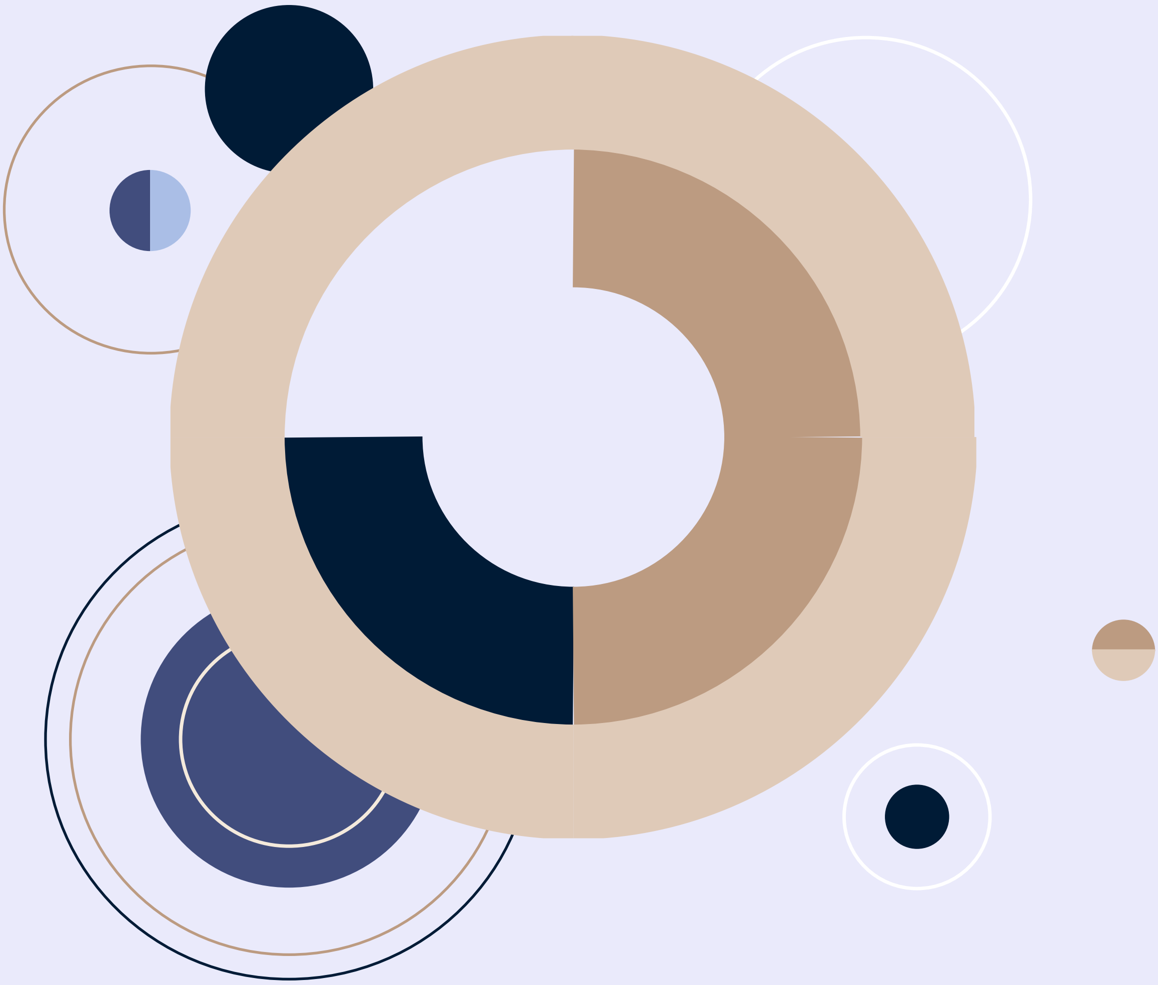
Financial Report 2023

Financial Report of Hamburg Commercial Bank AG **2023**



Hamburg Commercial Bank

Content

Combined Management Report

Annual Accounts

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

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 Estate segment mainly comprises the financing of existing properties, refurbishment projects and project developments in the commercial sector. Growth opportunities for HCOB arise, among other things, from supporting real estate clients in their ESG transformation. HCOB’s product portfolio in the Real Estate segment is characterised by tailor-made and custom-fit services, with an entrepreneurial eye for deals and transactions that offer value enhancement potential. HCOB has experienced market specialists with in-depth knowledge and a high level of structuring expertise in the field of commercial real estate financing, allowing the Bank to achieve prices that are 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 comparatively short financing terms and high collateralisation ratios. This improves the risk profile on the one hand and ensures that HCOB can react promptly to changing market conditions on the other. The composition of the Shipping portfolio is characterised by a healthy mix of asset-backed and corporate financing. The broadly diversified portfolio mainly comprises the asset classes of container vessels, bulkers and tankers. The Bank operates worldwide in the Shipping segment, with a focus on mostly long-term cooperation with clients with strong credit ratings from Greece, Germany and other European countries. The Bank is also, however, active in the US and Asia. By providing financing, HCOB consciously supports its clients from the maritime industry in their transition to more sustainable business practices.

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

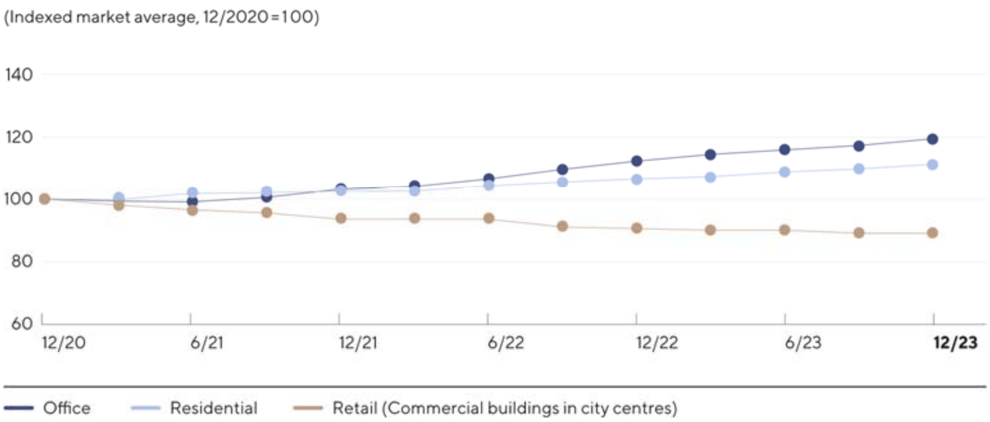
Real estate markets
On the investment markets, the German real estate markets were on a marked downward trajectory in 2023. The transaction volume for both commercial and residential property plummeted to the lowest level seen in 13 years and market values fell sharply in some cases. This can be explained 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.

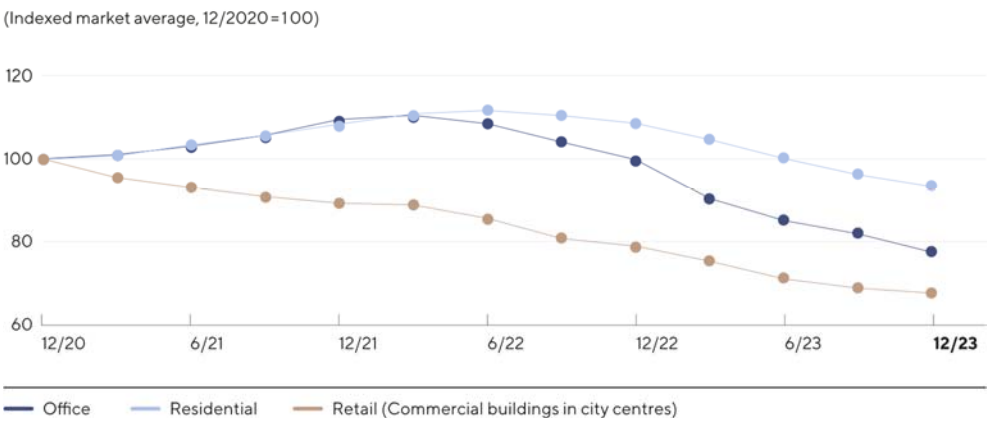
This drop also put a strain on project development. Even more projects were postponed or cancelled than in the previous year, which led to a sharp drop in building permits and orders, particularly in the residential construction segment. In the second half of the year, there was also an increase in insolvencies 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



Market values



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

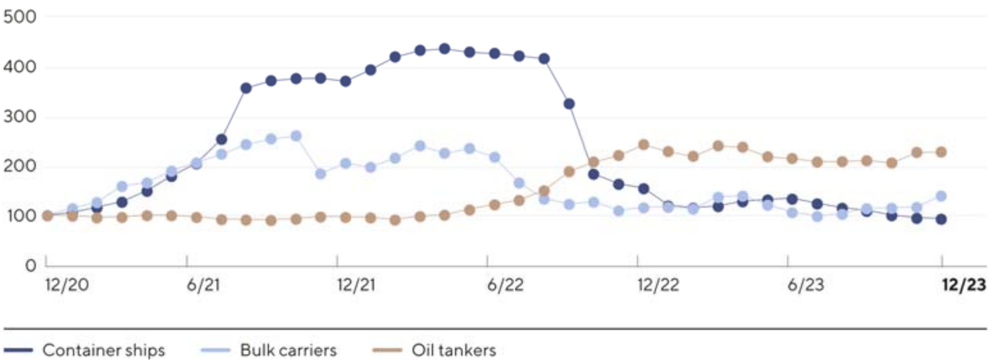
2023, a total output of 81.7 gigawatts had been installed. Nevertheless, the outlook for this sector is also ambitious: in order to achieve the target of 215 gigawatts for solar in 2030, 19 gigawatts of new capacity will have to be installed every year going forward. The need for alternative energy sources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

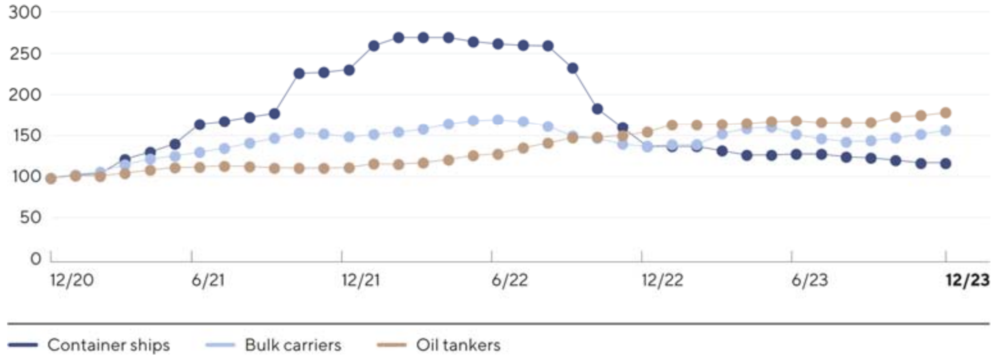
Time charter rates

(Indexed market average, 12/2020=100)



Secondhand prices

(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".

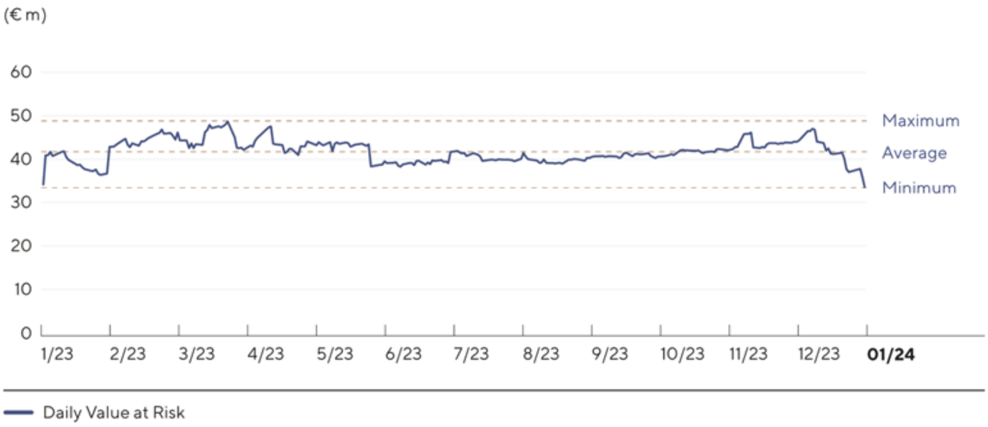
Market risks from the lending business and liabilities of Hamburg Commercial Bank are managed as part of a proactive portfolio management process and hedged through external transactions.

