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Press release

Hamburg Commercial Bank completes fiscal year 2021 with strong financial figures

- Net income before taxes of EUR 299 (previous year: 257) million and Group net result of EUR 351(102) million
- CEO Stefan Ermisch: “Prudent growth targeted – no negative effects to date from current geopolitical crisis”
- Prelim. Q1 2022 net income after taxes well within plan at EUR 34 million
- Forecast FY 2022: Group net result in excess of EUR 250 million

HAMBURG – Hamburg Commercial Bank (HCOB) presented its final IFRS figures for fiscal year 2021 on Thursday and confirmed its **net income before taxes** of EUR 299 (previous year: 257) million as well as the other preliminary financial figures from February. The optimized balance sheet structure and the operating business contributed to the good result, as did positive loan loss provisions and noticeable cost reductions. Although the market environment continued to be dominated by the pandemic, the bank closed fiscal 2021 with excellent financial figures. The seamless switch to the Deposit Protection Fund of private banks (Bundesverband deutscher Banken) took place as planned at the end of 2021.

“The good result in 2021 confirms the success of our transformation, which is now complete. We now intend to build on this strong foundation and expand our new business in a measured manner. Of course, all our actions are subject to geopolitical, economic and monetary developments. Russia’s devastating war against Ukraine is causing immeasurable human suffering on the ground and noticeably impacting the entire economy, including in Germany – to what extent is not foreseeable at present. Against this backdrop, inflation will continue to rise and the risk of stagflation or even a recession has grown significantly. Nevertheless, from today’s perspective and looking at the first quarter, we are confident that we will achieve the earnings target we have set for 2022. We are encouraged by the stability demonstrated by our core business areas: in the Corporates segment, HCOB has only very limited exposure to cyclically sensitive, export-oriented sectors; in the Shipping segment, the high global demand for transport is having a clearly positive effect. With our project financing for infrastructure and renewable energies, we support the transformation of the economy towards greater sustainability and the diversification of energy sources. We are closely monitoring developments in the currently stable real estate markets, where we continue to act selectively and with caution,” said Stefan Ermisch, CEO of Hamburg Commercial Bank. “HCOB’s portfolio quality is solid and the coverage ratios for any credit risks are excellent. Moreover, capitalization is at an outstanding level – which means that the bank is robustly positioned. Nonetheless, we will carefully analyze developments and continue to manage our business activities and resources prudently.”

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Result exceeds forecast – total income stable with significantly reduced total assets

The strong **net income before taxes** of EUR 299 (257) million was driven in particular by a more profitable operating business, a positive fair value result, reductions in risk provisioning and noticeable cost savings. After one-off effects having a major positive impact on results in fiscal 2020, in fiscal 2021 there were no significant one-off effects. The **Group net result** amounted to EUR 351 (102) million, thus significantly exceeding the forecast of above EUR 250 million. **Income tax expenses** contributed EUR 52 (-155) million to the Group net result due to the effects of deferred taxes. The **RoE**[1] (return on equity after taxes) improved to a strong 18.4% (4.3%), demonstrating the progress made in realigning the bank's portfolio. The **cost-income ratio** (CIR) was 50% (42%), whereby income in the previous year included significant positive one-off effects.

At EUR 642 (656) million, **total income** was noticeably higher than expected and almost on par with the previous year, although **total assets** were reduced to the targeted level of EUR 30.3 (31/12/2020: 33.8) billion and average total assets in 2021 were as much as one fifth lower at EUR 32 (41) billion. **Net interest income**, which declined as planned in this context to EUR 526 (629) million, benefited from the net interest margins, which improved further in the wake of lower refinancing costs and a higher-margin operating business. In the previous year, one-offs from valuation effects on hybrid financial instruments had an impact of EUR 72 million on net interest income. **Net commission income** decreased in line with the declining business volume to EUR 38 (48) million. The **result from financial instruments categorised as FVPL** contributed EUR 37 (-93) million to total income. Operating net trading income and the scheduled reduction in the derivatives portfolio as well as valuation effects resulting from an improved capital market environment had a positive impact. **Result from the disposal of financial assets classified as AC**, which includes income from early repayment penalties and net income from the sale of receivables, contributed EUR 37 (60) million to total income.

