100.00	100.00	EUR	550,000.00	5,661,507.87
6	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	4,206,892.00	71,518.00
7	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	4,375,993.43	3,045,993.43
8	Elbe CA Holdings, LLC, Wilmington, USA[1, 3, 6]	100.00	100.00		-	-
9	Elbe CA Subsidiary, SCSp, Luxembourg, Luxembourg[1, 3, 6]	100.00	100.00		-	-
10	Klarphos, S.àr.l., Findel, Luxembourg	100.00	100.00	EUR	1,691,209.91	350,013.85

Consolidated subsidiaries with a share of voting rights of the Bank of 50% or less

- of which subsidiaries due to contractual rights

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
11	Apollo Alster Lending Fund (LUX) SCSp, Luxembourg, Luxembourg[6]	0.00	0.00	USD	367,625,305.00	32,587,183.00
12	BSP Michel Unlevered Direct Lending Fund SCSp, Luxembourg, Luxembourg[7]	0.00	0.00	USD	16,887,464.00	– 612,536.00
13	HI-Hafen Global-Fonds, Frankfurt am Main[6]	0.00	0.00	EUR	72,474,337.28	1,619,354.53
14	HPS Elbe Unlevered Direct Lending Fund, SCSp, Luxembourg, Luxembourg[6]	0.00	0.00	USD	304,995,327.00	26,135,291.00
15	OCEAN Funding 2013 GmbH, Frankfurt am Main[6]	0.00	0.00	EUR	31,201.72	0.00

Unconsolidated subsidiaries with a share of voting rights of the Bank of more than 50%

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
16	Avia Management S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	166,646.01	110,699.27
17	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	32,288.60	– 896.11
18	HCOB Structured Situations Limited, St. Helier, Jersey[4]	100.00	100.00	USD	347,000.00	551.00
19	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	30,244.30	– 11,614.51

Unconsolidated joint ventures

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
20	Infrastructure Holding S.à.r.l., Luxembourg, Luxembourg[5]	0.00	0.00	EUR	12,500.00	0.00

Unconsolidated associates

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
21	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,986,683.17	– 224,875.32
22	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg	44.72	44.56	EUR	10,321,265.37	– 4,651,564.50

Equity holdings in non-affiliated companies

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
23	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	1.33	1.33	EUR	283,796,103.15	10,195,000.00
24	GLB GmbH & Co. OHG, Frankfurt am Main	15.77	15.77	EUR	2,792,048.12	– 54,514.78
25	GLB-Verwaltungs-GmbH, Frankfurt am Main[6]	15.80	15.80	EUR	63,593.01	1,980.14
26	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekte Hamburg und Potsdam KG, Hamburg	5.15	5.16	EUR	4,127,472.30	553,734.75
27	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	8,278,082.03	98,028.93
28	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg	5.10	5.09	EUR	6,432,380.32	81,894.18
29	Hines European Development Fund Limited Partnership, Houston, USA[1)]	9.90	9.90	EUR	24,855,000.00	-757000.00
30	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	901,747.02	-274794.07
31	RSU GmbH & Co. KG, Munich	13.60	13.60	EUR	10,919,517.05	241,075.16
32	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T. SCRL), La Hulpe, Belgium	0.02	0.02	EUR	664,092,000.00	38,075,000.00
33	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,671,738.76	135,892.88
34	Vofü-Fonds I Hamburgische Grundbesitz und Anlage GmbH & Co. KG, Hamburg	5.10	5.09	EUR	2,572,690.52	106,813.90

1) Indirect holding.
2) A profit transfer agreement with the company is in place.
3) No data available.
4) Only data as at 31 December 2017 is available.
5) Only data as at 31 December 2019 is available.
6) Structured entity.

Foreign exchange rates for € 1 as at 31 December 2023

USA	USD	1.1050

62. Other disclosures in accordance with German commercial law

I. Basic principles

Under the terms of Section 315e (1) German Commercial Code (HGB), Hamburg Commercial Bank AG, which has its registered office in Hamburg (Hamburg commercial register number HRB 87366) is required to observe the standards of the German Commercial Code in preparing and presenting the annual financial statements, as well as the IFRS standards. You may request the unabridged IFRS Group financial statements by following this link: www.hcob-bank.de. The complete list of equity holdings is set out in Note 61.

