Ship Pfandbrief – Introduction / Update

Hamburg Commercial Bank

HCOB Bank – Well Diversified Business Model

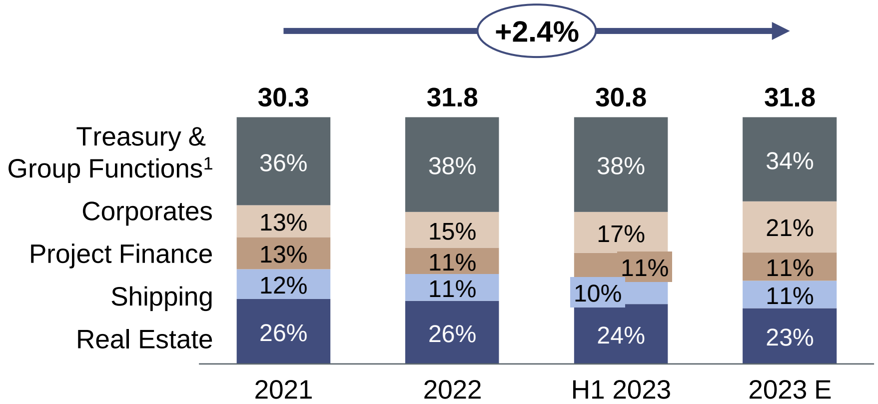
HCOB is a private commercial bank and specialist financier headquartered in Hamburg, Germany. The bank offers its clients a high level of structuring expertise in the financing of commercial real estate projects with a focus on Germany as well as neighboring European countries. It also has a strong market position in international shipping.

Focus on franchise business and diversifying investments, cautious approach in cyclical asset classes (CRE, Shipping), expansion of International Corporates business

	Real Estate	Shipping	Project Finance	Corporates	Treasury & Group Functions
Assets:	€ 7.5bn	€ 2.9bn	€ 3.5bn	€ 5.1bn	€ 11.8bn
Net Income:	€ 34mn	€ 32mn	€ 14mn	€ 39mn	€ 9mn

Asset allocation on B/S[1]

in EUR bn / in %



- Prudent expansion of overall portfolio in current uncertain environment while increasing diversification
- Diversified Asset based Finance: CRE, Shipping and Project Finance each with mix of different sub-sectors and moderate correlation
- CRE portfolio proactively reduced since 2020 (9.5bn €, 28%), expected to decrease to 23% of b/s by end 2023
- Corporates driven by expansion of granular International Corporates exposures while maintaining focus on Northern German home region for domestic portfolio
- Streamlined Treasury with high quality investment portfolio and strong liquidity buffer

1) Including Reconciliation

Hamburg Commercial Bank

HCOB's Shipping Franchise: Prudent Risk Approach focused on sound risk/return profile

Parameters

Deal size	Up to 150$mn max. per deal; avg. ticket size ~ 20$mn
Portfolio diversity	Higher diversification towards tankers/ bulkers
Term	Focus on maturities with 3-5 years
Initial LTV	Financing up to 60% LTV; current portfolio LTV 41%
Vessel age	Focus on vintage built; ~8-12-year-old vessels
Amortization	9-25% annual amortization
Collateral structure	Focus on deals incl. corporate recourse
Charter contracts	Focus on vessels with long-term TC, esp. in container segment

Business approach

- HCOB is a well-established player in global ship financing with a focus on second-hand ships with superior risk/return dynamics
- Mix of asset-backed and corporate financings with a well-diversified portfolio of containers, bulkers and tankers
- Participating in ESG transition financing to achieve net-zero requirements
- Long relationships with high quality clients in Germany, Greece and UK deliver privileged access to consistent deal flow
- Well-established business model focused on short durations (avg. maturity 3.2 years) & high collateral ship financings to reduce risks and quickly react to changing markets
- Risk metrics (ratings, LTV) are currently moderating in the wake of normalization of shipping markets following boom of 2020 – 2022, but are still at very strong levels
- Average ticket size within the shipping portfolio of 20€mn

HCOB's Shipping Franchise: Prudent Risk Approach focused on sound risk/return profile