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.

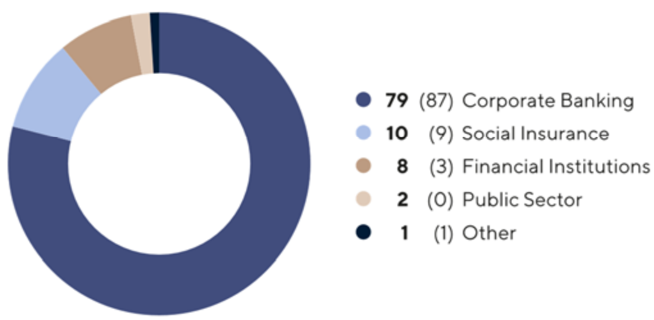
Hamburg Commercial Bank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors) and maturities (original and residual maturities).

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.

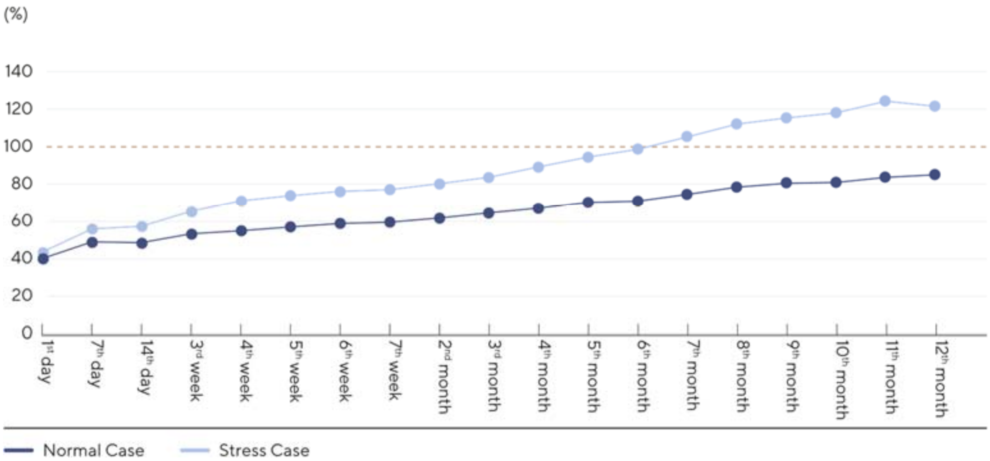
QUANTIFICATION OF LIQUIDITY RISK

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

Annual financial statements of Hamburg Commercial Bank AG

Balance sheet of Hamburg Commercial Bank AG

as at 31 December 2023

Assets(€ k)	(Note)			31.12.2023	31.12.2022
1 **Cash reserve**					
a) Cash on hand			1		-
b) Balances with central banks			135,716		689
thereof:				**135,717**	**689**
with Deutsche Bundesbank	135,303				
	(previous year: 275)				
2 **Loans and advances to banks**	(6, 7, 24-27)				
a) Payable on demand			118,554		101,676
b) Other loans and advances			3,944,825		5,360,425
				4,063,379	**5,462,101**
3 **Loans and advances to customers**	(6, 7, 24-27)			**17,666,512**	**18,953,725**
thereof:					
secured by mortgages	6,070,167				
	(previous year: 6,840,390)				
public-sector loans	763,458				
	(previous year: 805,294)				
secured by ship mortgages	2,163,785				
	(previous year: 3,192,118)				
4 **Debentures and other fixed-interest securities**	(9, 24-29, 33)				
a) Money market instruments					
aa) from other issuers		-			-
			-		
b) Bonds and debentures					
ba) from public-sector issuers		331,836			714,597
thereof:					
eligible as collateral at Deutsche Bundesbank	331,836				
	(previous year: 714,597)				
bb) from other issuers		7,326,626			4,745,485
thereof:			7,658,462		
eligible as collateral at Deutsche Bundesbank	3,355,246				
	(previous year: 2,701,851)				
c) Own debentures			821,938		1,126,014
Nominal value	820,000			**8,480,400**	**6,586,096**
	(previous year: 1,124,800)				
To be carried forward				**30,346,008**	**31,002,611**

Assets

(€ k)		(Note)		31.12.2023	31.12.2022
		Carried forward		**30,346,008**	**31,002,611**
5	**Shares and other non-fixed-interest securities**	(9, 28, 29, 33)		**785,745**	**548,241**
6	**Trading portfolio**	(10, 30)		**550,080**	**293,870**
7	**Equity holdings in non-affiliated companies**	(16, 28, 33, 65)		**5,652**	**5,652**
	thereof:				
	in banks	327			
		(previous year: 327)			
8	**Interests in affiliated companies**	(16, 28, 33, 65)		**3,829**	**2,872**
	thereof:				
	in banks	-			
		(previous year: -)			
9	**Trust assets**	(32)		**19,643**	**14,112**
	thereof:				
	trust loans	19,643			
		(previous year: 14,112)			
10	**Intangible fixed assets**	(17, 33)			
	a) Industrial property rights acquired in-house and similar rights and assets		6,158		4,044
	b) Licenses, industrial property rights and similar rights and assets as well as licenses to use such rights and assets purchased		69,081		51,385
				75,239	**55,429**
11	**Tangible fixed assets**	(18, 33)		**11,428**	**2,334**
12	**Other assets**	(34)		**491,201**	**761,157**
13	**Prepaid expenses**	(6, 20, 35)		**116,531**	**96,693**
14	**Deferred tax assets**	(19, 36)		**579,289**	**755,498**
Total assets				**32,984,645**	**33,538,469**

Liabilities

	(€ k)	(Note)			31.12.2023	31.12.2022
1	**Liabilities to banks**	(20, 40-42)				
	a) Payable on demand			41,492		57,291
	b) With agreed maturities or notice periods			4,633,503		4,511,525
					4,674,995	**4,568,816**
2	**Liabilities to customers**	(20, 40-42)				
	a) Savings deposits					
	aa) With agreed notice period of three months		-			163
	ab) With agreed notice period of more than three months		105			-
				105		163
	b) Other liabilities					
	ba) Payable on demand		4,474,376			4,738,174
	bb) With agreed maturities or notice periods		9,141,302			8,509,379
				13,615,678		13,247,553
					13,615,783	**13,247,716**
3	**Securitised liabilities**	(20, 42.70)				
	a) Debentures issued			8,792,155		8,340,580
					8,792,155	**8,340,580**
4	**Trading portfolio**	(10, 43)			**55,547**	**226,850**
5	**Trust liabilities**	(44)			**19,643**	**14,112**
	thereof:					
	trust loans	19,643				
		(previous year: 14,112)				
6	**Other liabilities**	(45)			**334,883**	**307,656**
7	**Deferred income**	(6, 20, 46)			**214,543**	**239,642**
8	**Deferred tax liabilities**	(19, 47)			**3,686**	**1,300**
9	**Provisions**	(21)				
	a) Provisions for pensions and similar obligations			122,134		207,427
	b) Tax provisions			94,984		90,467
	c) Other provisions	(48)		272,968		348,169
					490,086	**646,063**
10	**Subordinated debt**	(49)			**910,258**	**920,572**
11	**Fund for general banking risks**	(50)			**807,852**	**807,852**
	thereof special items under Section 340e (4) HGB	-				
		(previous year: 57,852)				
To be carried forward					**29,919,431**	**29,321,159**

Liabilities

(€ k)	(Note)			31.12.2023	31.12.2022
	Carried forward			**29,919,431**	**29,321,159**
12 Equity	(51)				
a) Subscribed capital					
aa) Share capital		301,822			301,822
			301,822		
b) Capital reserve			1,534,666		1,530,791
c) Retained earnings					794,899
ca) Other retained earnings		926,904			
			926,904		
d) Accumulated profit/loss			301,822		1,589,798
				3,065,214	**4,217,310**
Total liabilities				**32,984,645**	**33,538,469**

1 Contingent liabilities	(63)				
a) Liabilities from guarantees and indemnity agreements				**630,591**	**822,912**
2 Other commitments	(63)				
a) Irrevocable loan commitments				**4,688,950**	**3,652,005**

Income statement of Hamburg Commercial Bank AG

	for the period 1 January to 31 December 2023(€ k)	(Note)			2023	2022
1	**Interest income from**	(52, 53)				
	a) lending and money market transactions		1,972,348			1,625,467
	negative interest resulting from loan and money market transactions		-2632	1,969,716		-36253
	b) fixed-interest securities and book-entry securities		271,023			77,759
	negative interest resulting from securities and book entry securities		-	271,023		-
				2,240,739		**1,666,973**
2	**Interest expenses**	(53)				
	from the banking business		1,565,104			793,841
	positive interest resulting from the banking business		-3470			-31769
				1,561,634		762,072
					679,105	**904,901**
3	**Current income from**	(52)				
	a) shares and other non-fixed-interest securities			44,742		10,510
	b) equity holdings in non-affiliated companies			162		104
	c) interests in affiliated companies			2,046		988
					46,950	**11,602**
4	**Income from profit pool, profit transfer agreements or partial profit transfer agreements**				**-**	**5,662**
5	**Commission income**	(52, 54)		37,724		41,041
6	**Commission expenses**	(54)		5,865		7,505
					31,859	**33,536**
7	**Net income/Net expenses from the trading portfolio**	(52)			**47,867**	**42,036**
8	**Other operating income**	(52, 55)			**180,308**	**101,044**
9	**General administrative expenses**					
	a) Personnel expenses					
	aa) Wages and salaries		124,586			131,349
	ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits		24,167			22,018
				148,753		153,367
	thereof:					
	for retirement pensions	2,948				
		(previous year: 4,786)				
	b) Other administrative expenses	(30)		204,774		208,605
					353,527	**361,972**
10	**Depreciation, amortisation and impairments on intangible fixed assets and tangible fixed assets**	(33)			**3,880**	**2,721**
11	**Other operating expenses**	(56)			**34,888**	**182,249**
12	**Write-down and impairment of loans and advances and certain securities and additions to provisions in the lending business**				**61,320**	**-**
	To be carried forward				**532,474**	**551,839**

(€ k)		(Note)		2023	2022
		Carried forward		**532,474**	**551,839**
13	**Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business**			**-**	**404,350**
14	**Income from additions to equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets**			**13,486**	**29,072**
15	**Release from the fund for general banking risks**			**-**	**1,559,801**
16	**Expenses from the transfer of losses**			**180**	**173**
17	**Profit on ordinary activities**			**545,780**	**2,544,889**
18	**Extraordinary income**	(57)	-		23,597
19	**Extraordinary expenses**	(57)	-		58,529
20	**Extraordinary result**	(57)		**-**	**-34932**
21	**Income tax expenses**	(58)	200,905		122,821
22	**Other taxes not shown under item 11**		789		2,439
				201,694	**125,260**
23	**Annual net profit / loss**			**344,086**	**2,384,697**
24	**Loss carried over from the previous year**			**89,741**	**-**
25	**Transfer to other retained earnings**			**-132005**	**-794899**
26	**Accumulated profit**			**301,822**	**1,589,798**

Notes for the 2023 financial year

General information and notes

1. Hamburg Commercial Bank AG and its shareholders

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

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

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

The following overview shows Hamburg Commercial Bank AG and its shareholders with their respective direct and indirect holdings of voting capital as at 31 December 2023 (percentages were 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 %**

2. Events after the reporting date

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

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

Due to the COVID-19 pandemic and the war in Ukraine, which started with the Russian attack on Ukraine in February 2022, the previous years were characterised by increased uncertainty with regard to future market developments, which had an impact on the estimates required in line with the impairment provisions. In the reporting year 2023, however, these two factors only had an insignificant direct impact on the Bank's business activities. Other effects resulting from the current macroeconomic situation on HCOB's business performance are described in the management report.

