30 March 2023

Press release

Hamburg Commercial Bank ends financial year 2022 with strong group net result

- Pre-tax profit of EUR 363 (previous year: 299) million and net result after taxes of EUR 425 (351) million confirmed
- Profitability further improved – net interest income up 19%
- Expected normalized CET1 ratio[1] of 20.5% (28.9%), which already anticipates a potential dividend distribution
- CEO Ian Banwell: "Result clearly exceeds expectations – Moody's rating upgrade in Q1 gives tailwind for 2023."

HAMBURG – Hamburg Commercial Bank AG (HCOB) presented its final figures for the financial year 2022 on Thursday and confirmed the strong **group net result** after taxes of EUR 425 (previous year: 351) million along with the other key figures from February. Major contributors to the higher-than-planned profit were a further improvement in profitability in the operating business, and a positive development in risk provisioning. HCOB will continue to pursue its risk-conscious business strategy and based on its operational strength, good portfolio quality and high risk coverage, considers itself well positioned even in the current challenging market environment.

"Our result, which is significantly higher than planned, impressively demonstrates the sustainable profitability and operational performance of Hamburg Commercial Bank. Moreover, it shows that a prudent approach on risk, diversification of our business activities, a keen awareness of costs and modern technical infrastructure form the right basis for long-term success. We also received tailwind from the upgrade of our issuer rating to A3 by the rating agency Moody's in February 2023, which is positively impacting our refinancing costs", said Ian Banwell, CEO of Hamburg Commercial Bank. "Based on the operating performance in the first quarter and our resilient capitalization, we are confident from today's perspective that we will achieve our earnings target of over EUR 250 million after taxes for 2023. Also, in view of the current developments in the banking sector, HCOB considers itself well positioned with its liquidity coverage ratio noticeably above the average for European banks and liquid bonds valued at market prices."

Group net result above expectations – net interest income up 19% – positive one-off effects

The **group net result** after taxes was EUR 425 million (previous year: EUR 351 million) and, despite a challenging macroeconomic environment, surpassed the already good level of the previous year by more than 20%. The strong result was due in particular to continued improvement in profitability in the operating business, one-off effects in the other operating result and in income taxes, and a positive loan loss provisions result. **Return on Equity** (RoE) after taxes[2] was well above expectations at 20.8% (31/12/2021: 18.4%), reflecting the bank's strong

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profitability performance. **Income taxes** contributed EUR 62 (52) million to the result after taxes due to one-off effects for previous years and deferred tax income. **Net income before taxes** increased by more than one fifth to EUR 363 (299) million.

Total income amounted to EUR 673 (642) million and was driven by **net interest income** of EUR 627 (526) million, 19% above the previous year. The operating net interest margin widened by 23 basis points to 168 basis points. The **result from financial instruments categorised as FVPL** was moderately positive at EUR 9 (37) million after the rebound in capital markets in the fourth quarter. At EUR 3 (37) million, the **result from the disposal of financial assets classified as AC** made a noticeably smaller contribution to total income than in the previous year, when it benefited from early repayments and sales of receivables. Solid **net commission income** stood at EUR 33 (38) million. The other items of total income amounted to EUR 1 (4) million.

Loan loss provisions with net reversals – cost-income ratio reduced to 44%

As in the previous year, **loan loss provisions** made a positive contribution of EUR 11 (32) million to the group net result. Firstly, this was due to a low level of new defaults and thus only moderate additions to Stage 3 (SLLP). Secondly, thanks to its conservative risk provisioning policy and the further improvement in portfolio quality, the bank was able to make net reversals at Stages 1 and 2. At EUR 414 (446) million (including model overlays), HCOB continues to hold a high stock of loan loss provisions to cushion against potential adverse economic developments.

Thanks to stringent cost management, **administrative expenses** remained almost stable at previous year's level at EUR 332 (328) million, despite substantial IT investments and inflationary developments. Operating expenses (including depreciation of property, plant and equipment and amortization of intangible assets) decreased to EUR 178 (187) million, demonstrating that the IT investments of recent years are increasingly being amortized in the form of sustainable cost savings. Personnel expenses reflect, among other things, salary adjustments, new hires in the course of the bank's moderate growth trajectory, and the energy bonus paid by the bank to employees, resulting in an increase to EUR 154 (141) million. As of December 31, 2022, the bank employed 868 (31/12/2021: 919) full-time equivalents (FTEs), with around 125 employees newly hired in the reporting year. At the same time, there were scheduled departures and fluctuation.