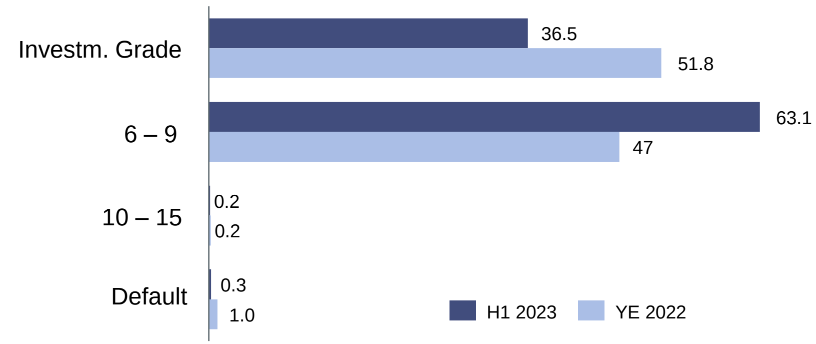
Financials[1]

in € mn

	H1 2023	H1 2022
Total Income	87	82
Risk costs (expected loss)[2]	-2	-3
Net income after taxes	32	35
Risk costs (expected loss – %)[3]	-0.15	-0.16
CIR in %	48	39
RoE[4] in %	17.2	18.2
Gross new business, *in bn €*	0.7	0.6

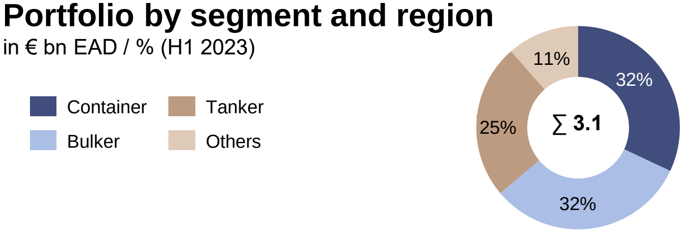
Rating

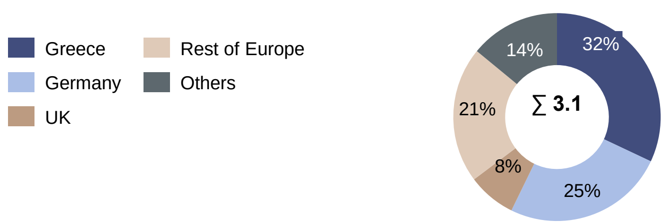
distribution in %



Portfolio by segment and region

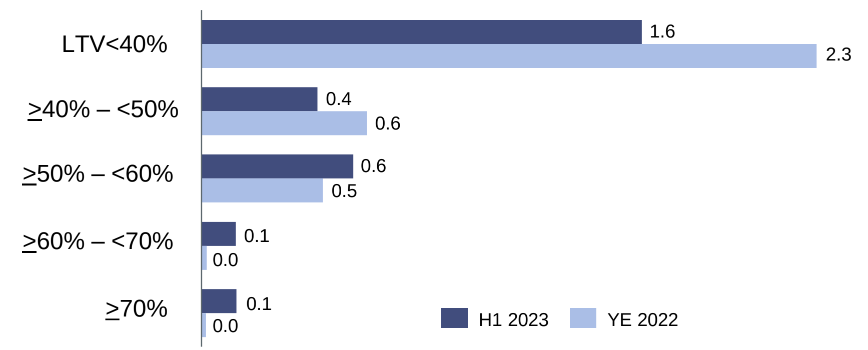
in € bn EAD / % (H1 2023)





LTV[5]

in € bn EAD



1) For further details on P&L please refer to the Segment Reporting on page 27 of IP | 2) Expected loss based on PD/LGD approach, for loan loss provisions according to IFRS (P&L, B/S) please refer to the Segment Reporting on page 22 of Interims Report H1 | 2023 | 3) Risk Costs (expected loss / b/s) | 4) RoE after taxes based on a 13%-ratio of invested CET1 capital as reported | 5) Loan-to-Value (LTV) excluding 0.2 bn € other financing

HCOB's Shipping Franchise: Prudent Risk Approach focused on sound risk/return profile

"Processing of ship insurance" at Hamburg Commercial Bank AG

For the Bank, the insurance of the borrowed ships, which is sufficient in scope and amount, constitutes a significant security, in addition to the ship mortgage. It is a prerequisite for the disbursement of new loans and the continuation of existing loans. The processing and auditing of ship insurance policies of Hamburg Commercial Banks AG worldwide is carried out centrally.