Solid stock of loan loss provisions – costs further reduced

In an overall improving macroeconomic environment, **loan loss provisions** developed positively in 2021 to reach a level of EUR 32 (-188) million. Moderate additions for Stage 3 (SLLP) were more than offset by reversals in Stage 1 and 2 (GLLP) and by recoveries on receivables written off. HCOB is very well positioned with a solid stock of loan loss provisions and will continue its prudent risk provisioning policy, also with a view to the potential consequences of the war in Ukraine and the ongoing pandemic.

Administrative expenses fell by 10% to EUR -328 (-365) million. The number of employees (full-time equivalents, FTEs) decreased in the year under review as planned by 203 to 919 (-18%), leading to a reduction in personnel expenses of just over 20 %. Despite high investments in IT and digital transformation, operating expenses remained at prior-year level.

As expected, the **other operating result**, at EUR 14 (205) million, was significantly lower than in the previous year, in which high positive one-off effects were realized from the sale of buildings. **Expenses for regulatory affairs, deposit guarantee fund and banking associations** amounted to EUR -32 (-32) million and were thus on a par with the previous year. The **result from restructuring and transformation** amounted to EUR -29 (-19) million and exclusively includes transformation expenses for the realignment of the bank.

Portfolio quality improved – capital position at high level

Thanks to consistent risk management and a low number of new defaults, portfolio quality improved, leading to a lower **NPE ratio** (non-performing exposure) of 1.4% as at 31/12/2021 (31/12/2020: 1.8%). The **NPE volume** was reduced to EUR 467 (31/12/2020: 624) million, which is a proportionately larger reduction than the reduction in total exposure. The **NPE coverage ratio** (based on Stage 3 SLLP) was a very solid 56% at year-end (31/12/2020: 48%), including collaterals, the ratio was 136% (31/12/2020: 118%). Additionally, existing overlays for portfolio risks are not included in these coverage ratios.

The bank's balance sheet structure was further optimized, and **risk-weighted assets** (RWA) fell to EUR 14.0 (31/12/2020: 15.5) billion as a result of continued de-risking. Resulting from this noticeable reduction, the **CET1 ratio**[2] further improved from an already high level to 28.9% (31/12/2020: 27.0%) The very solid **leverage ratio**[2] of 12.7% (31/12/2020: 12.2%) also demonstrates the bank's extremely robust capital position.

Segment results – selective new business more profitable across all market segments

New business in the market segments was selectively expanded and, at EUR 5.4 (2.9) billion, was up on the previous year. Profitability ratios improved across all market segments: the return on equity[1] of the credit units as a whole rose to 14.5% (8.7%), demonstrating the successful realignment of the portfolio according to clear risk-return parameters.

The **Real Estate** segment contributed net income after taxes of EUR 85 (89) million to the Group net result, although segment assets were reduced to EUR 8 billion. Applying a selective, risk-conscious approach, new business in commercial real estate financing totaled EUR 1.6 (0.8) billion. Profitability improved as a result of rising margins and lower refinancing costs.

In the **Shipping** segment, net income after taxes amounted to EUR 62 (17) million. The improving earnings performance was driven by a strong development of the operating business, positive valuation effects on client receivables categorised at fair value, and lower risk costs. In light of the strong demand for ship transport capacity, gross new business with national and international shipping companies of good credit standing was expanded to EUR 1.9 (0.9) billion.

In the **Project Finance** segment, HCOB focuses on projects to expand digital and other infrastructure as well as on the financing of sustainable energy production. New business was increased to EUR 0.7 (0.3) billion in 2021 and profitability was up slightly on the previous year. In light of the sustained high demand for future-oriented investments, e.g. in the expansion of data networks and the diversification of energy sources, HCOB also sees future potential in this area. The segment generated net income after taxes of EUR 27 (28) million, with segment assets reduced to EUR 3.9 (5.1) billion due to the sale of legacy exposures.

The **Corporates** segment makes an important contribution to the earnings and risk diversification of the Bank's overall portfolio and comprises the Corporates Germany and Corporates International business areas. At EUR 21 (21) million, net income after taxes was on a par with the previous year, with a positive performance in the Core Business Germany and International areas offset by a decline in earnings in the legacy national portfolio, which was reduced by EUR 0.7 billion in 2021. Gross new business was slightly expanded, particularly in the international area and amounted to EUR 1.2 (1.0) billion.

