

Interim Report

as at 30 June 2020

1

2

Group overview

INCOME STATEMENT (€ million)

Net income before restructuring and privatisation January - June 2020

(cf. January - June 2019: 104)

↘ **76**

Net income before taxes

(cf. January - June 2019: 96)

↘ **71**

Group net result

(cf. January - June 2019: 5)

↘ **4**

BALANCE SHEET (€ billion)

Reported equity 30.06.2020

(cf. 31.12.2019: 4.4)

→ **4.4**

Total assets 30.06.2020

(cf. 31.12.2019: 47.7)

↘ **41.8**

Business volume 30.06.2020

(cf. 31.12.2019: 55.6)

↘ **48.0**

CAPITAL RATIO & RWA (%)¹⁾

CET1 ratio 30.06.2020

(cf. 31.12.2019: 18.5)

↗ **21.7**

Total capital ratio 30.06.2020

(cf. 31.12.2019: 23.5)

↗ **27.0**

Risk weighted assets (RWA) 30.06.2020

(€ billion) (cf. 31.12.2019: 21.0)

↘ **19.0**

EMPLOYEES

(computed on full-time equivalent basis)

Total 30.06.2020

(cf. 31.12.2019: 1,482)

↘ **1,215**

Germany 30.06.2020

(cf. 31.12.2019: 1,421)

↘ **1,180**

Abroad 30.06.2020

(cf. 31.12.2019: 61)

↘ **35**

Content

Interim Management Report

- 2 Economic report**
 - 2 Underlying economic and industry conditions
 - 7 Business development
 - 9 Earnings, net assets and financial position
 - 17 Segment results

- 19 Employees of Hamburg Commercial Bank**

- 21 Forecast, opportunities and risk report**
 - 21 Forecast report including opportunities and risks
 - 27 Risk report

Group explanatory notes

- 53 Group explanatory notes**
 - 53 General information
 - 57 Notes on the group statement of income
 - 64 Notes on the group statement of financial position
 - 74 Segment reporting
 - 77 Disclosures on financial instruments
 - 108 Other disclosures

- 111 Review Report**

- 112 Responsibility statement by the management board**

Interim group financial statements

- 46 Group statement of income**

- 47 Group statement of comprehensive income**

- 48 Group statement of financial position**

- 50 Group statement of changes in equity**

- 52 Group cash flow statement**

Economic report

Underlying economic and industry conditions

Coronavirus crisis triggers a global recession

Global economic output fell rapidly in the first half of 2020 in the wake of the coronavirus crisis. The recession is emerging both in the world's industrialised countries and in the emerging markets. The global PMI purchasing managers' indices for the manufacturing and services sectors fell to all-time lows in April.

The massive slump in economic activity in the first half of 2020 is the result of the shutdown measures taken in the course of the pandemic, the associated temporary production stoppages and the ongoing restrictions and (hygiene) requirements. The crisis has resulted in a simultaneous negative supply and demand shock. Although the latest economic data points to a recovery now that shutdown measures have been lifted, activity remains at a low level for the time being. Recent reports suggest that a large number of countries, including parts of the US and a number of major emerging markets, are not in full control of the coronavirus spread. Germany is witnessing regionally contained hotspots, which also entail a considerable economic risk. Overall, GDP in the economic areas of the US, the eurozone, Japan and China in the first half of the year is likely to be down by around 7% year-on-year on average. While the coronavirus crisis largely overshadowed all other issues, the trade dispute between the US and China remains a burden. The same applies to the future relationship between the EU and the UK, which is currently being negotiated.

In view of the dramatic economic slump and the risk of a financial market crisis, the major central banks, the Fed and the ECB, have taken extraordinary monetary policy steps, at the same time signalling their readiness to take action whenever they have to.

In this environment, yields on German and US government bonds have fallen significantly since the beginning of the year. After initial massive setbacks, the stock markets, on the other hand, appear to be pricing in a rapid global economic recovery. The euro/US dollar exchange rate was extremely volatile in the first half of the year. At times, the exchange rate moved close to parity, although it has recently bounced back.

Economy hit by downturn

After GDP growth of 2.1% (QoQ, annualised) was recorded in the final quarter of last year, the US slid into recession in the first quarter of 2020. The US economy contracted by 5% (QoQ, annualised) in the first three months. The impact of the coronavirus pandemic on GDP is likely to be even more severe in the second quarter. Unemployment figures shot up in April, rising to almost 15% at times. The continuing threat of an escalation of the trade conflict with China is also putting pressure on the situation.

In China, too, where the economy expanded by 6.1% in the previous year, the coronavirus crisis is also reflected in a significant drop in economic output. China was the first country to be hit by the pandemic, meaning that it had already reached its economic low point in the first quarter. Gross domestic product fell by 9% (QoQ) during this period. Beijing has withdrawn its growth target for the current year and has not published a new one. While the situation in China gradually started to stabilise at the beginning of the second quarter, case numbers in Europe and the US continued to rise at the beginning of April. The Chinese economy remained sluggish in the second quarter due to a lack of unit sales opportunities abroad and disruptions affecting global supply chains.

In the eurozone, the pace of growth had already slowed down considerably. The economy grew by only 1.0% in 2019. In the first quarter of 2020, gross domestic product dipped by 3.6% (QoQ). The rate of expansion is likely to have fallen well into negative territory in the second quarter. The coronavirus crisis has pushed the industrial sector, which was already ailing, into a deep recession. A massive slump has emerged in each of the four major EMU economies – Germany, France, Italy and Spain. German industry has been stuck on a downward trajectory since mid-2018.