<u>Mandatory insurances for each mortgage:</u>

- **Hull and Machinery Insurance**: Cover for damage to or loss of the vessel. This includes not only the dangers of shipping in the "narrower sense", but also all dangers associated with the insured company

- **Disbursements/Increased Value Insurance**: Under the secondary interest insurance, e.g. equipment, team effects and on-board cash are insured (addition to the hull insurance)

- **War Risks Insurance**: Covers damage to the ship as well as liability damage as a result of war or similar events (Civil War, Seizure, Sabotage/Vandalism, Piracy and Terrorism) and is required for all shipowners whose insurance policy includes worldwide trade. Basic war insurance applies worldwide with the exception of exclusion areas with a high risk of loss. If the vessel wishes to sail in these execution areas, prior notice must be given to the insurer, who usually demands an additional premium for this period

- **Protection and Indemnity Insurance** (**P&I**): Covers liability damage (in particular: property damage, personal injuries, wreck removal costs, pollution damage, collision damage and war claims that go beyond basic war insurance).

Each mortgaged vessel must be insured by a **hull and machinery insurance** and a **secondary interest insurance** at the **full market value or at least 120%** of the bank's credit claim against the client (whatever is highest).

HCOB's Shipping Franchise: Prudent Risk Approach focused on sound risk/return profile

Own insurance policies of Hamburg Commercial Bank AG

To protect HCOB Bank in the event that an insurer shall be released from its obligation to indemnify under a mandatory insurance, the bank decided years ago to provide portfolio cover for the entire current and future ship portfolio. Therefore, HCOB has on its own initiative taken out further insurances exceeding the mandatory minima.

Own insurances of the bank to cover shipping portfolio:

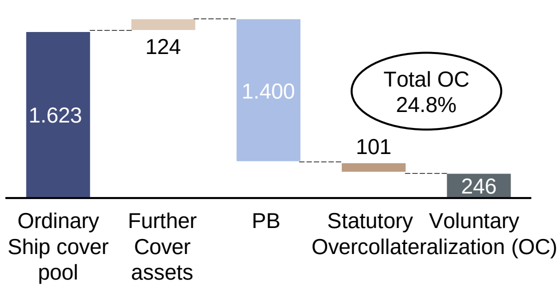
- **Mortgagees Interest Insurance (MII):** This insurance covers the banks' claims secured by the ship mortgage in those cases where the primary insurances (e.g. Hull and Machinery Insurance) which are covered by the owner or his representatives, do pay i.e. if the shipowner has not fulfilled his obligations under the respective policies.

- **Mortgagees Additional Perils (MAP):** This insurance covers HCOB' claims secured by the ship mortgages specifically in cases of oil pollution damage in which the limit of the P&I insurance is exceeded and for the remaining claim of third parties, which as ship creditor rights take precedence over HCOB's mortgage, the vessel is realized in the course of foreclosure proceedings.

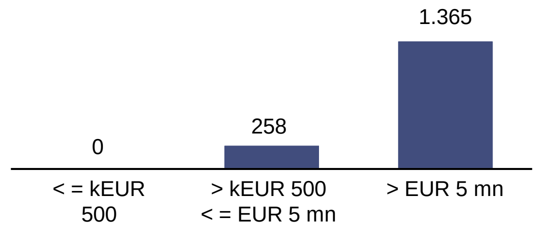
The own insurance policies function as a **second line of defence** for HCOB