Refinancing strengthened – sustainability initiatives advanced

HCOB further strengthened its refinancing base, partly due to improved ratings, and broadened its investor base. With three benchmark issues successfully placed in the capital markets (senior preferred, senior non-preferred and mortgage Pfandbrief), the Bank was regularly active as an issuer in the capital market again in 2021.

HCOB advanced its sustainability initiatives in the year under review and has embedded the topic of ESG in all of the Bank's business processes. As well as integrating a comprehensive sustainability framework into the Bank's strategy architecture, ESG scoring was carried out on an individual loan basis for the entire loan portfolio as well as for new business. The success of Hamburg Commercial Bank's sustainability activities had a positive impact on its ratings with various ESG rating agencies.

Outlook: first quarter well within plan – unchanged earnings forecast for the entire year

Business developed according to plan in the first quarter of 2022 and is not showing any anomalies, despite the current geopolitical developments, economic influences, and high volatility in the markets. According to the Bank's own initial calculations, the expected Group net result after taxes for the first quarter of 2022 is around EUR 34 million, with the bank levy and expenses for the deposit guarantee fund for the full year 2022 of EUR -27 million already fully booked in Q1. In the course of the year, HCOB expects a positive momentum in earnings, driven by a moderate expansion of profitable new business.

Due to its comfortable capital and liquidity position, good portfolio quality and high coverage ratios for credit risks, Hamburg Commercial Bank is currently maintaining its earnings target for the current year and expects to achieve a Group net result (IFRS) after taxes in excess of EUR 250 million. Nevertheless, HCOB is carefully analyzing ongoing economic developments and the impacts of the war in Ukraine and may adjust its forecast on this basis. HCOB has no significant credit exposure to either Ukraine or Russia.

These earnings forecasts are subject to any negative developments in connection with the above-mentioned geopolitical risks, the ongoing COVID-19 pandemic, and economic influences that cannot be foreseen at present.

Group Statement of income (IFRS) 2021

(€ million)	2021	2020	Change in %
Interest income from financial assets categorised as AC and FVOCI	586	725	-19
Interest income from other financial instruments	303	626	-52
Negative interest on investments categorised as AC and FVOCI	-16	-19	-16
Negative interest on other cash investments and derivatives	-79	-79	–
Interest expenses	-365	-791	-54
Positive interest on borrowings and derivatives	97	95	2
Net income/loss from hybrid financial instruments	–	72	-100
Net interest income	**526**	**629**	**-16**
Net commission income	38	48	-21
Result from hedging	1	5	-80
Result from financial instruments categorised as FVPL	37	-93	>100
Net income from financial investments	3	7	-57
Result from the disposal of financial assets classified as AC	37	60	-38
Total income	**642**	**656**	**-2**
Loan loss provisions[3]	32	-188	>-100
Total income after loan loss provisions	**674**	**468**	**44**
Administrative expenses	-328	-365	-10
Other operating result	14	205	-93
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-32	-32	–
Net income before restructuring and transformation	**328**	**276**	**19**
Result from restructuring and transformation	-29	-19	-53
Net income before taxes	**299**	**257**	**16**
Income tax expense	52	-155	>-100
Group net result	**351**	**102**	**>100**
Group net result attributable to Hamburg Commercial Bank shareholders	351	102	>100

Further key figures of the Group	31/12/2021	31/12/2020
Total assets (€ bn)	30.3	33.8
Risk assets (RWA, € bn)	14.0	15.5
CET1 capital ratio[2] (%)	28.9	27.0
Overall capital ratio[2] (%)	35.7	33.3
Return on Equity[1] (RoE, %)	18.4	4.3
Leverage Ratio[2] (%)	12.7	12.2
Liquidity Coverage Ratio (%)	164	171
Net Stable Funding Ratio (%)	114	111
Employees (Full-time equivalent)	919	1,122

1) RoE after taxes shown is based on standardized regulatory capital backing (average RWA and CET1 ratio of 13 %). | 2) Capital ratios 2021 reported on a not in-period basis, i.e. without including the income after taxes in 2021 in Common Equity Tier 1 capital. | 3 Risk costs reported in the segment results are based on the expected loss; deviations from the loan loss provisions in the income statement (IFRS) are shown in the segment reporting under Reconciliation.

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