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

HCOB is assigned to the Compensation Scheme of German Banks (*Entschädigungseinrichtung deutscher Banken GmbH, EdB*). EdB is entrusted with the task of acting as the statutory compensation scheme for all CRR credit institutions assigned to it. The EdB generally protects all deposits up to EUR 100,000 per HCOB depositor.

Moreover, HCOB has also voluntarily participated in the deposit guarantee fund of the Association of German Banks (ESF).

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

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

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

5. Accounting standards applied

We prepared the annual financial statements and the management report of Hamburg Commercial Bank AG as at 31 December 2023 in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Bank Accounting Regulation (RechKredV) and the German Mortgage Bond Act (PfandBG). In addition, we complied with the applicable pronouncements of the Institute of Public Auditors in Germany, Incorporated Association – IDW.

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

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

6. Cash reserve and receivables

The cash reserve is recognised at nominal amounts.

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

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

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

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

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

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

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

As part of the allocation to loan loss provisions for loans and advances to customers in accordance with the expected credit loss model, adjustments in the form of model overlays were also taken into account as at 31 December 2023. 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").

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

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

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

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 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.

Loan loss provisions (for on- and off-balance-sheet transactions) amount to € 426 million as at 31 December 2023 (previous year: € 473 million). Of this amount, € 81 million (previous year: € 144 million) is attributable to the adjustments to the loan loss provision through model overlays, which are created on credit exposures for which general loan loss provisions have been made. No overlays are formed for individual valuation allowances.

As at the reporting date, the model overlays are structured as follows:

Composition of model overlays

(€ m)	2023	2022
Effect of macroeconomic forecasts	21	47
Address and portfolio related adjustments		
Individual cases (credit watch list)	–	27
Individual cases of borrowers potentially impacted by the war in Ukraine (credit watch list)	–	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	**81**	**144**

II. EFFECT OF MACROECONOMIC FORECASTS

The impact of forward-looking information on the macroeconomic environment of Hamburg Commercial Bank's business activities 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 (%)	1.4	-1.0
GDP eurozone (%)	0.8	-1.5
Unemployment rate Germany (%)	0.4	-2.0
Fed Funds rate (%)	5.380	5.380
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 (%)	2.8	3.8

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 € 21 million (31 December 2022: € 47 million). Compared to the previous year, the decline in these overlays can essentially 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 risk provisions.

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 potential overlays for these counterparties were already taken into account in the original calculation of loan loss provisions (previous year: € 27 million). 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.

Compared to the previous year, these exposures are no longer included in the calculation basis under the IFRS 9 methodology for an increase in loan loss provisions; instead, the original stage applicable at the balance sheet 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 € 4 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 model overlays 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 ten percent would result in an increase or decrease in the macroeconomic model overlays of € 2 million.

8. Determining fair value

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

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

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

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

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

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

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

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

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

9. Securities

For valuation purposes, we divide our securities (asset items 5 and 6) not assigned to the trading portfolio in accordance with the provisions under German commercial law into an investment portfolio and a liquidity reserve, depending on the respective purpose.

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

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

For the balance sheet treatment and the presentation of hedging relationships, please refer to our remarks under Note 14.

Interest resulting from HCOB’s own securities holdings is reported as interest income. In this connection, pro rata interest is recognised on an accrual basis. Valuation gains or losses and realised profits on securities held in the investment portfolio are allocated to Net income from financial investments (item 14 in the income statement); in the case of securities held in the liquidity reserve, they are allocated to Credit risk income/expense (item 13 in the income statement).

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

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

10. Financial instruments held in the trading portfolio

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

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

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

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

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

11. Balance sheet presentation on a net basis

We net the fair values of trading portfolio derivatives traded over the counter and cash collateral, for which measurement is performed and collateral provided on a daily basis under a master agreement with collateral agreement. The netting has no effect on the disclosure of net income from the trading portfolio. Cf. also Note 67.

12. Derivative financial instruments

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

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

During the financial year, accounting for internal derivatives resulted in interest income in the amount of € 139 million (previous year: € 419 million), interest expense in the amount of € 40 million (previous year: € 94 million), Other operating income of € 0 million (previous year: less than € 1 million) and Other operating expense of € 0 million (previous year: less than € 1 million). Reverse effects are reported in the Net income from the trading portfolio.

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

In cases involving financial instruments featuring a margin system (especially futures and OTC derivatives), initial margin payments made/received are recognised under Other assets (cf. Note 34) or Other liabilities (cf. Note 45). The same applies to variation margin payments. In the case of OTC derivatives in the trading portfolio with a netting agreement, the asset and liability positions are netted both against the corresponding variation margin payments and against each other. Unrealised gains and losses from open future positions under trading portfolio assets and liabilities are netted against the variation margin payments made/received on the face of the balance sheet. The results are reflected in Net income from the trading portfolio. The same applies to the investment portfolio in the Other operating result.

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

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

13. Structured products

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

14. Hedge accounting via valuation units

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

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

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

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

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

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

AMOUNT OF HEDGED ITEMS AND HEDGING INSTRUMENTS INCLUDED IN VALUATION UNITS

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

Underlying transactions

(€ k)	31.12.2023		31.12.2022	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Assets				
Debentures and other fixed-interest securities	–	1,937,231	–	2,134,460
Liabilities				
Securitised liabilities	–	–	–	–
Negative market value of derivatives	–	–	–	–

Hedging instruments

(€ k)	31.12.2023		31.12.2022	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Positive market value of derivatives	–	144,044	–	231,035
Negative market value of derivatives	–	–	–	–

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

AMOUNT OF THE RISKS HEDGED IN VALUATION UNITS

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

Underlying transactions

(€ k)	31.12.2023				31.12.2022			
	Micro valuation units		Portfolio valuation units		Micro valuation units		Portfolio valuation units	
	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value
Assets								
Debentures and other fixed-interest securities	–	–	–	117,957	–	–	–	200,844
Liabilities								
Securitised liabilities	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	–	–	–	–

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

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

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

If a negative balance arises on comparing the present values to the carrying amounts, this amount is recognised in the income statement as a provision for contingent losses, which is disclosed under Other provisions on the balance sheet. Based on the results of the calculation, no provisions needed to be created as at 31 December 2023.

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

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

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

17. Intangible fixed assets

We account for internally-developed and purchased software under Intangible fixed assets. Internally developed software is recognised in the amount of the production costs incurred in its development. Development costs include the expenses incurred in the application of research results or other knowledge for the new development or further development by means of significant changes to the software. Expenditure on pre-development research is not included in cost of sales, but recognised in profit or loss in the year in which it is incurred. In the financial year, development costs for internally-developed intangible assets amounted to € 1 million (previous year: € 2 million) and were recognised under internally-developed software under development. No research costs were incurred.

Purchased software is valued at purchase cost. In connection with the Bank's IT transformation, which mainly involves the renewal of IT applications and IT infrastructure, development costs of € 47million were recognised in the reporting year (previous year: 41 million) and reported under Acquired software under development.

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

18. Tangible fixed assets

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

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

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

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

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

19. Deferred taxes

Deferred taxes are calculated based on the different carrying amounts of assets and liabilities in the balance sheet drawn up for accounting tax purposes. We recognise deferred taxes on differences that are expected to offset in future financial years and will thereby lead to future tax expenses or reductions. Deferred tax assets are additionally attributed to tax losses carried forward to the extent the tax benefit from the losses carried forward is expected to be realised within the next five years. Deferred taxes are calculated using the tax rates expected to apply to the respective domestic and foreign operations when the differences reverse, or the tax loss carryforwards are utilised. The overall tax rate for Germany is currently 32.15%, while the overall tax rate assumed for Luxembourg is 24.94%. In accordance with the relevant regulations, deferred taxes are not discounted. Deferred tax assets and deferred tax liabilities are stated in the balance sheet on a gross basis (asset item 14 and liability item 6a).

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

20. Liabilities

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

21. Provisions

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

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

	2023	2022
Salary growth	2.0%	2.0%
Personnel growth	0.5%	0.5%
Pension growth		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules	2.0%	2.0%
Employment contract 4	2.0%	2.0%
Staff turnover		
Age up to 30	6.0%	6.0%
Age 30-55	linear decline to zero	linear decline to zero
Age above 56	0.0%	0.0%
Retirement age	pursuant to the 2007 AGAnpassG	pursuant to the 2007 AGAnpassG

Provisions for pensions and similar obligations are discounted, in accordance with Section 253 (2) sentence 2 German Commercial Code (HGB), at the average market interest rate for the past ten years based on an assumed duration of 15 years. The discount rate applied as at the reporting date was 1.82% p.a. (previous year: 1.78% p.a.). The non-distributable difference in accordance with Section 253 (6) German Commercial Code (HGB) based on the average seven-year interest rate of 1.74% p.a. (previous year: 1.44% p.a.) amounts to € 11 million as at 31 December 2023 (previous year: € 49 million) (cf. Note 60).

Assets, whose sole purpose is the fulfilment of pension obligations and to which no other creditors have access (fund assets) are recognised at their fair value of € 812 million (previous year: € 767 million), while the amortised costs of the assets amount to € 809 million (previous year: € 841 million). For the major part of these assets in the amount of € 806 million (previous year: € 760 million) an association called HCOB Trust e.V. ("Trust") was established, which has concluded a bilateral contractual trust agreement (CTA) with the Bank. The CTA is used to build up an insolvency-protected asset fund, which provides additional security for pension liabilities in the event of the Bank's insolvency. This structure enables the Bank to actively manage its pension liabilities in order to make targeted investments in a wide range of assets from a risk-return perspective and thus generate the necessary funds to cover its pension liabilities. On the balance sheet, the assets tied up in the trust qualify as fund assets pursuant to Section 246 (2) German Commercial Code (HGB).

In accordance with Section 246 (2) sentence 2 German Commercial Code (HGB), the fund assets of the CTA are offset with Provisions for pension obligations and similar obligations covered by the CTA. On balance, the amount required to meet the resultant liability was € 849 million as at 31 December 2023 (previous year: € 875 million). If the fair value of the assets exceeds the amount of liabilities, the excess amount is disclosed under the separate item Difference resulting from asset offsetting in accordance with Section 246 (2) sentence 3 German Commercial Code (HGB). Expenses of € 15 million (previous year: € 158 million), were offset against income of € 87 million (previous year: € 13 million) from plan assets in the reporting period, leaving net expenses of € 67 million (previous year: -145 million).

Furthermore, Hamburg Commercial Bank AG has contractual rights to reimbursement for the pension benefits already paid from plan assets. These reimbursement rights are recognised as receivables under Other assets. As at 31 December 2023, the reimbursement rights amount to € 62 million (previous year: € 91 million). 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.

22. Currency translation

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

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

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

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

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

23. Accounting treatment applied to the restructuring

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

The resultant income and expense is disclosed under the Extraordinary result.

Notes on balance sheet assets

24. Affiliated companies

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

(€ k)	31.12.2023	31.12.2022
Loans and advances to banks	–	9,799
Loans and advances to customers	–	8,419

25. Non-affiliated companies

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

26. Subordinated assets

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

(€ k)	31.12.2023	31.12.2022
Loans and advances to customers		
Subordinated loans and advances to customers	–	6,773
Debentures and other fixed-interest securities		
Bonds and debentures	153,070	224,804

27. Residual maturities

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

(€ k)	31.12.2023	31.12.2022
Loans and advances to banks		
Other loans and advances		
Up to 3 months	3,936,325	5,010,892
Between 3 months and 1 year	–	341,032
Between 1 year and 5 years	8,500	8,500
More than 5 years	–	–
Loans and advances to customers		
Up to 3 months	1,798,347	1,564,339
Between 3 months and 1 year	3,518,617	2,503,063
Between 1 year and 5 years	10,173,161	10,104,429
More than 5 years	2,176,387	4,781,093
With an indefinite term	–	800
Debentures and other fixed-interest securities		
Due in the following year	709,859	789,835

28. Negotiable securities

(€ k)	Listed		Unlisted		Total	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Debentures and other fixed-interest securities	4,562,104	4,879,642	3,918,296	1,706,453	8,480,400	6,586,095
Shares and other non-fixed-interest securities	70,414	–	31,487	902	101,901	902
Interests in affiliated companies	–	–	–	300	–	300

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

(€ k)	31.12.2023	31.12.2022
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	3,533,489	1,769,042
Carrying amount of securities reported above their fair value	1,322,005	913,919
Market value of securities reported above their fair value	1,301,319	891,681
Unrealised losses	20,686	22,238
thereof unrealised losses on securities that are not part of a valuation unit	20,686	22,228
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	1,261	475,404

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

Unrealised losses relating to securities held in valuation units, which are not to be allocated to the hedged risk (resulting for the most part from the creditworthiness of the issuer) amounted to € 0 million as at 31 December 2023 (previous year: € 0 million). These also include unrealised losses on securities relating to the unhedged risk, which would show an unrealised loss without taking the valuation unit into account.