II. Number of employees

The average number of employees as of the reporting date is calculated on the basis of staff figures at quarter-end for all fully consolidated companies:

Number of employees

	2023			2022
	Male	Female	Total	Total
Full-time employees	553	206	759	746
Part-time employees	25	140	165	160
Total	**578**	**346**	**924**	**906**
Apprentices/trainees	9	7	16	10

III. Corporate governance code

Hamburg Commercial Bank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of Hamburg Commercial Bank AG have given a declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) that the recommendations of the German Corporate Governance Code Commission together with the restrictions have been complied with and will be complied with until the subsequent declaration is made. The Declaration of Conformity is published on the website of Hamburg Commercial Bank AG. The Declaration of Conformity does not form part of the Notes to the Group financial statements.

IV. Fees and activities of the auditor

AUDITOR'S ACTIVITIES

The PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements and Group financial statements of Hamburg Commercial Bank as at 31 December 2023. In addition, the review of the half-year financial report as at 30 June 2023, the preliminary assessment with regard to the CSRD rules applicable from 2024, 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.

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

Auditor's fees

(€ m)	2023	2022
Audits of financial statements PWC GmbH	5	5
Total	**5**	**5**

In addition, other services Leistungen and other confirmation services from PWC GmbH and the PWC network in an amount below € 1 million were rendered.

V. Seats on supervisory bodies

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

63. Names of members of corporate bodies and directorships held

I. The Supervisory Board of the Hamburg Commercial Bank Group

JUAN RODRÍGUEZ INCIARTE, MADRID
Chairman
CEO of Sareema Inversiones S.A.

OLAF BEHM, HAMBURG
Deputy Chairman
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
Employee of Hamburg Commercial Bank AG

FREDERICK HADDAD, RUMSON
Partner & Manager Family Office FLGC

KLAUS HEINEMANN, PALMA
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

MANUEL LAGARES GÓMEZ-ABASCAL, MADRID
Senior Advisor Cerberus Global Investment Advisors, LLC
(from 27 October 2023)

MARK NEPORENT, ARMONK
Chief Operating Officer, Senior Legal Officer and
Senior Managing Director Cerberus Capital Management, L.P
(until 26 October 2023)

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 – Strategic Advisor to the Management Board
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
CEO and Chairman of the Board at
NIBC Holding N.V. and NIBC Bank NV

PETER YORDÁN, LONDON
Managing Director J.C. Flowers & Co. LLP

II. Members of the Risk Committee

CHAD LEAT
Chair

BERT EHLERS

FREDERICK HADDAD

STEFAN SCHLATERMUND

MAG. FRIEDRICH SPANDL

MARK WERNER

PETER YORDÁN

III. Members of the Audit Committee

KLAUS HEINEMANN
Chair

OLAF BEHM

OLIVER DIRCKS

MANUEL GONZÁLEZ CID

PAULUS DE WILT

IV. Members of the Nomination Committee

JUAN RODRÍGUEZ INCIARTE
Chair

MANUEL GONZÁLEZ CID

SIMONE GRAF

PETER YORDÁN

V. Members of the Remuneration Control Committee

JUAN RODRÍGUEZ INCIARTE
Chair

KLAUS HEINEMANN

RIEKA MEETZ-SCHAWALLER

STEPHAN WILCKE

VI. Members of the IT Transformation Committee of the Supervisory Board
(until 30 September 2023)

JUAN RODRÍGUEZ INCIARTE
Chair

OLIVER DIRCKS

KLAUS HEINEMANN

CHAD LEAT

DR ILINCA ROSETTI

MARK WERNER

VII. The Management Board of the Hamburg Commercial Bank Group

IAN BANWELL
Born in 1963
Chief Executive Officer (CEO)

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)

Annex to the Group financial statements

Country-by-Country Reporting 2023

Basic principles

The requirements for country-specific reporting, referred to as country-by-country reporting in Article 89 of the Directive 2013/36/EU (Capital Requirement Directive, CRD IV), have been transposed into German law in Section 26a (1) of the German Banking Act (KWG).