Ship Pfandbrief Cover Pool[1]**:** §28 PfandBG as of 31st Dec. 2023

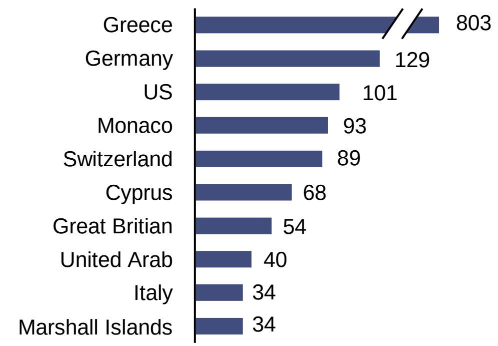
Cover pool – nominal value
in € mn; total €1.747



Breakdown by average loan size
in € mn; total €1,623

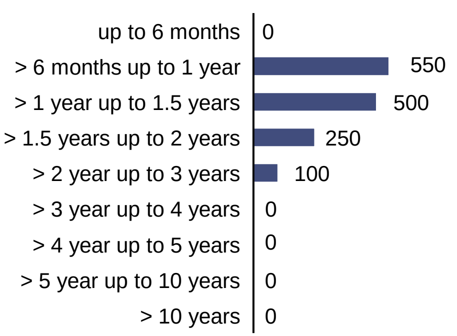


Breakdown by country of clients
Top 10 Countries in € mn

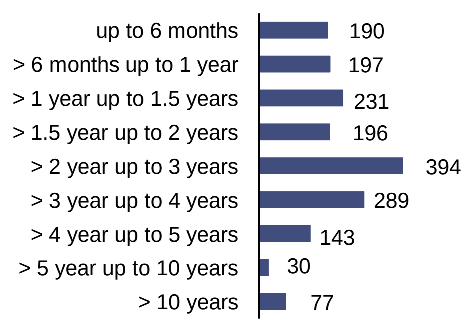


Maturity structure

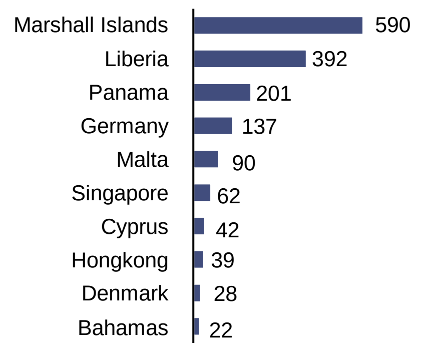
Pfandbriefe (PB) outstanding
in € mn; total: € 1,400mn



Cover pool volume
in € mn; total: € 1,747mn



Cover pool by ship registration
Top 10 Countries in € mn



1) Disclaimer: As of 31 December 2023; source: https://www.hcob-bank.de/en/investoren/funding/funding/#angaben_gemaess_28pfandbg according to §28 PfandBG; deviations may occur due to rounding

Ship Pfandbrief: Legislation governed by German Law

Statutory provisions of the German Pfandbrief Act (PfandBG)[1]

Strict eligibility requirements for ships to be excepted as collateral for the ship cover pool

- ships have to be in a **public register**
- on an ongoing basis a state trustee must confirm the entries of the last financial year in the cover register
- maximum age of the ship at repayment of the loan should **not exceed 20 years of age**
- every ship must be **insured** for at least **110%** of the respective outstanding loan receivables for the entire duration of the loan

Register countries must meet strict criteria comparable to German law

- the mortgaging of ships registered abroad is only permissible if, under the law of the country in whose register the ship is registered, the right provides the creditor with security comparable to a ship mortgage under German law **– legal opinion from shipping law firm updated regularly**

Conservative mortgage lending value determination

- Mortgage lending value (MLV) for ship collateral derives from the **lowest** of the following values: current market value, average market value (last ten years) or purchase price
- significant **discounts** of up to **25**% from lending value apply if market prices are insufficient or the time series is too short

Lending valuation by independent experts

- The mortgage lending value must be carried out by an independent expert, who must have years of professional experience in the preparation of ship mortgage lending value appraisals for the shipping market

Conservative lending limits based on mortgage lending value

- a **maximum of 60%** of the determined mortgage lending value accepted as collateral for the ship cover pool
- total amount of the cover assets in the pool must **exceed** the total amount of issued ship pfandbriefe by **at least 5%**