If there is not a permanent but rather only a temporary impairment of securities held as fixed assets to be expected, which generally is not induced by changes in the credit rating, a write-down to fair value is not undertaken (cf. Note 8).

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

(€ k)	Rating of the securities	31.12.2023	31.12.2022
No trigger events		**14,394**	**22,228**
	Investment grade rating or higher	13,750	18,792
	Investment grade rating or lower	644	3,436
Trigger events		**6,292**	**–**
	Investment grade rating or lower	6,292	–
Total		**20,686**	**22,228**

30. Trading portfolio (assets)

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

(€ k)	31.12.2023	31.12.2022
Derivative financial instruments	140,538	171,798
Debentures and other fixed-interest securities	423,631	135,599
Other assets	46	8
Risk discount	–14,135	–13,535
Total	**550,080**	**293,870**

31. Investment assets

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

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

(€ k) 2023 Fund	Investment objectives	Carrying amount	Share value pursuant to the German Investment Code (KAGB)	Delta	Distributed in the financial year
HPS Elbe Unlevered Direct Lending Fund, SCSp, Luxembourg	Investment in corporate loans	272,416	276,236	3,820	19,383
Apollo Alster Lending Fund (Lux), SCSp, Luxembourg	Investment in corporate loans	320,633	332,951	12,318	22,762
HI-Hafen Global-Fonds	Investment in corporate bonds	74,956	75,011	55	1,900
BSP Michel Unlevered Direct Lending Fund SCSp, Luxembourg	Investment in corporate loans	15,837	15,837	–	–

Redemption of shares in HPS Elbe Unlevered Direct Lending Fund is subject to a notice period of 3 months.

Redemption of shares in Apollo Alster Lending Fund is subject to a notice period of 3 months. The lock-up period in the first year after the inception of the fund in April 2022 has expired in financial year 2023.

Investors may request the redemption of their shares in the HI-Hafen Fund at any time. There are no notice periods.

Redemption of shares in BSP Michel Unlevered Direct Lending Fund is subject to a notice period of 3 months. In addition, terminated is excluded for the first year after the fund was launched in September 2023.

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

32. Trust assets

Trust assets are reported under the following balance sheet items:

(€ k)	31.12.2023	31.12.2022
Loans and advances to customers	19,643	14,112
Total	**19,643**	**14,112**

33. Statement of changes in fixed assets

Development of fixed assets

(€ k)	1.1.2023	2023			31.12.2023	31.12.2023	31.12.2023	31.12.2022
	Historical cost of acquisition	Additions	Disposals	Exchange rate differences	Historical cost of acquisition	Accumulated deprecia tion	Carrying amount	Carrying amount
Securities	2,244,446	2,185,312	205,566	– 80,556	4,143,636	–	4,143,636	2,244,446
Long-term equity investments	75,162	–	–	–	75,162	69,510	5,652	5,652
Interests in affiliated companies	16,611	983	26	–	17,568	13,739	3,829	2,872
Land and buildings	126	9,346	–	–	9,472	138	9,334	9
Plant and equipment[1]	20,187	753	4,405	–	16,535	14,441	2,094	2,325
Intangible fixed assets[1]	60,183	22,994	491	–	82,686	7,447	75,239	55,429
Total	**2,416,715**	**2,219,388**	**210,488**	**–80,556**	**4,345,059**	**105,275**	**4,239,784**	**2,310,733**

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

As at 31 December 2023, land and buildings include a carrying amount of € 8,762 thousand for land and buildings used for HCOB's own activities.

Development in depreciation/amortisation

(€ k)	1.1.2023	2023						31.12.2023
	Accumulated depreciation	Depreciation in the financial year	Write-ups in the financial year	Change in total depreciation in connection with additions	Change in total depreciation in connection with disposals	Change in total depreciation in connection with transfers	Exchange rate differences	Accumulated depreciation
Long-term equity investments	69,510	–	–	–	–	–	–	69,510
Interests in affiliated companies	13,739	–	–	–	–	–	–	13,739
Land and buildings	117	21	–	–	–	–	–	138
Plant and equipment[1]	17,862	758	–	–	4,179	–	–	14,441
Intangible fixed assets[1]	4,754	3,101	–	–	408	–	–	7,447
Total	**105,982**	**3,880**	**–**	**–**	**4,587**	**–**	**–**	**105,275**

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

34. Other assets

The major components of other assets are:

(€ k)	31.12.2023	31.12.2022
Initial and variation margins from OTC derivatives (cf. Note 11)	321,151	467,428
Reimbursement right from plan assets	62,087	91,168
Receivables from fiscal authorities	39,147	80,753
Adjustment item for currency translation	35,553	82,943
Premiums paid from options trading and from interest limitation agreements	25,535	21,767
Shares in closed-end real estate funds	6	6
Swap deferrals under forward exchange transactions	–	3,724
Receivables from profit and loss transfer agreements and from dividends	–	162

35. Prepaid expenses

The prepaid expenses are recognised at nominal value.

The major components of other assets are:

(€ k)	31.12.2023	31.12.2022
Deferred income from derivatives	84,139	71,453
Discount accruals from issuing business	19,037	12,928
Premium accruals from claims	167	707
Discount accruals from liabilities	1,298	46

36. Deferred tax assets

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

(€ k)	31.12.2023	31.12.2022
Assets		
Loans and advances to customers	53,712	69,415
Debentures and other fixed-interest securities	27,187	106,143
Shares and other non-fixed-interest securities	1,691	699
Long-term equity investments	3,498	3,544
Interests in affiliated companies	1,596	1,596
Tangible fixed assets	2	2
Other assets	39,664	45,495
Deferred income	466	576
Liabilities		
Other liabilities	349	1,067
Deferred income	968	3,056
Provisions	179,132	205,903
Loss carryforwards	271,024	318,002
Total	**579,289**	**755,498**

The deferred tax assets decreased by € 176 million in the financial year.

Deferred tax assets on loss carryforwards in the amount of approximately € 173 million are attributable to the head office, while € 98 million are attributable to the Luxembourg branch.

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

37. Genuine repurchase agreements

In the reporting year, we sold assets with a carrying amount of € 1,471 million (previous year: € 535 million) as a repurchaser of genuine repurchase agreements with a simultaneous agreement to repurchase. We continue to report these assets in our balance sheet, while the considerations received are recognised under the corresponding liability items.

38. Assets transferred as collateral

In addition to the assets sold under repurchase agreements (cf. Note 37) and the receivables serving as cover for bonds issued (cf. Note 69), we have further assets serving as collateral. These are mainly securities lodged with central banks and Eurex as collateral for participation in stock exchanges and clearing organisations and for funding as well as loan notes and loan receivables assigned as collateral for borrowings at central banks and other banks.

(€ k)	31.12.2023	31.12.2022
Assets transferred as collateral	3,405,036	4,835,844
thereof for		
Liabilities to banks (without derivatives)	3,104,090	4,366,124
Liabilities to customers (without derivatives)	–	2,292
Trading portfolio (liabilities) and liabilities from derivatives	300,946	467,428

39. Difference resulting from asset offsetting

Fund assets according to Section 246 (2) Sentence 2 German Commercial Code (HGB) amount to € 806 million (previous year: € 760 million). The pension liabilities thus covered amount to € 849 million (previous year: € 875 million). On balance, the excess amount after netting is € 0 million (previous year: € 0 million).

Notes on balance sheet liabilities

40. Affiliated companies

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

(€ k)	31.12.2023	31.12.2022
Liabilities to banks	5,033	6,782
Liabilities to customers	11,360	14,968

41. Non-affiliated companies

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

(€ k)	31.12.2023	31.12.2022
Liabilities to customers	–	2,692

42. Residual maturities

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

(€ k)	31.12.2023	31.12.2022
Liabilities to banks		
With an agreed maturity or notice period		
Up to 3 months	313,391	82,715
Between 3 months and 1 year	1,824,284	636,086
Between 1 year and 5 years	874,107	1,842,231
More than 5 years	1,621,721	1,950,492
Liabilities to customers		
Other liabilities with an agreed maturity or notice period		
Up to 3 months	4,493,567	2,840,321
Between 3 months and 1 year	2,181,948	2,221,171
Between 1 year and 5 years	736,444	1,417,592
More than 5 years	1,729,343	2,030,295
Securitised liabilities		
Debentures issued		
Due in the following year	1,803,251	2,341,681

43. Trading portfolio (liabilities)

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

(€ k)	31.12.2023	31.12.2022
Derivative financial instruments	55,499	226,816
Other liabilities	48	34
Total	**55,547**	**226,850**

44. Trust liabilities

Trust liabilities are reported under the following balance sheet items:

(€ k)	31.12.2023	31.12.2022
Liabilities to customers	19,643	14,112
Total	**19,643**	**14,112**

45. Other liabilities

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

(€ k)	31.12.2023	31.12.2022
Variation margin OTC derivatives	195,715	168,488
Security deposits for assumption of debts	46,947	47,143
Adjustment item for currency valuation	44,018	39,957
Liabilities to employees	5,663	7,191
Pro rata interest on subordinated debt, profit participation rights and silent participations	8,033	4,862
Tax liabilities	5,696	4,567
Liabilities from profit and loss transfer agreements and from dividends	558	601

46. Deferred income

The deferred income are recognised at nominal value.

The major components of other assets are:

(€ k)	31.12.2023	31.12.2022
Deferrals from advance loan fees	90,505	78,179
Deferred income from derivatives	115,653	147,725
Discount deferrals from receivables	4,701	4,387
Premium deferrals from issuing business	3,254	8,082

47. Deferred tax liabilities

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

(€ k)	31.12.2023	31.12.2022
Assets		
Intangible fixed assets	1,980	1,300
Other assets	1,706	–
Total	**3,686**	**1,300**

The deferred tax liabilities have increased by approximately € 2 million in the financial year. They relate to intangible fixed assets developed in-house and the plan assets for pension provisions.

48. Other provisions

Other provisions primarily relate to the following items:

(€ k)	31.12.2023	31.12.2022
Litigation risks and costs	47,733	105,126
Personnel expenses	63,646	63,105
Outstanding invoices	29,310	44,563
Lending business	43,470	41,765
Securities transactions and financial derivatives	28,880	24,223
Restructuring measures	6,457	19,556
Regulatory expenses	16,800	15,748
Transformation expenses	10,531	10,685
Provisions for pending losses	3,009	6,018
Archiving expenses	4,968	4,968
Processing fees for commercial loans	1,196	1,196
Interest on corporate tax and trade tax	6,992	1,661

Hamburg Commercial Bank has made provisions for litigation risks and costs as at the reporting date. To determine which claim is likely to be subject to the possibility of loss and to estimate the amount of potential payment obligations, Hamburg Commercial Bank considers a variety of factors. These include, among other things, the type of claim and the underlying facts, the status of the individual proceedings, (preliminary) decisions of courts and arbitration boards, the experience of Hamburg Commercial Bank and third parties in comparable cases (as far as they are known to the bank) , previous settlement discussions as well as reports and assessments from internal and external legal advisors and other experts. In the year under review, some risk assessments improved in this regard. For this reason, resolutions could be proposed for litigation risks, resulting in danger in this position. These provisions essentially result from legal disputes in the bank's lending area.

€ 5 million of the provisions for restructuring measures (previous year: € 17 million) are for personnel expenses and € 2 million (previous year: € 2 million) for non-personnel 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.