Disclosure at Hamburg Commercial Bank
Hamburg Commercial Bank's country-by-country reporting includes the necessary information for all the subsidiaries fully consolidated in the Group financial statements as of this reporting date. Entities that were deconsolidated during the reporting year are not included in the figures presented. The geographical allocation is made on the basis of the location of a company's registered office. Branches are disclosed as independent companies. Representative offices are not listed. All accounting-related information is based on IFRS accounting.

In this report, Hamburg Commercial Bank defines the required size of turnover as the sum of total income as presented in the income statement and Other operating income (gross amounts before consolidation). The consolidated non-bank entities in particular report their revenues in Other operating income.

The profit or loss before taxes disclosed in this report corresponds to the result before taxes of the individual entities presented. The tax position also corresponds to the definition under IFRS standards in the income statement.

The figure for the number of employees corresponds to the arrangement of Section 267 (5) of the German Commercial Code (HGB) for the entities still included in the Group financial statements as at the reporting date.

The information on the type of activities of the relevant companies is presented in line with the definitions used in Article 4 (1) CRR once the CRR came into effect.

The return on capital to be disclosed as at 31 December 2023, calculated as the quotient of net profit (Group net result after taxes) and total assets, is 0.86%.

Reporting
Country-specific details of revenue, profit or loss and taxes as well as employee numbers

(€ m/number) 2020 Country	Revenue	Profit or loss before tax	Tax on profit or loss (+)expense/ (-) income	Employees
EU				
Germany	818	376	-132	876
Luxembourg	154	106	– 23	22
Greece	3	–	–	11
Third countries				
UK	6	–	–	15

Nature of activities and geographical location of the branches and fully consolidated subsidiaries

Serial. no.	Name of the company	City	Country	Nature of activities
1	Hamburg Commercial Bank AG	Hamburg, Kiel	Germany	Bank
2	Hamburg Commercial Bank AG, Luxembourg branch	Luxembourg	Luxembourg	Bank
3	Hamburg Commercial Bank AG, Athens branch	Athens	Greece	Bank
4	Hamburg Commercial Bank AG, London branch	London	UK	Bank
5	BINNENALSTER-Beteiligungsgesellschaft mbH	Hamburg	Germany	Financial institution
6	GmbH Altstadt Grundstücksgesellschaft	Mainz	Germany	Miscellaneous activities
7	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	Germany	Financial institution
8	HCOB Finance (Guernsey) Limited	St. Peter Port	Guernsey	Financial institution
9	HPS Elbe Unlevered Direct Lending Fund, SCSp	Luxembourg	Luxembourg	Miscellaneous activities
10	Klarphos S.à.r.l	Findel	Luxembourg	Financial institution
11	Apollo Alster Lending Fund (LUX)	Luxembourg	Luxembourg	Miscellaneous activities
12	HCOB Private Equity GmbH	Hamburg	Germany	Financial institution
13	HCOB Residual Value Ltd.	Hamilton	Bermuda	Insurance company
14	HCOB Securities S.A.	Luxembourg	Luxembourg	Bank
15	OCEAN Funding 2013 GmbH	Frankfurt a. M.	Germany	Miscellaneous activities
16	HI-Hafen Global-Fonds	Frankfurt a. M.	Germany	Miscellaneous activities

Date of release for publication

The Management Board of Hamburg Commercial Bank has prepared the Group financial statements on 12 March 2024 and released these for forwarding to the Supervisory Board. The Supervisory Board is responsible for reviewing the Group financial statements and approving of these.

Hamburg, 12 March 2024

Ian Banwell Ulrik Lackschewitz

Christopher Brody Marc Ziegner

The following copy of the auditor's report includes a "Assurance Report in Accordance with § 317 Abs. 3a HGB on the Electronic Reproduction of the Annual Financial Statements and the Management Report Prepared for Publication Purposes" ("Separate report on ESEF conformity"). The subject matter (ESEF document 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 German Federal Gazette.