At EUR 75 (14) million, the **other operating result** made a noticeable contribution to the group net result. The main positive factors here were interest income from taxes and income from earn-out agreements and from the reversal of provisions. **Expenses for regulatory affairs, deposit guarantee fund and banking association** had a negative impact of EUR 30 (32) million. The **result from restructuring and transformation** amounted to EUR 34 (29) million and mainly includes project costs in the scope of the IT transformation.

The **cost-income ratio** of 44% (50%), which reflects the bank's cost efficiency, was reduced by 6 percentage points as a result of the robust earnings performance and a stable cost base.

Resilient portfolio – strong CET1 ratio[1] of 20.5% after potential dividend payment

Despite the challenging macroeconomic environment, HCOB's portfolio quality improved: the **NPE volume** (non-performing exposure) fell by around 13% to EUR 405 (467) million due to reductions (particularly in the Shipping segment), while new defaults were low. The **NPE ratio** fell accordingly to 1.2% (1.4%), reflecting the resilience of the loan portfolio and stringent risk management. In this context, the **NPE Coverage Ratio $_{\textbf{AC}}$** also improved to a very comfortable 69% (31/12/ 2021: 56%).

Hamburg Commercial Bank had already announced with its half-year 2022 figures that it would normalize the high capitalization required during its transformation in the future. A CET1 ratio[1] of at least 17% was stated as the medium-term target and included in the dividend policy. Based on this policy, the Management Board and the Supervisory Board now propose to the Annual General Meeting a dividend payout of approx. EUR 1.5 billion for the fiscal year 2022, a corresponding resolution by the Annual General Meeting is expected in the second quarter of 2023. The **CET1 ratio**[1], still at a high level of 20.5% (31/12/2021: 28.9%), has already taken full account of the proposed dividend payment. Thus, even after full anticipation of the proposed dividend distribution, the CET1 capital ratio is well above the regulatory requirements and still includes above-average capital buffers.

Aggregate **RWA** (risk-weighted assets) increased as expected to EUR 15.4 (14.0) billion, mainly driven by the switch in the rating model landscape completed in 2022. The very solid **leverage ratio** of 9.8% (12.7%) is well above regulatory requirements and underlines HCOB's ongoing very robust capital position, despite lower core capital due to the potential dividend distribution.

As planned, the group's **total assets** grew moderately in fiscal year 2022, increasing by around 5% to EUR 31.8 (30.3) billion. The **EaD** (exposure at default) increased in line with this to EUR 34.4 (33.1) billion.

Segment results: new business slightly above previous year – portfolio further diversified

In light of the macroeconomic environment, HCOB further diversified its portfolio and concluded **gross new business** of EUR 5.6 (5.4) billion. Net income after taxes in lending units increased in total by around 11% to EUR 218 (197) million, reflecting the selective business approach based on clear risk-return criteria and the ongoing optimization of asset allocation.

In the **Real Estate segment** (segment assets 31/12/2022: EUR 8.1 (8.0) billion), net income after taxes was EUR 74 (85) million due to lower average segment assets. The portfolio was further developed in a risk-conscious manner and the growth target adjusted during the year in light of the challenging developments on the real estate markets. As a result, gross new business remained at the previous year's level of EUR 1.6 (1.6) billion.

In the **Shipping segment** (segment assets 31/12/2022: EUR 3.5 (3.7) billion), net income after taxes rose by around a quarter to EUR 77 (62) million. The increase was driven by a pleasing operating performance and interest income from deposits. Although demand for shipping services remained high in the reporting year, credit demand was dampened by the liquidity available in the market, with the result that gross new business in Shipping remained below the previous year at EUR 1.6 (1.9) billion.

In the **Project Finance segment** (segment assets 31/12/2022: EUR 3.4 (3.9) billion), HCOB focuses on projects to expand digital and traditional infrastructure as well as on the financing of sustainable energy generation. The segment generated net income after taxes of EUR 25 (27) million, with legacy commitments sold in 2021 contributing to the prior-year result. At EUR 0.7 (0.7) billion, new business was in line with the previous year's volume.