1) HCOB Bank does not provide accounting, tax, regulatory, legal or investment advice. Content on regulation represents the generic view of the desk only and may be subject to change

Hamburg Commercial Bank

HCOB's Shipping Franchise: Additional provisions at HCOB's own initiative as of to date

Voluntary overcollateralization (OC) significantly above legal requirements

- **OC of currently more than 20%** in agreement with the external trustee significantly exceeds the 5% of legal requirements

Minimum rating requirements

- **minimum rating of** ship collateral of least equivalent of B+/B1 S&P/Moody's **to be eligible** for inclusion in the cover pool and must maintain at least an equivalent of CCC+-C/Caa1-Caa3 S&P/Moody's to stay in the cover pool

Independent team managing the Ship Pfandbrief Pool

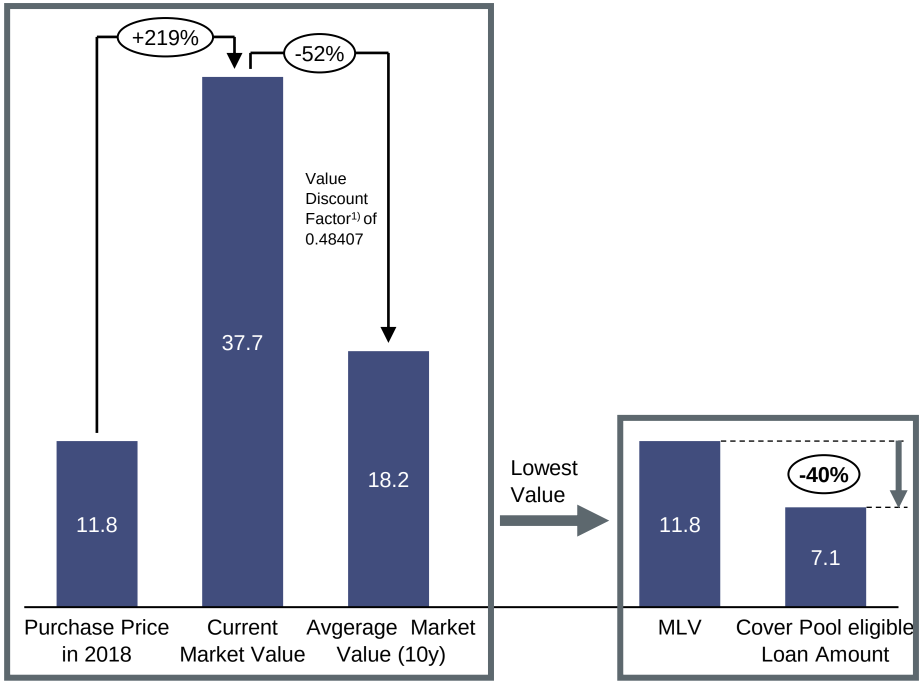
- daily cover pool monitoring and steering
- every single deal is checked for the cover pool
- daily monitoring ensures that the cover amount is less then 60% of the market value and OC requirements are met
- quarterly monitoring of the development of the individual ship submarkets

Additional internal selection criteria for the ships

- only standard ships and no ships under construction
- desktop-valuations are done by external panel brokers (e.g., Clarksons, Howe Robinson, Arrow)
- internal plausibility check and documentation for every valuation
- annual inspection of 10% of the fleet by external specialists to regularly check the condition of the fleet.

Ship Pfandbrief: Eligible loan amount calculation

Example:



Segment	Cont. Sub-Panamax (2000-2999 TEU)
Purchased in	2018
Purchase Price	11.8 m$
Current Age	16.5 years
Valuation Date	Jan 2022
Desktop Valuation	37.5 m$
Scrap Value	5.7 m$

- Following **§4 (1) SchiffsBelWertV**, a ship's MLV must be the lowest of either
  - the **current market** value,
  - the **purchase price** or
  - the **average market value** of the **last ten years**
- If the market values under **§4 (1) SchiffsBelWertV** are available only for a shorter time period (e.g., new ship types), the current market value is to be reduced:
  - less then 10 years → by 15 %
  - three years or less → by 25 %
- For the calculation of the eligible loan amount in the cover pool based on the lowest value, following **§22 (2) PfandBG**, only 60% of the MLV's values can be collateralized