INDEPENDENT AUDITOR'S REPORT

Hamburg Commercial Bank AG, Hamburg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Hamburg Commercial Bank AG, Hamburg, and its subsidiaries (the Group), which comprise the group statement of financial position as at 31 December 2023, and the group statement of comprehensive income, group statement of income, group statement of changes in equity and group cash flow statement for the financial year from 1 January to 31 December 2023, and group explanatory notes, including material accounting policy information. In addition, we have audited the group management report of Hamburg Commercial Bank AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2023. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2023, and of its financial performance for the financial year from 1 January to 31 December 2023, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements

and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

❶ Loan loss provisions in the customer lending business

❷ Accounting for litigations

❸ Deferred Taxes

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

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ **Loan loss provisions in the customer lending business**

① In the Company's consolidated financial statements loan receivables amounting to EUR 18,509 million are reported under the "Loans to customers" balance sheet line item. As at 31 December 2023, the risk provision recognized amounts to EUR 366 million, which was reported in a separate item.

The bank calculates the risk provision using a 3-step model based on the expected credit loss system in accordance with IFRS 9. For financial instruments in level 1 and 2, mathematical-statistical techniques are used; for financial instruments in level 3, the expected credit losses are calculated based on estimated future cash flows at the level of the individual financial instrument.

The measurement of the expected-credit-loss is determined in particular by the structure and quality of the loan portfolios, 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 macroeconomic environment on the customer lending business.

Additionally the executive directors' estimates with respect to classification of financial instruments into levels as well as certain parameters such as the loan amount on default, probability of default and loss ratio at the time of default and – as is the case for financial instruments classified in level 3 – by estimates of the future cash flows, taking into account existing collateral. In addition, further valuation-relevant risk factors are taken into account in the context of so-called model overlays, which reflect the expectations of the management not included in the models. The calculation of the risk provisions is highly significant for the assets, liabilities and financial performance of the Group and they involve considerable judgment on the part of the executive directors, among other things also against the background of the expected effects of the current macroeconomic environment on the customer loans business. Estimating the aforementioned parameters and factoring in future-oriented macroeconomic information has a material influence on the recognition and amount of risk provisions. Against this background, this matter was of particular significance during our audit.

② As part of our audit, we initially assessed the design of the Company's relevant internal control systems and – on that basis - tested the controls' effectiveness. Thereby, we considered the business organization, the IT systems and the relevant measurement models. Moreover, we evaluated the assessment of the customer loans, including the appropriateness of estimated values, on the basis of sample testing of loan engagements. For this purpose, we assessed, among other things, the available documentation of the Company with respect to the economic circumstances as well as the recoverability of the related collaterals. For real estate as collateral, we obtained an understanding of and critically assessed the source data, measurement parameters applied, and assumptions made on which the expert valuations provided to us by the Company were based and evaluated whether they lay within an acceptable range. In addition, for the purpose of assessing the valuation allowances, we evaluated the calculation methodology applied by the Company together with the underlying assumptions and parameters.With the assistance of our specialists in mathematical finance, we examined the suitability and appropriate use of the models applied to calculate the risk provisions. We assessed the appropriateness of the inclusion of additional valuation-relevant risk factors based on the current economic uncertainties. In this context we especially evaluated the assessment of the executive directors regarding the expected effects of the 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 appropriate overall, and that the controls implemented by the Company are appropriate and effective.

③ The Company's disclosures on loan loss provisions are contained in the notes of the financial statements in section 6 "Management estimates and discretionary decisions" and section 7 "Accounting and measurement principles" (under 7.I.D) and in sections 14 and 25 "Loan loss provisions". In addition, the group management report contains the relevant disclosures in the report on economic performance (results of operations) and the risk report.

❷ Accounting for litigations

① In the Company's consolidated financial statements other provisions amounting to EUR 287 million are reported. Of this amount, EUR 53 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. Provisions are recognized for contingent liabilities if the recognition criteria of IAS 37 are met. The amount of the provision is based on the best possible estimate. For the recognition and measurement of these provisions, the probability as well as the amount of expected future cash outflows to settle the underlying obligations have to be estimated by the company.