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

49. Subordinated debt

Subordinated debt was issued in the form of bearer bonds and is denominated in EUR and USD. The original maturities range from 30 years to 40 years. The interest rates payable are between 4.282% p.a. and 6.44% p.a.

Individual items exceeding 9.99% of total subordinated debt:

(€ m)	Currency	Interest rate	Maturity date	Termination rights
129	USD	6.04%	21 March 2031	None
92	EUR	4.38%	22 January 2041	None

In principle, subordinated debt meets the requirements of Article 63 Capital Requirements Regulation (CRR) for recognition as Tier 2 capital. Subordinated debt in the amount of € 0 million (previous year: € 0 million) will mature in less than two years. Interest expense on subordinated debt amounted to € 39 million in financial year 2023 (previous year: € 13 million).

50. Fund for general banking risks

There were no additions to the fund during the financial year from net trading income (previous year: € 0 million).

The amount of the fund for general banking risks in accordance with Section 340g German Commercial Code (HGB) was maintained in the 2023 financial year. In the previous year, substantial reversals of € 1,560 million had been recognised.

51. Equity

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

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

As in the previous year, several funds launched by Cerberus Capital Management L.P., New York, indirectly held a total of 40.60% of the voting rights as at 31 December 2023 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, informed us in November 2018 that it directly owned more than one quarter of the shares of Hamburg Commercial Bank AG pursuant to Section 20 (1) of the German Stock Corporation Act (AktG). In addition, the following companies and natural persons notified us in November 2018 that they indirectly owned more than one quarter of the shares of Hamburg Commercial Bank AG pursuant to Section 20 (1) sentence 1, sentence 2 in conjunction with Section 16 (4) German Stock Corporation Act (AktG).

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

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

The capital reserve includes amounts from share-based compensation of € 20 million (previous year: € 16 million).

From the net profit for 2023, the Management Board and Supervisory Board of HCOB AG transferred an amount of € 42 million (previous year: € 795 million) to other retained earnings within the scope of their authority under the Articles of Association.

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. In addition, € 89.9 million were allocated to retained earnings in the previous year. A dividend distribution of € 302 million or € 1.00 per share was proposed for 2024. However, this requires a corresponding resolution by the Annual General Meeting.

Notes on the income statement

52. Breakdown of income items by geographical markets

(€ k)	2023			2022		
	Germany	Rest of Europe	Asia	Germany	Rest of Europe	Asia
Interest income	2,123,980	116,758	–	1,598,439	68,534	–
Current income from share and other non-fixed-interest securities, equity holdings in non-affiliated companies and interests in affiliated companies	2,901	44,048	–	108	11,494	–
Income from profit pooling, profit transfer and partial profit transfer agreements	–	–	–	5,662	–	–
Commission income	36,010	1,713	–	37,935	3,107	–
Net income from the trading portfolio	49,032	–1,165	–	42,221	–185	–
Other operating income	176,696	3,612	–	100,265	779	–

53. Net interest income

Net interest income includes one-time expenses from the disposal of receivables in the amount of € 5 million (previous year: € 0 million).

54. Net commission income

Net commission income is composed of the following:

(€ k)	2023	2022
Payment transactions and foreign business, documentary business	15,950	15,414
Lending business	10,610	12,606
Guarantee business	4,451	5,689
Securities business	–298	–342
Other	1,145	170
Total	**31,858**	**33,537**

55. Other operating income

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

(€ k)	2023	2022
Income from the disposal of tangible fixed assets	384	39
Income from the reversal of other provisions	13,960	28,467
Cost allocations and reimbursement of expenses	8,955	11,361
Income from the reversal of provisions for contingent losses from valuation units (cf. Note 13)	781	778
Income and expenses from provisions for pensions and similar obligations and fund assets	73,202	–
Income from reversals of provisions for litigation	53,764	14,800
Interest income from claims against tax authorities	2,775	31,042

Other operating income in the reporting year was influenced in particular by income from the reversal of provisions as well as valuation gains from pensions and similar effects.

The income and expenses from provisions for pensions and similar obligations and plan assets to be offset in accordance with Section 246 (2) sentence 2 German Commercial Code (HGB) are recognised in Other operating income as “Net income from provisions for pensions and similar obligations and plan assets”. This includes changes in the fair value of plan assets of € 45 million (previous year: € -129 million), income from fund assets of € 32 million (previous year: € 13 million) and reversal of provisions for pensions and similar obligations of € 6 million (previous year: € 0 million) as well as the effect of the change in the ten-year average interest rate of € 6 million (previous year: € -12 million) netted against the interest expense from pensions and similar obligations of € -16 million (previous year: € -17 million). The income incurred in the reporting year is mainly due to the changed interest rate environment.

In the previous year, the result was mainly driven by the reversal of provisions and interest income from taxes.

56. Other operating expenses

Other operating expenses primarily include the following items:

(€ k)	2023	2022
Expenses for the compounding of provisions outside the lending business	–	145,209
Expenses from additions to other provisions	7,612	9,307
Expenses paid in advance for transaction fees, legal fees, servicing	9,334	10,152
Expenses relating to option premiums paid as well as compensation payments for options held in the investment portfolio	9,289	3,208
Expenses from additions to provisions for litigation risks	896	6,322
Interest expenses pursuant to Section 233 AO	2,714	1,665
Loss on exchange from transactions not specifically hedged	–	779

57. Extraordinary result

No business transactions were recognised in the extraordinary result in the year under review as there were no transformation expenses or income.

In the previous year, the extraordinary result comprised transformation expenses of € 58 million. In connection with the successful privatisation on 28 November 2018, Hamburg Commercial Bank initiated a comprehensive restructuring programme, which included the planned reduction in the number of employees and major projects to support the transformation of the Bank. Restructuring provisions totalling € 24 million were reversed in the previous financial year.

Transformation expenses totalling € -58 million resulted in particular from subsequent project measures implemented to achieve the Bank's strategic goals.

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

58. Income tax expense

Income tax expense is composed of the following:

(€ k)	2023	2022
Deferred income taxes	–178,595	–95,175
from temporary differences	–131,617	–62,638
from losses carried forward	– 46,978	–32,537
Current income taxes	–22,310	–27,646
Total	**–200,905**	**–122,821**

The deferred tax expense in the reporting year of € 179 million (previous year: expense of € 95 million) results from the deferred tax expense on temporary differences of € 132 million (previous year: expense of € 63 million) and the deferred tax expense on loss carryforwards of € 47 million (previous year: expense of € 32 million). The deferred tax income on temporary differences is almost exclusively attributable to the head office. The deferred tax expense on loss carryforwards is attributable to the head office with € 24 million and to the Luxembourg branch with € 23 million.

Current income taxes of € 40 million relate to the tax expense for the current year in Germany. This is offset by tax income for previous years in the amount of € 18 million.

The provisions of Germany's 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 German Minimum Tax Act (MinStG)).

As a multinational group of companies, the HCOB Group generates consolidated revenue of more than EUR 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. Effects on deferred taxes are not recognised due to the application of IAS 12.4A (or for German Commercial Code (HGB): due to the application of Section 274 (3) HGB).

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 2 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).

59. Fees and activities of the auditor

AUDITOR'S ACTIVITIES

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements and Group financial statements of Hamburg Commercial Bank as at 31 December 2023. In addition, the review of the half-year financial report as at 30 June 2023 , the preliminary audit of CSRD, the issue of comfort letters pursuant to IDW PS 910 as well as, to a lesser extent, certain services relating to confirmations for guarantee schemes were performed. Training sessions were also conducted.

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

(€ k)	2023
Audits of annual financial statements PWC GmbH	–3,567
Other certification and valuation services PWC GmbH	–206
Other services PWC GmbH	–24
Audits of annual financial statements PWC network (outside of Germany)	–134
Other certification and valuation services PWC network (outside of Germany)	–66
Other services PWC network (outside of Germany)	–13
Total	**–4,010**

60. Non-distributable amounts

A total of € 652 million (previous year: € 808 million) of freely available reserves are blocked for distribution. The amount blocked for distribution is made up as follows: € 578 million (previous year: € 755 million) corresponds to the amount by which the deferred tax assets recognised in the balance sheet exceed the deferred tax liabilities – as far as these are not taken into account in the amounts below. An amount of € 11 million (previous year: € 49 million) relates to the difference in accordance with Section 253 (6) German Commercial Code (HGB) in connection with the discount rate for pension provisions. The distribution block in accordance with Section 268 (8) Sentence 3 German Commercial Code (HGB) amounts to € 59 million (previous year: € 0 million) and results from the difference between the fair value of the cover assets and their amortised cost less the deferred tax liabilities created for this purpose. As in the previous year, the distribution block of € 4 million (previous year: € 3 million) results from the capitalisation of internally generated intangible assets less the deferred tax liabilities formed for this purpose.

Other disclosures

61. Leasing business

Assets related to the leasing business in the amount of € 28 million (previous year: € 33 million) are recognised under Loans and advances to customers. As in the previous year, there are no liabilities from the leasing business.

62. Contingent liabilities and other commitments

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

Contingent liabilities do not include any material liabilities.

Irrevocable loan commitments mainly relate to domestic customers with € 1,363 million (previous year: € 1,359 million) and to foreign customers with € 3,326 million (previous year: € 2,293 million).

As was the case in the previous year, there were no placement or underwriting commitments as at 31 December 2023.

63. Letters of comfort

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

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

64. Other financial obligations

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

With the transposition of the Bank Recovery and Resolution Directive (BRRD) into German law, a new legal basis for determining the bank levy came into force as at 1 January 2015. By 1 January 2024, the target volume of the EU-wide Single Resolution Fund (SRF) shall be reached based on contributions from European banks. The current contribution shall be determined by the supervisor as at 31 May each year and shall be payable by 30 June. No subsequent contributions are expected.

Further obligations in the amount of € 10 million result from long-term leases for land and buildings used for business purposes (previous year: € 7 million).

Furthermore, Hamburg Commercial Bank AG concluded a rental agreement for the yet-to-be-built “Elbtower” in Hamburg in 2020. This was terminated by the bank because the Signa Group's portfolio is subject to significant uncertainty and the planned handover of the rental property in 2025 is currently not possible.

Additional obligations resulting from leasing agreements for IT services amounted to € 19 million (previous year: € 28 million).

Cost absorption agreements with two affiliated companies expired in the financial year (previous year: € 2 million).

As part of its former guarantor function, the Bank also has a general liability towards Deka Bank Deutsche Girozentrale together with other former shareholders. This applies to liabilities entered into before 18 July 2001, irrespective of their term.

There are no material other financial obligations apart from those listed above.

65. Notes on shareholdings

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

Affiliated companies – other domestic companies

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg[2]	100.00	100.00	EUR	843,373.72	156,372.43
2	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	32,288.60	–896.11
3	GmbH Altstadt Grundstücksgesellschaft, Hamburg[1, 2]	89.90	89.90	EUR	138,695.43	–37,372.43
4	HCOB Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,718,749.25	–11,266.82
5	HCOB Private Equity GmbH, Hamburg[2]	100.00	100.00	EUR	550,000.00	5,661,507.87
6	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	30,244.30	–11,614.51

Affiliated companies – other foreign companies

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
7	Avia Management S.à r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	166,646.01	110,699.27
8	Elbe CA Holdings, LLC, Wilmington, USA[1, 3]	100.00	100.00		–	–
9	Elbe CA Subsidiary, SCSp, Luxembourg, Luxembourg[1, 3]	100.00	100.00		–	–
10	HCOB Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	290,251.79	–33,148.13
11	HCOB Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	4,206,892.00	71,518.00
12	HCOB Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	4,375,993.43	3,045,993.43
13	HCOB Structured Situations Limited, St. Helier, Jersey[4]	100.00	100.00	USD	347,000.00	551.00
14	Klarphos S.àr.l., Findel, Luxembourg	100.00	100.00	EUR	1,691,209.91	350,013.85

Long-term equity investments

Serial. no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
15	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	1.33	1.33	EUR	283,796,103.15	10,195,000.00
16	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg	44.72	44.56	EUR	10,321,265.37	–4,651,564.50
17	GLB GmbH & Co. OHG, Frankfurt am Main	15.77	15.77	EUR	2,792,048.12	–54,514.78
18	GLB-Verwaltungs-GmbH, Frankfurt am Main	15.80	15.80	EUR	63,593.01	1,980.14
19	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,986,683.17	–224,875.32
20	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekte Hamburg und Potsdam KG, Hamburg	5.15	5.16	EUR	4,127,472.30	553,734.75
21	HGA Objekt Stuttgart GmbH & Co. KG, Hamburg	7.25	7.26	EUR	8,278,082.03	98,028.93
22	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg	5.10	5.09	EUR	6,432,380.32	81,894.18
23	Hines European Development Fund Limited Partnership, Wilmington, USA[1]	9.90	9.90	EUR	24,855,000.00	–757,000.00
24	Next Commerce Accelerator Beteiligungsgesellschaft mbH & Co. KG, Hamburg	9.90	9.90	EUR	901,747.02	–274,794.07
25	RSU GmbH & Co. KG, Munich	13.60	13.60	EUR	10,919,517.05	241,075.16
26	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
27	True Sale International GmbH, Frankfurt am Main	7.69	7.69	EUR	4,671,738.76	135,892.88
28	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.