The **Corporates segment** (segment assets 31/12/2022: EUR 4.6 (3.9) billion) makes an important contribution to diversifying earnings and risk in the bank’s overall portfolio. Net income after taxes almost doubled year-on-year to EUR 42 (23) million. Gross new business was expanded and, at EUR 1.7 (1.2) billion, was around one third up on the previous year.

Encouraging rating trend – implementation of strategically important IT projects

The rating agency Moody's upgraded Hamburg Commercial Bank's key ratings by one notch in February 2023. The Bank's issuer, senior preferred and deposit ratings were raised from Baa1 to

A3 with a stable outlook, while the stand-alone rating improved from ba1 to baa3. Pfandbrief ratings were also raised to Aaa for mortgages and Aa3 for ships. The rating agency considers HCOB well positioned thanks to its solid capital position, improved portfolio quality and significantly strengthened sustainable profitability.

In 2022, HCOB successfully completed significant, future-facing IT projects. For instance, the central credit system was migrated to SAP4/HANA and the payment system to a new provider, and cloud-based software was introduced for front-to-end process support. Implementation of these key strategic projects will enable the bank to interact digitally and in real time with its customers, reduce costs and improve data management.

Outlook: Full-year earnings forecast unchanged

The bank has made a good start to the first quarter of 2023 and is confident that operating profitability will continue to improve over the course of the year, in spite of the current challenging market environment. Due to its resilient portfolio, high risk coverage ratios and strong capital position even after the proposed dividend distribution, HCOB considers itself well positioned for the 2023 financial year. From today’s perspective, the bank expects to generate IFRS net income before taxes of around EUR 350 million. Based on a normalization of income taxes, the bank forecasts net income after taxes (group net result) of over EUR 250 million for the current financial year.

The earnings forecasts are subject to possible effects on the business and economic environment that cannot be estimated today, for example in connection with current developments in the banking sector and geopolitical risks.

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Hamburg Commercial Bank

IFRS Group Result for fiscal year 2022

(€ million)	2022	2021	Change In %
Interest income from financial assets categorised as AC and FVOCI	761	586	30
Interest income from other financial instruments	324	303	7
Negative interest on investments categorised as AC and FVOCI	-13	–16	–19
Negative interest on other cash investments and derivatives	-32	–79	–59
Interest expenses	-456	–365	25
Positive interest on borrowings and derivatives	43	97	–56
Net interest income	**627**	**526**	**19**
Net commission income	33	38	–13
Result from hedging	2	1	100
Result from financial instruments categorised as FVPL	9	37	–76
Net income from financial investments	–1	3	> – 100
Result from the disposal of financial assets classified as AC	3	37	–92
Total income	**673**	**642**	**5**
Loan loss provisions	11	32	66
Total income after loan loss provisions	**684**	**674**	**1**
Administrative expenses	–332	–328	1
Other operating result	75	14	> 100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	–30	–32	–6
Net income before restructuring and transformation	**397**	**328**	**21**
Result from restructuring and transformation	–34	–29	–17
Net income before taxes	**363**	**299**	**21**
Income tax expense	62	52	–19
Group net result	**425**	**351**	**21**
Group net result attributable to Hamburg Commercial Bank shareholders	425	351	21

Further key figures of the Group	31/12/2022	31/12/2021
Total assets (€ bn)	31.8	30.3
EaD (Exposure at Default, €bn)	34.4	33.1
RWA (€ bn)	15.4	14.0
CET1 capital ratio[1] (%)	20.5	28.9
Overall capital ratio[1] (%)	26.8	35.7
Return on Equity (RoE) after taxes[2] (in %)	20.8	18.4
Leverage Ratio[1] (%)	9.8	12.7
Liquidity Coverage Ratio (%)	197	164
Net Stable Funding Ratio (%)	113	114
Employees (Full-time equivalent)	868	919

1) The proposed dividend of approx. EUR 1.5bn € (pay-out in Q2 2023) is already reflected in regulatory CET1 Capital per YE 2022 | 2) RoE after taxes based on normalized CET1 ratio of 13%

Further information on our business figures can be found on our website under Investor Relations.