1) High markets lead to value discount factors of < 1, Low markets result in factors of > 1

German Mortgage and Ship Pfandbrief: Comparison

Selective structural and legal features

	Mortgage Pfandbrief	Ship Pfandbrief
Collateral Type	Mortgage Loans	Shipping Loans
Legislation	Yes, Pfandbrief Act	
Issuer	HCOB Bank	
Issuance structure	Direct issuance	
Recourse	Dual recourse to issuer and segregated Loans	
Segregation of collateral	Segregated on the balance sheet of the Issuer	
Repayment	Hard Bullet up to maturity (Soft at Cover Pool Administrator's discretion)	
Special public supervision	Yes, BaFin	
Other limitations on cover assets	60% LTV limit (based on mortgage lending value) – the part above 60% does not count towards the cover pool	
Tests	Nominal cover; Present value cover	
Geographical scope of cover assets	EU/EEA, CH, US, CA, JP	Potentially worldwide (subject to certain conditions such as public register for the lien and security comparable to German lien)
Minimum required OC	2% net present value (by law) 2% nominal value (by law)	2% net present value (by law) 5% nominal value (by law)

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German Mortgage and Ship Pfandbrief: Comparison

Selective regulatory aspects

	Mortgage Pfandbrief	Ship Pfandbrief
Covered Bond Directive and Capital Requirements Regulation	Compliant European Covered Bond (Premium)	
CRD IV (standardised risk weight)	10% (if AAA to AA-/CQS 1) 20% (if A+ to BBB-/CQS 2)	
ECB repo (liquidity category / haircut)	**Liquidity category II:** ECB Haircut (HC): • 1.0-10% (fixed or floating rate, if AAA to A-)[1] • 5.5-22% (fixed or floating rate, if BBB+ to BBB-)[1]	
LCR* (level / haircut)	✓ **L1** (if at least AA- and €500m) • HC: 7% ✓ **L2A** (if at least A- and €250m)[2] • HC: 15% ✓ **L2B** (if at least €250m)[2] • HC: 30%	✓ **L1** (if at least AA- and €500m) • HC: 7% ✓ **L2A** (if at least A- and €250m)[2] • HC: 15% ✗ **L2B (shipping loans not allowed)**

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1) Ultimate haircut depends on coupon type (fixed vs. floating) and maturity bucket 2) Subject to clarification on minimum OC requirement defined in LCR Delegated Act, valid as per 8th July 2022 | Source: ECBC handbook (as of September 2023), Prospectus, European Covered Bond Directive: Transposed in German Pfandbrief law. Key are structural features and public supervision., CRR Regulation 575/2013 EC, EC LCR Delegated Act, The Implementation of Monetary Policy in the Euro Area, European Central Bank, (amended and including integrations via the temporary framework)