Foreign exchange rates for € 1 as at 31 December 2023

USA	USD	1.105

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

There are no equity holdings exceeding five percent of the voting rights in major corporations.

66. Notes on foreign currencies

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

(€ k)	31.12.2023	31.12.2022
Assets	5,799,693	4,575,437
Liabilities	5,365,438	3,989,334

67. Information on the net balance sheet presentation

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

(€ k)	31.12.2023			31.12.2022		
	Value before netting	Netting	Value after netting	Value before netting	Netting	Value after netting
Trading portfolio (assets)						
thereof derivative financial instruments	165,462	40,830	124,632	214,744	216,410	– 1,666
Other assets	268,562	45,025	223,537	238,309	– 112,770	351,079
Total assets	**434,024**	**85,855**	**348,169**	**453,053**	**103,640**	**349,413**
Trading portfolio (liabilities)						
thereof derivative financial instruments	125,218	75,788	49,430	23,217	27,176	– 3,959
Other liabilities	196,993	10,066	186,927	244,951	76,464	168,487
Total liabilities	**322,211**	**85,854**	**236,357**	**268,168**	**103,640**	**164,528**

68. Derivatives business

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

Transactions held in the non-trading portfolio serve mainly to hedge interest, currency exchange rate or market price fluctuations. The following overview of the non-trading portfolio does not include derivatives that are a component of accounting valuation units (the nominal volume of these derivatives amounts to € 2,031 million as at 31 December 2023 (previous year: € 2,148 million)).

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

Presentation of volumes and market values

Trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Interest rate swaps	4,873	6,123	120	342	42	114
Swaptions						
Purchases	–	25	–	–	–	–
Sales	7	7	–	–	–	–
Caps, floors	165	834	–	19	–	5
Exchange-traded contracts	–	2	–	–	–	–
Other forward interest rate transactions	22	36	9	11	–	12
Interest rate risks	**5,067**	**7,027**	**129**	**372**	**42**	**131**
Interest rate/currency swaps	35	580	–	3	–	–
Interest rate and foreign exchange risk	**35**	**580**	**–**	**3**	**–**	**–**
Forward exchange transactions	304	154	2	3	1	3
Currency options						
Purchases	–	–	–	–	–	–
Sales	–	–	–	–	–	–
Foreign exchange risks	**304**	**154**	**2**	**3**	**1**	**3**
Exchange-traded contracts	–	–	–	–	–	–
Equity and other price risks	**–**	**–**	**–**	**–**	**–**	**–**
Collateral taker	–	–	–	–	–	–
Credit derivatives	**–**	**195**	**–**	**3**	**–**	**–**
Structured products	**403**	**426**	**8**	**7**	**12**	**15**
Total	**5,809**	**8,382**	**139**	**388**	**55**	**149**

Non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Interest rate swaps	17,985	14,593	199	147	418	675
Swaptions						
Purchases	–	–	–	–	–	–
Sales	–	–	–	–	–	–
Caps, floors	4,327	3,068	25	36	21	37
Exchange-traded contracts	–	–	–	–	–	–
Other forward interest rate transactions	–	47	–	–	–	–
Interest rate risks	**22,312**	**17,708**	**224**	**183**	**439**	**712**
Interest rate/currency swaps	42	42	–	–	29	26
Interest rate and foreign exchange risk	**42**	**42**	**–**	**–**	**29**	**26**
Forward exchange transactions	4,808	4,461	64	98	9	22
Foreign exchange risks	**4,808**	**4,461**	**64**	**98**	**9**	**22**
Equity options						
Purchases	–	–	–	–	–	–
Equity/index-based swaps	–	–	–	–	–	–
Equity and other price risks	**–**	**–**	**–**	**–**	**–**	**–**
Collateral provider	–	–	–	–	–	–
Collateral taker	–	–	–	–	–	–
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Structured products	**237**	**254**	**2**	**2**	**28**	**31**
Total	**27,399**	**22,465**	**290**	**283**	**505**	**791**

Counterparty classification

Trading and non-trading portfolio

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
OECD banks	27,074	24,052	280	489	462	732
Non-OECD banks	–	–	–	–	–	–
Non-banks (incl. stock exchanges)	6,009	6,731	149	180	96	205
Public authorities	59	64	2	2	2	3
Total	**33,142**	**30,847**	**431**	**671**	**560**	**940**

Maturities

Trading and non-trading portfolio nominal values

(€ m)	Interest rate risks		Credit risks		Foreign exchange risks		Equity and other price risks		Structured products	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Residual maturity										
Up to 3 months	1,853	136	–	–	4,404	4,521	–	–	–	–
Up to 1 year	6,070	2,253	–	–	211	82	–	–	26	–
Up to 5 years	15,125	18,050	–	195	497	12	–	–	131	158
More than 5 years	4,408	4,918	–	–	–	–	–	–	483	522
Total	**27,456**	**25,357**	**–**	**195**	**5,112**	**4,615**	**–**	**–**	**640**	**680**

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

Derivatives held in the non-trading portfolio are in principle not recognised as they are pending transactions. There are exceptions in cases where Hamburg Commercial Bank AG has paid option premiums as a purchaser or has received option premiums as the seller. These are capitalised under Other assets/are expensed under Other liabilities. In addition, the recognition of provisions for contingent losses may be necessary where the individual valuation of derivatives results in negative market values. Furthermore, reconciliation items are recorded for currency transactions. As at 31 December 2023, the net amount of reconciliation items shown under Other assets amounted to € 36 million (previous year: € 83 million) and the reconciliation items shown under Other liabilities amounted to € 44 million (previous year: € 40 million).

(€ m)	Option premiums paid		Option premiums received	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Interest rate contracts	21	14	20	13
Equity and other contracts	4	8	–	–
Total	**25**	**22**	**20**	**13**

We have created provisions for contingent losses in the amount of € 25 million (previous year: € 19 million).

69. Information in accordance with Section 28 of the German Pfandbrief Act (PfandBG)

The total amounts of Mortgage Pfandbriefe, Public-sector Pfandbriefe and Ship Pfandbriefe in circulation, and the corresponding cover funds, stated in terms of the nominal value, net present value and risk-adjusted present value in accordance with PfandBarwertV [1]) are as follows:

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Mortgage Pfandbriefe	2,661	3,267	2,607	3,096	2,711	2,939
Cover funds	3,269	4,038	3,279	4,050	3,349	3,793
thereof: Derivatives	–	–	–	–	–	–
Surplus coverage	**608**	**771**	**672**	**954**	**638**	**854**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Public-sector Pfandbriefe	608	657	660	703	625	642
Cover funds	685	791	756	849	677	732
thereof: Derivatives	–	–	–	–	–	–
Surplus coverage	**77**	**134**	**96**	**146**	**52**	**90**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Ship Pfandbriefe	1,400	1,873	1,402	1,868	1,391	1,842
Cover funds	1,747	2,507	1,767	2,556	1,568	2,171
thereof: Derivatives	–	–	–	–	–	–
Surplus coverage	**347**	**634**	**365**	**688**	**177**	**329**

1) Statutory order on the provision of collateral for the current coverage of Mortgage Pfandbriefe, Public-sector Pfandbriefe and Ship Pfandbriefe according to net present value and its calculation at mortgage credit banks dated 14 July 2005.

Composition of the additional cover assets

(€ m)		Receivables according to Section 19 (1) no. 2 a & b PfandBG		Receivables according to Section 19 (1) no. 3 a to c PfandBG		Mortgage Pfandbriefe
Section 28 (1) no. 8 to 10 PfandBG Registered receivables 2023	Total	Total	thereof covered debentures	Total	thereof covered debentures	Receivables according to Section 19 (1) no. 4 PfandBG
Germany	54	–	–	–	–	54
France	42	–	–	–	–	42
USA	40	–	–	–	–	40
Total	**136**	**–**	**–**	**–**	**–**	**136**

(€ m)		Receivables according to Section 19 (1) no. 2 a & b PfandBG		Receivables according to Section 19 (1) no. 3 a to c PfandBG		Mortgage Pfandbriefe
Section 28 (1) no. 8 to 10 PfandBG Registered receivables 2022	Total	Total	thereof covered debentures	Total	thereof covered debentures	Receivables according to Section 19 (1) no. 4 PfandBG
Germany	84	64	64	20	20	–
Belgium	39	–	–	39	39	–
Netherlands	45	45	45	–	–	–
Sweden	14	14	14	–	–	–
USA	277	–	–	–	–	277
Total	**459**	**123**	**123**	**59**	**59**	**277**

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

(€ m)		Receivables according to Section 20 (2) no. 2 PfandBG		Public-sector Pfandbriefe
Registered receivables 2023	Equalisation claims	Total	thereof covered debentures	Total
Germany	–	–	–	–
Total	**–**	**–**	**–**	**–**

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

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

(€ m)	Receivables according to Section 26 (1) no. 3 PfandBG	Receivables according to Section 26 (1) no. 4 PfandBG				Ship Pfandbriefe
Section 28 (1) no. 8 to 10 PfandBG Registered receivables 2023	Total	Total	thereof covered debentures	Total	thereof covered debentures	Receivables according to Section 26 (1) no. 5 PfandBG
Germany	25	–	–	–	–	25
EU institutions	20	–	–	–	–	20
France	22	–	–	–	–	22
USA	57	–	–	–	–	57
Total	**124**	**–**	**–**	**–**	**–**	**124**

(€ m)		Receivables according to Section 26 (1) no. 3 PfandBG		Receivables according to Section 26 (1) no. 4 PfandBG		Ship Pfandbriefe
Section 28 (1) no. 8 to 10 PfandBG Registered receivables 2022	Total	Total	thereof covered debentures	Total	thereof covered debentures	Receivables according to Section 26 (1) no. 5 PfandBG
Germany	61	18	–	–	–	43
EU institutions	13	–	–	–	–	13
USA	130	–	–	–	–	130
Total	**204**	**18**	**–**	**–**	**–**	**186**

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

The Mortgage Pfandbriefe, Public-sector Pfandbriefe and Ship Pfandbriefe in circulation, and the corresponding cover assets, have the following maturity structure:

(€ m)	Mortgage Pfandbriefe		Cover funds	
Nominal value	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Up to 6 months	11	686	466	377
Between 6 and 12 months	–	570	392	581
Between 12 and 18 months	–	11	219	431
Between 18 months and 2 years	150	0	230	320
Between 2 years and 3 years	500	0	1,038	382
Between 3 years and 4 years	1,000	500	504	800
Between 4 years and 5 years	1,000	1,000	207	472
Between 5 years and 10 years	–	500	172	398
More than 10 years	–	–	40	277
Total	**2,661**	**3,267**	**3,268**	**4,038**