The assessment of the litigation risks and the estimate of whether it is necessary to recognize a provision to cover the risk and, if so, the amount of the provision, is to a large extent determined by the estimates and assumptions made by the executive directors. The assessment of the executive directors is based on estimates of the legal situation by the bank's in-house and external lawyers. Against this background and due to the significance of the amounts in dispute and the underlying assumptions and discretionary judgement of the executive directors, this matter was of particular significance during our audit.

② As part of our audit, we assessed, among others, the process set up by the bank to govern the recognition, risk assessment, and accounting presentation of a legal dispute. With the involvement of internal lawyers, 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 and legal opinions were obtained as of the balance sheet date, which support the risk assessments made by the bank. In our view, the estimates and assumptions made by the executive directors underlying the determination of the provisions are appropriate overall in order to appropriately measure the provisions for litigations.

③ The recognition and measurement of provisions is explained in the notes to the Company's consolidated financial statements in note 6 ´Estimates and management discretionary decisions´ and in note 7 ´Accounting and measurement principles´. In addition, provisions for litigation risks are explained in note 38´Provisions´ in the notes to the consolidated financial statements. Explanations of contingent liabilities arising from legal disputes are provided in note 55 ´Contingent liabilities and irrevocable loan commitments´. In addition, the risk report within the group management report contains further information on litigations.

❸ **Deferred Taxes**

① In the Company's consolidated financial statements, after netting deferred tax assets amounting to EUR 536 million and deferred tax liabilities amounting to EUR 3 million are reported. Deferred tax assets amounting to EUR 777 million are recognized before netting with matching deferred tax liabilities. The deferred tax assets were recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses to be utilized. For this purpose, if insufficient deferred tax liabilities are available, future taxable profits are projected on the basis of the adopted business plan.

No deferred tax assets were recognized in respect of unused tax losses amounting in total to EUR 2,533 million since it is not probable that they will be utilized for tax purposes by means of offset against taxable profits. From our point of view, the accounting treatment of deferred taxes was of particular significance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore 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 convince ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

③ The Company's disclosures relating to deferred tax assets and liabilities are contained the notes of the Company's consolidated financial statements in note 7 ´Accounting and measurement principles´, note 32 ´Deferred tax assets´ and note 41 ´Deferred tax liabilities´.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards) as an unaudited part of the group management report.

The other information comprises further

- the separate non-financial report to comply with §§ 289b to 289e HGB and with §§ 315b to 315c HGB
- all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report

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

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

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

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

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

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

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

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file HCOB_AG_KA+KLB_ESEF-2023-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2023 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor’s Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QMS 1 (09.2022)).

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 rendering of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

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

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

Group Auditor’s Responsibilities for the Assurance Work on the ESEF Documents

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

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 18 April 2023. We were engaged by the supervisory board on 25 May 2023. We have been the group auditor of the Hamburg Commercial Bank AG, Hamburg, without interruption since the financial year 2018.

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

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

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be filed in the company register – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Lutz Meyer.

Hamburg, 14. March 2024

PricewaterhouseCoopers GmbH

Wirtschaftsprüfungsgesellschaft

Lutz Meyer	ppa. Maximilian Hockenberger
Wirtschaftsprüfer	Wirtschaftsprüfer

Responsibility statement by the Management Board

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

Hamburg, 12 March 2024

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 28 March 2024 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.

About the bank:
Hamburg Commercial Bank AG (HCOB) is a private commercial bank headquartered in Hamburg, Germany. 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 the pan-European project financing of renewable energies and digital infrastructure. HCOB offers individual solutions for the global aviation sector as well as for German and international corporate clients. Reliable and timely payment products as well as other trade finance solutions also support the need of the bank's customers. HCOB is aligning its activities with established ESG criteria. For further information about HCOB, please visit www.hcob-bank.com

Hamburg Commercial Bank

Annual Report Hamburg Commercial Bank **2023**