HCOB's Shipping Franchise: Ship Valuation, Inspections and Market Value

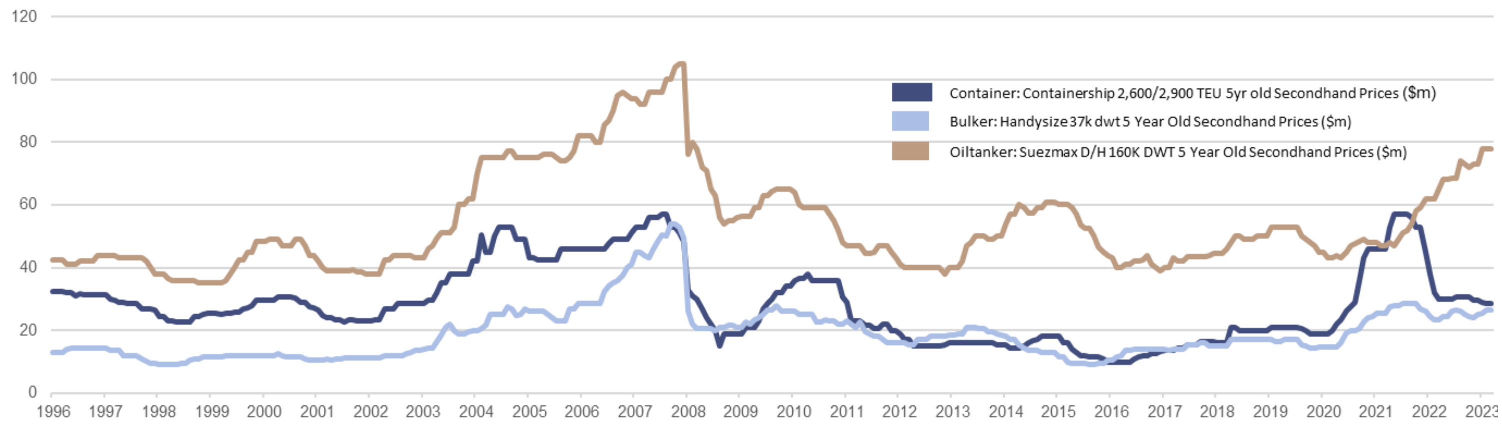
Ship valuation

- HCOB currently finances 377 ships
- 1.396 valuations have been performed in 2023 equivalent to 3 valuations per ship
- Desktop-valuations are done by external panel brokers (e.g., Clarksons, Howe Robinson, Arrow)
- Internal plausibility check and documentation for every valuation
- Timely valuations provide an up-to-date view of the shipping market
- High transparency, nearly every transaction is online

Ship Inspection

- Annual inspection of 10% of the fleet by external specialists to regularly check the condition of the fleet. The criteria for these visits are set by an independent valuation team
- An independent department is responsible for all valuations, plausibility checks and surveys of the ships as well as for contact with the external brokers to ensure a high degree of objectivity and independence

Market Values: Relative constant long-term development of market values over the past 27 years [1]



1) Source: Clarkson Research Services

Rating position: Current Ratings

Key credit strengths

- Robust and resilient capitalization well above regulatory requirements and peers, with significantly increasing capital generation capacity
- Substantially de-risked and simplified asset portfolio underpinned by conservative new business with prudent risk appetite and improving diversification, amid macroeconomic uncertainty
- Strong coverage of credit risks
- Significant progress towards diversifying the funding base, extending the maturity profile & maintaining substantial liquidity buffer

Upside drivers

- Demonstrating underlying franchise strength, while lengthening track record for risk-adjusted profitability
- Continued diversification by reducing concentration risks from cyclical assets
- Further maturity extension and diversified funding

Credit ratings: Moody's[1]

Issuer ratings	
Deposit rating	A3
Issuer credit rating (Long-term)	A3 / stable
Short-term debt	P-2
Stand-alone rating	baa3

Instrument ratings (Unsecured issuances)	
"Preferred" senior unsecured debt	A3
"Non-preferred" senior unsecured debt	Baa2
Subordinated debt (Tier 2)	Ba1

Instrument ratings (Secured issuances)	
Mortgage covered bonds	Aaa
Ship covered bonds	Aa3

1) Latest publications by rating agencies available on Hamburg Commercial Bank's website: https://www.hcob-bank.de/en/investoren/rating/rating/;

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Management system and defined management indicators of the IFRS Group
The Bank's integrated management system is aimed at the management of key value drivers on a targeted basis. The Bank (which was operating under the name HSH Nordbank AG up until February 4, 2019) uses a risk-adjusted key indicator and ratio system for this purpose that ensures that the Overall Bank are managed in a uniform and effective manner. The Hamburg Commercial Bank Group is managed mainly on the basis of figures for the Group prepared in accordance with the International Financial Reporting Standards (IFRS) and/or the relevant prudential rules. Within the management reporting framework, the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. On the one hand, the focus is on how these key indicators changed compared to the previous year and, on the other, on how they are expected to change in the future. The Group management report for the 2022 financial year contains further information on the management system and defined management parameters of the Hamburg Commercial Bank Group as well as disclosures.

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