(€ m)	Public-sector Pfandbriefe		Cover funds	
Nominal value	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Up to 6 months	10	18	11	16
Between 6 and 12 months	27	12	164	81
Between 12 and 18 months	70	10	8	9
Between 18 months and 2 years	87	26	8	160
Between 2 years and 3 years	70	156	13	15
Between 3 years and 4 years	99	69	55	13
Between 4 years and 5 years	30	99	8	52
Between 5 years and 10 years	122	154	40	45
More than 10 years	94	113	377	400
Total	**609**	**657**	**684**	**791**

(€ m)	Ship Pfandbriefe		Cover funds	
Nominal value	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Up to 6 months	–	23	190	315
Between 6 and 12 months	550	300	197	284
Between 12 and 18 months	500	400	232	310
Between 18 months and 2 years	250	300	196	224
Between 2 years and 3 years	100	750	394	610
Between 3 years and 4 years	–	100	289	417
Between 4 years and 5 years	–	–	143	154
Between 5 years and 10 years	–	–	30	63
More than 10 years	–	–	77	130
Total	**1,400**	**1,873**	**1,748**	**2,507**

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

(in %)	Mortgage Pfandbriefe	
	31.12.2023	31.12.2022
Proportion of fixed interest-bearing cover funds	52	63
Ratio of fixed interest-bearing bonds	94	100

(in %)	Public-sector Pfandbriefe	
	31.12.2023	31.12.2022
Proportion of fixed interest-bearing cover funds	80	82
Ratio of fixed interest-bearing bonds	90	91

(in %)	Ship Pfandbriefe	
	31.12.2023	31.12.2022
Proportion of fixed interest-bearing cover funds	8	13
Ratio of fixed interest-bearing bonds	54	41

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

(€ m)	Mortgage Pfandbriefe	
Foreign currency	31.12.2023	31.12.2022
DKK	6	–
GBP	8	–
USD	80	259
SEK	–	2

(€ m)	Public-sector Pfandbriefe	
Foreign currency	31.12.2023	31.12.2022
CHF	107	109
USD	32	53

(€ m)	Ship Pfandbriefe	
Foreign currency	31.12.2023	31.12.2022
USD	1,431	2,221

The loans and advances used to cover Mortgage Pfandbriefe, Public-sector Pfandbriefe and Ship Pfandbriefe are broken down by size as follows:

(A) Mortgage bond register

(€ m)	Covering mortgages	
Nominal value	31.12.2023	31.12.2022
Up to € 300,000 €	9	11
Between € 300,000 and € 1 million	31	31
Between € 1 million and € 10 million	589	614
More than € 10 million	2,504	2,629
Total	**3,133**	**3,285**

(B) Public-sector Pfandbriefe

(€ m)	Covering mortgages	
Nominal value	31.12.2023	31.12.2022
Up to € 10 million	37	42
Between € 10 million and € 100 million	235	342
More than € 100 million	413	407
Total	**685**	**791**

(C) Ship register

(€ m)	Covering mortgages	
Nominal value	31.12.2023	31.12.2022
Up to € 500,000 €	–	–
Between € 500,000 and € 5 million	258	267
More than € 5 million	1,365	1,919
Total	**1,623**	**2,186**

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

(€ m)	31.12.2023	31.12.2022
Used for residential purposes	538	563
Used for commercial purposes	2,595	2,722

(€ m) 2023	Apartments	Single and semi-detached dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commercial properties	Unfinished new buildings	Building plots	Total
Germany	–	3	502	763	731	–	596	183	1	2,779
Denmark	–	–	–	–	–	–	5	–	–	5
France	–	–	–	16	–	–	–	–	–	16
Great Britain/Northern Ireland/Brit. Channel Islands	–	–	–	8	–	–	–	–	–	8
Netherlands	–	–	13	222	64	–	–	–	–	299
Sweden	–	–	–	–	–	–	–	–	–	–
USA	–	–	–	26	–	–	–	–	–	26
Total	**–**	**3**	**515**	**1,035**	**795**	**–**	**601**	**183**	**1**	**3,133**

(€ m) 2022	Apartments	Single and semi-detached dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commercial properties	Unfinished new buildings	Building plots	Total
Germany	–	5	524	902	902	–	552	118	29	3,032
Netherlands	–	–	13	154	84	–	–	–	–	251
Sweden	–	–	–	–	2	–	–	–	–	2
Total	**–**	**5**	**537**	**1,056**	**988**	**–**	**552**	**118**	**29**	**3,285**

(€ m)	31.12.2023	31.12.2022
Total of payments at least 90 days in arrears	–	–
Total amount of these receivables provided that the amount in arrears accounts for at least 5% of the receivable	–	–

Other key figures relating to the regular cover assets of the Mortgage Pfandbriefe:

		31.12.2023	31.12.2022
Total amount of receivables that exceed the limits set out in Section 13 (1) PfandBG	€ m	–	–
Volume-weighted average age of the receivables	in years	5	5
Average weighted loan-to-value ratio	in %	57	57

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

(€ m)	Country		Regional public authority		Local public		Other		Total	thereof guarantees received for export promotion reasons
2023	owed	guaranteed	owed	guaranteed	owed	guaranteed	owed	guaranteed		
Germany	–	51	311	9	14	37	–	–	422	51
Belgium	30	–	–	1	–	–	–	–	31	–
Portugal incl. Azores and Madeira	–	83	–	–	–	–	–	–	83	–
Switzerland	–	–	113	–	–	–	–	–	113	–
USA	–	36	–	–	–	–	–	–	36	–
Total	**30**	**170**	**424**	**10**	**14**	**37**	**–**	**–**	**685**	**51**

(€ m)	Country		Regional public authority		Local public		Other		Total	thereof guarantees received for export promotion reasons
2022	owed	guaran-teed	owed	guaran-teed	owed	guaran-teed	owed	guaran-teed		
Germany	–	60	332	10	46	44	–	20	512	–
Belgium	30	–	–	3	–	–	–	–	33	–
Portugal incl. Azores and Madeira	–	83	–	–	–	–	–	–	83	–
Switzerland	–	–	107	–	–	–	–	–	107	–
USA	–	56	–	–	–	–	–	–	56	–
Total	**30**	**199**	**439**	**13**	**46**	**44**	**–**	**20**	**791**	**–**

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

(€ m) 2023	Country	Regional public authority	Local public authority	Other	Total
Total of payments at least 90 days in arrears	–	–	–	–	–
Total amount of these receivables provided that the amount in arrears accounts for at least 5% of the receivable	–	–	–	–	–

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

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

(€ m)	31.12.2023		31.12.2022	
	Ocean-going vessels	Inland water vessels	Ocean-going vessels	Inland water vessels
Antigua and Barbuda	–	–	4	–
Bahamas	22	–	24	–
Belgium	3	–	10	–
Germany	137	–	199	–
Denmark	28	–	89	–
Greece	17	–	20	–
Great Britain/Northern Ireland/Brit. Channel Islands	–	–	34	–
Hong Kong	39	–	68	–
Liberia	392	–	526	–
Malta	90	–	186	–
Marshall Islands	590	–	631	–
Panama	201	–	236	–
Singapore	62	–	86	–
Cyprus	42	–	73	–
Total	**1,623**	**–**	**2,186**	**–**

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

(€ m)	31.12.2023	31.12.2022
Total of payments at least 90 days in arrears	**–**	**–**
Total amount of these receivables provided that the amount in arrears accounts for at least 5% of the receivable	**–**	**–**

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

(Number) 2023	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Pending foreclosures and judicially enforced receiverships	–	–	–	–	–
Foreclosures completed	–	–	–	–	–
Land and ships acquired to prevent losses	–	–	–	–	–

(Number) 2022	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Pending fore-closures and judicially enforced receiverships	–	–	–	–	–
Foreclosures completed	–	–	–	–	–
Land and ships acquired to prevent losses	–	–	–	–	–

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

(€ m)2023	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Total amount of arrears on interest to be paid	–	–	–	–	–

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

Of loans and advances to banks, the amount of € 9 million (previous year: € 10 million) and of loans and advances to customers € 13,004 million (previous year: € 8,461 million) are used to cover debentures issued.

Publication according to Section 28 (1) sentence 1 no. 2 Pfandbrief Act (PfandBG)

International Securities Identification Numbers (ISIN) of the International Organisation for Standardisation by Pfandbrief category:

As at 31 Dec. 2023 Mortgage Pfandbriefe

ISIN - DE000HCB0BC0, DE000HCB0BH9, DE000HCB0BN7, DE000HCB0BP2, DE000HCB0BV0, DE000HCB0BX6

As at 31 Dec. 2023 Public-sector Pfandbriefe

ISIN - DE000A0D4ST5

As at 31 Dec. 2023 Ship Pfandbriefe

ISIN - DE000HCB0AU4, DE000HCB0BD8, DE000HCB0BG1, DE000HCB0BL1, DE000HCB0B10

Information on a maturity extension of the Pfandbriefe

	Q4 2023	Q4 2022
Prerequisites for the extension of maturity of the Pfandbriefe	The extension of the maturity is necessary in order to avoid the imminent insolvency of the Pfandbrief bank with limited business activity (prevention of insolvency), the Pfandbrief bank with limited business activity is not overindebted (no overindebtedness) and there is reason to believe that the Pfandbrief bank with limited business activity will be able to meet its liabilities then due after the expiry of the maximum possible extension date, taking into account further possibilities for extension (positive fulfilment forecast). See also, in addition, Section 30 para 2b Pfandbrief Act.	The extension of the maturity is necessary in order to avoid the imminent insolvency of the Pfandbrief bank with limited business activity (prevention of insolvency), the Pfandbrief bank with limited business activity is not overindebted (no overindebtedness) and there is reason to believe that the Pfandbrief bank with limited business activity will be able to meet its liabilities then due after the expiry of the maximum possible extension date, taking into account further possibilities for extension (positive fulfilment forecast). See also, in addition, Section 30 para 2b Pfandbrief Act.
Powers of the cover pool administrator in the event of the extension of maturity of the Pfandbriefe	The cover pool administrator may extend the maturity dates of the principal payments if the relevant requirements pursuant to Section 30 para. 2b Pfandbrief Act are met. The administrator shall determine the period of the extension of the maturity, which may not exceed a period of 12 months, in accordance with necessity. The cover pool administrator may extend the maturity dates of the principal and interest payments falling due within one month after the appointment of the cover pool administrator to the end of that monthly period. If the cover pool administrator decides in favour of such an extension of the maturity, the existence of the prerequisites pursuant to Section 30 para. 2b Pfandbrief Act shall be irrefutably presumed. Such an extension shall be taken into account within the maximum extension period of 12 months. The cover pool administrator may only exercise his authorisation uniformly for all Pfandbriefe of an issue. In this connection, the maturities may be extended in full or on a pro rata basis. The cover pool administrator must extend the maturity for a Pfandbrief issue in such a way that the original order of servicing of the Pfandbriefe which could be overtaken by the postponement is not changed (prohibition of overtaking). This may result in the maturities of later maturing issues also having to be extended in order to comply with the prohibition on overtaking. See also, in addition, Section 30 para. 2a and 2b Pfandbrief Act.	The cover pool administrator may extend the maturity dates of the principal payments if the relevant requirements pursuant to Section 30 para. 2b Pfandbrief Act are met. The cover pool administrator determines the duration of the extension, which may not exceed a period of 12 months, according to necessity. The cover pool administrator may extend the maturity dates of the principal and interest payments falling due within one month after the appointment of the cover pool administrator to the end of that monthly period. If the cover pool administrator decides in favour of such an extension of the maturity, the existence of the prerequisites pursuant to Section 30 para. 2b Pfandbrief Act shall be irrefutably presumed. Such an extension shall be taken into account within the maximum extension period of 12 months. The cover pool administrator may only exercise his authorisation uniformly for all Pfandbriefe of an issue. In this connection, the maturities may be extended in full or on a pro rata basis. The cover pool administrator must extend the maturity for a Pfandbrief issue in such a way that the original order of servicing of the Pfandbriefe which could be overtaken by the postponement is not changed (prohibition of overtaking). This may result in the maturities of later maturing issues also having to be extended in order to comply with the prohibition on overtaking. See also, in addition, Section 30 para. 2a and 2b Pfandbrief Act.

70. Average number of employees

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

	2023			2022		
	Male	Female	Total	Male	Female	Total
Full-time employees	547	203	750	538	201	739
Part-time employees	24	139	163	22	137	159
Total	**571**	**342**	**913**	**560**	**338**	**898**
Apprentices/trainees	9	7	16	6	4	10

71. Corporate Governance

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

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

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

The remuneration of persons in key positions at Hamburg Commercial Bank is based on the German Remuneration Regulation for Institutions (Institutsvergütungsverordnung). In addition to the fixed annual salary, the fixed remuneration of the Management Board includes a pension contribution corresponding to up to 20% of the fixed annual salary, other fringe benefits and appropriate remuneration in kind.

Long-term variable remuneration programme, including share-based payment

In addition, each member of the Management Board receives performance-related variable remuneration. This means that the members of the Management Board receive 50% of their annual bonus for the agreed performance years in cash (cash bonus) and 50% in the form of shares in Hamburg Commercial Bank AG (share bonus).

The annual targets relevant for the share bonus (as well as for the cash bonus) and their weightings are to be determined by the Supervisory Board of the Bank on the basis of agreed targets (KPIs) within the first three months of the respective performance year at the latest and include targets relating to the overall success of the Bank or Group, the success of the Management Board 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 the Bank. 40% of the shares are transferred in the year following the performance period in question (like the payment of the cash bonus), with 60% subject to a deferral period of generally five years, but up to seven years for new Management Board members, during which the retained component is paid out annually in equal pro rata instalments. During the retention period, the Supervisory Board conducts a clawback review, and variable remuneration components are subject to a clawback until two years after payment of the last instalment. 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 the portions of the cash bonus and the share bonus that have not yet been transferred. The shares not yet transferred do not bear interest and the retained shares of the share bonus do not entitle their beneficiary to the distribution of 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 is a share-based payment settled in equity instruments and is accounted for in accordance with IFRS 2. The performance-related variable remuneration under the share bonus represents a service received that is recognised as personnel expense in the income statement. The consideration for the service received is recognised in equity. At Hamburg Commercial Bank AG, the consideration is recognised in the Capital reserve item.

As at 31 December 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 the remuneration paid to active and former members of corporate bodies (and their surviving dependants).

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

Remuneration of corporate bodies

(€ k)	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, pension provisions for former members of the Management Board and their surviving dependants amounted to €k 47,531 (previous year: €k 48,436).

As at the reporting date of the previous year, there were no advances, loans or other contingent liabilities to members of the Management Board or the Supervisory Board as at 31 December 2023.

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 is paid in four equal instalments after the end of each quarter.

The remuneration system for the Supervisory Board is based on the requirements of the German Corporate Governance Code. The remuneration system in force since 12 March 2019 was adopted at an Extraordinary General Meeting of Hamburg Commercial Bank AG on 12 March 2019 and is structured as follows:

Remuneration system

(€)	Remuneration
Supervisory Board member	200,000
Addition (cumulative) for	
Chairperson	450,000
Chairperson of a Committee	200,000
Member of a Committee	15,000

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

An amount of €k 3,251 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 2023.

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 € 1,084 thousand.

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.

73. Seats on supervisory bodies

On the reporting date, the following seats are held on statutory supervisory bodies of major corporations or financial institutions:

(a) Members of the Management Board

Members of the Management Board held no seats in statutory supervisory bodies of major corporations or financial institutions as at the reporting date.

(B) Employees

PETER AXMANN
Technosis BG, Hamburg
Member of the Supervisory Board

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

JAN LÜHRS-BEHNKE
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt
Deputy Member of the Supervisory Board

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

KATRIN WÄCHTER
Technosis AG, Hamburg
Member of the Supervisory Board

74. The Supervisory Board of Hamburg Commercial Bank AG

JUAN RODRÍGUEZ INCIARTE, MADRID
Chairman
CEO of Sareema Inversiones S.A.

OLAF BEHM, HAMBURG
Deputy Chairman
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

(a) Members of the Risk Committee

CHAD LEAT
Chair

BERT EHLERS

FREDERICK HADDAD

STEFAN SCHLATERMUND

MAG. FRIEDRICH SPANDL

MARK WERNER

PETER YORDÁN

(b) Members of the Audit Committee

KLAUS HEINEMANN
Chair

OLAF BEHM

OLIVER DIRCKS

MANUEL GONZÁLEZ CID

PAULUS DE WILT

(c) Members of the Nomination Committee

JUAN RODRÍGUEZ INCIARTE
Chair

MANUEL GONZÁLEZ CID

SIMONE GRAF

PETER YORDÁN

(d) Members of the Remuneration Control Committee

JUAN RODRÍGUEZ INCIARTE
Chair

KLAUS HEINEMANN

RIEKA MEETZ-SCHAWALLER

STEPHAN WILCKE

(c) Members of the IT Transformation Committee (until 30 September 2023)

JUAN RODRÍGUEZ INCIARTE
Chair

OLIVER DIRCKS

KLAUS HEINEMANN

CHAD LEAT

DR ILINCA ROSETTI

MARK WERNER

75. The Management Board of Hamburg Commercial Bank AG

IAN BANWELL
Born in 1963
Chief 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)

Hamburg, 12 March 2024

Ian Banwell	Ulrik Lackschewitz
Christopher Brody	Marc Ziegner

The following copy of the auditor's report also includes a "Report on the audit of the electronic renderings of the financial statements and the management report prepared for disclosure purposes in accordance with § 317 Abs. 3b HGB" ("Separate report on ESEF conformity"). The subject matter (ESEF documents to be audited) to which the separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette".

INDEPENDENT AUDITOR'S REPORT

To Hamburg Commercial Bank AG, Hamburg

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Hamburg Commercial Bank AG, Hamburg, which comprise the balance sheet as at 31 December 2023, and the statement of profit and loss for the financial year from 1 January to 31 December 2023 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Hamburg Commercial Bank AG, which is combined with the group management report, for the financial year from 1 January to 31 December 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 annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2023 and of its financial performance for the financial year from 1 January to 31 December 2023 in compliance with German Legally Required Accounting Principles and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management

> report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2023. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

❶ Loan loss provisions in the customer lending business

❷ Accounting for litigations

❸ Deferred Taxes

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ Loan loss provisions in the customer lending business

① In the Company's annual financial statements loan receivables amounting to EUR 17,667 million are reported under the "Loans to customers" balance sheet line item. As at 31 December 2023, risk provisions for the loan portfolio consisting of individual and general valuation allowances are reported.

The measurement of the risk provisions for the customer lending business is determined in particular by the structure and quality of the loan portfolios, general economic factors and the executive directors' estimates with respect to future loan defaults, among other things also against the background of the expected effects of the current macroeconomic environment on the customer lending business. The amount of the individual valuation allowances for customer loans reflects the difference between the outstanding amount of the loan and the lower value assigned to it as at the balance sheet date. Existing collaterals are taken into account. The measurement of general valuation allowances was done using the IFRS 9 methodology. The calculation of general valuation allowances also takes into account valuation-relevant risk factors in the context of model overlays, which reflect the expectations of the executive directors not included in the models. The amounts of the valuation allowances in the customer lending business are highly significant for the assets, liabilities and financial performance of the Company and they involve considerable judgment on the part of the executive directors. Furthermore, the measurement parameters applied, which are subject to material uncertainties also due to current macroeconomic environment, have a significant impact on the recognition and the amount of any valuation allowances required. Against this background, this matter was of particular significance during our audit.

② As part of our audit, we initially assessed the the design of Company's relevant internal control systems and - on that basis - tested the controls' effectiveness. Thereby, we considered the business organization, the IT systems and the relevant measurement models. Moreover, we evaluated the assessment of the customer loans, including the appropriateness of estimated values, on the basis of sample testing of loan engagements. For

this purpose, we assessed, among other things, the available documentation of the Company with respect to the economic circumstances as well as the recoverability of the related collaterals. For real estate as collateral, we obtained an understanding of and critically assessed the source data, measurement parameters applied, and assumptions made on which the expert valuations provided to us by the Company were based and evaluated whether they lay within an acceptable range. In addition, for the purpose of assessing the individual and general valuation allowances applied (in accordance with IDW RS BFA 7), we evaluated the calculation methodology applied by the Company together with the underlying assumptions and parameters. With the assistance of our specialists in mathematical finance, we examined the suitability and appropriate use of the models applied to calculate the risk provisions.
We assessed the appropriateness of the inclusion of additional valuation-relevant risk factors based on the current economic uncertainties. In this context we especially evaluated the assessment of the executive directors regarding the expected effects of the current macroeconomic environment on the economic situation of borrowers and the valuation of collateral and examined their consideration in the valuation of the customer loans. We questioned the necessity of creating model overlays and assessed their measurement. Based on our audit procedures, we were able to satisfy ourselves that the assumptions made by the executive directors for the purpose of testing the recoverability of the loan portfolio are justifiable overall, and that the controls implemented by the Company are appropriate and effective.

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

❷ Accounting for litigations

① In the Company's annual financial statements other provisions amounting to EUR 273 million are reported. Of this amount, EUR 48 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. In accordance with § 249 Abs. 1 Satz 1 HGB, provision must be recognized for uncertain liabilities. For this, there must be an external obligation which was caused legally or economically during the financial year, and a claim must be seriously expected. The provision is to be recognized at the amount required to fulfill the obligation according to prudent business judgment.
The assessment of the litigation risks and the estimate of whether it is necessary to recognize a provision to cover the risk and, if so, the amount of the provision, is to a large extent determined by the estimates and assumptions made by the executive directors. The assessment of the executive directors is based on estimates of the legal situation by the bank's inhouse and external lawyers. Against this background and due to the significance of the amounts in dispute and the underlying

assumptions and discretionary judgement of the executive directors, this matter was of particular significance during our audit.

② In the context of our audit, we assessed, among others, the process set up by the bank to govern the recognition, risk assessment, and accounting presentation of a legal dispute. 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 for litigation are appropriate overall in order to appropriately measure the provisions for litigations.

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

❸ Deferred Taxes

① In the Company's annual financial statements deferred tax assets amounting to EUR 579 million and deferred tax liabilities of EUR 4 million are reported. The resulting surplus of deferred tax assets amounting to EUR 575 million is reported in accordance with the recognition option pursuant to § 274 Abs. 1 Satz 2 HGB. Deferred tax assets are recognized in accordance with the principle of prudence to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses to be realized. For this purpose, insofar as sufficient deferred tax liabilities arising from taxable temporary differences are not available, future taxable profits are projected on the basis of the medium-term business plan prepared by the executive directors, whereby material tax differences are carried forward due to planning assumptions. Tax loss carryforwards are only recognized – in the absence of sufficient deferred tax liabilities – if they can be expected with sufficient certainty on the basis of the projections to be realized within the following five years.

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

② As part of our audit, we assessed, among others, the internal processes and controls for recording tax matters as well as the methodology used for the determination, accounting treatment and measurement of deferred taxes.
We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unused tax losses on the basis of

the Company's internal forecasts of its future earnings situation, and the appropriateness of the underlying estimates and assumptions. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

③ The Company's disclosures relating to deferred tax assets and tax loss carryforwards are contained in the notes of the financial statement in notes 19 ´deferred taxes´, 36 ´deferred tax assets´ and 47 ´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 management report.

The other information comprises further

- the separate non-financial report to comply with §§ 289b to 289e HGB and with §§ 315b to 315c HGB

- all remaining parts of the financial report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report

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

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

- is materially inconsistent with the annual financial statements, with the management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
-
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
-
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
-
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
-
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
-
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
-

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
-
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the electronic file HCOB_AG_JA+LB_ESEF-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 annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2023 contained in the "Report on the Audit of the Annual Financial Statements and on the Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the annual financial statements and the management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management: 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 annual financial statements and the management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

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

Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the annual financial statements on the technical specification for this electronic file.

- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited annual financial statements and to the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 18 April 2023. We were engaged by the supervisory board on 25 May 2023. We have been the auditor of the Hamburg Commercial Bank AG, Hamburg, without interruption since the financial year 2018.

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

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

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be filed in the company register – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Lutz Meyer.

Responsibility statement by the Management Board

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

Hamburg, 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

Financial Report of Hamburg Commercial Bank AG **2023**