The German economy grew by only 0.6% in 2019 and contracted by 2.2% (QoQ) in the first three months of 2020. The downward trend is expected to bottom out in the second quarter.

Mounting geopolitical risks are also weighing on the economy, with Brexit, in particular, an ongoing source of uncertainty. The United Kingdom will leave the European Single Market and the Customs Union at the end of 2020 (unless the exit negotiations are extended). If no free trade agreement has been concluded by then, trade will be conducted according to WTO rules from that point onwards.

Need for action at central banks, capital market interest rates drop, volatile but surprisingly robust stock markets

In view of the coronavirus crisis, the ECB has launched a comprehensive emergency programme (PEPP) consisting of bond purchases in the amount of EUR 1.35 trillion. At the same time, the previous limit on the proportion of government bonds of a member state that it is entitled to hold has been made more flexible. In addition, the ECB has relaxed the conditions for the furnishing of collateral and launched new targeted long-term tenders (TLTROs) in a quest to stimulate lending. Meanwhile, the ECB has left its key interest rate unchanged at 0%. The deposit rate remains in the red (-0.5%).

In May, the German Federal Constitutional Court issued a ruling on the asset purchase programme, which has been ongoing since 2015. It calls for the proportionality of existing purchase programmes to be reviewed. If this review is not performed or the Federal Constitutional Court does not consider it to be convincing, the Bundesbank would no longer be able to participate in the asset purchase programme. The judgment does not relate to the PEPP programme.

The US Federal Reserve lowered its key interest rate in two steps in the first quarter to 0.25% (upper limit of the target range). In addition, the Fed expanded its total assets by around 70% to USD 7.15 trillion within a few weeks by buying up bonds on a huge scale.

On the stock markets, the coronavirus crisis caused what were, at times, hefty price losses for both the S&P 500 and the Dax. In mid-March, the Dax was trading at just under 8,400 points, but then lost almost 2,000 points within the space of a week. The S&P 500 also recorded losses on a sometimes dramatic scale. Both indices started to recover at the end of March. The levels achieved prior to the coronavirus outbreak have not yet been reached again, and the situation remains volatile. Overall, the losses in the first half of the year came to around 7% for the Dax and around 4% for the S&P 500.

In an environment dominated by the coronavirus, yields on German and US government bonds fell significantly in the period leading up to mid-March. Bund yields stood at -85 basis points at times and T-notes at 0.54% (both on 9 March 2020), before both made a return to a moderate upward trend.

The euro/US dollar exchange rate was extremely volatile in the first half of 2020. In March, the euro was trading at USD 1.07 at times, its lowest level so far this year. The euro has since regained ground against the USD, rising to USD 1.14.

Consequences of the coronavirus pandemic and associated recession have led to significant slowdown in relevant markets

The German **real estate markets** remained fairly unaffected by the emerging recession in the first half of the year. The upward trend witnessed in recent years continued, particularly on the **housing markets** in the country's major cities, with rents and prices continuing to rise. Thanks to the second-largest transaction volume ever seen for larger residential portfolios in the first quarter of 2020, investment activity in the first half of the year remained up significantly on the same period of the previous year. There has been little sign so far of any reluctance on the part of investors to invest in residential real estate due to the pandemic and recession. On the contrary, the number of building permits for multi-storey residential buildings, which has increased by a good 5% since the beginning of the year (January to May), shows that construction principals remain confident. The slower growth in the number of housing construction orders, however, indicated that projects are already being implemented at a slower pace.

On the **office property markets**, net demand for space fell very sharply in the first half of the year as companies' willingness to hire new staff dropped dramatically from March onwards as a result of the recession. On the other hand, the number of completions rose, especially in the second quarter, and outstripped demand as a result, triggering an increase in vacancy rates, albeit one that has only been marginal so far.

The increasingly cautious stance taken by project developers was reflected in a drop in the number of construction orders (January to April), although the number of building permits for office buildings continued to increase considerably during the same period. Growth in prime rents in the seven largest German cities already fell at the beginning of the year, stagnating in the second quarter.

On the **retail property markets**, the decline in prime rents in top inner-city locations of a number of large cities, a trend that had already emerged in some places in 2019, continued in the first half of the year, although prime rents were largely still stagnating. The restrictions imposed to contain the pandemic and the recession, which prompted a drastic deterioration in consumer sentiment, have already had a negative impact, as can be seen by the insolvencies reported by retail companies. Take-up was already on a marked decline at the start of the year, especially in major urban areas. The structural change in stationary retailing in favour of online retailing was given a further considerable boost as a result of the effects that the pandemic had on shopping in shops. The market values of retail real estate are increasing diverging in terms of their development. While the values of food-oriented retail parks, in particular, remained stable, there was a considerable drop in shopping centre values.

On the vast majority of **Europe's office property markets**, prime rents and market values stagnated in the first quarter of

2020, even before the outbreak of the pandemic, in an environment characterised by an economic slowdown. As letting activity declined, many markets were no longer able to reduce vacancies. Prime rents, and often also market values, continued to stagnate in the spring as the recession set in across the board. On some markets, however, in the Netherlands and London, prime market values were already beginning to fall. This is likely due to the particularly severe economic slump on those markets. To a lesser extent, the fact that the outcome of the negotiations on a trade agreement between the UK and the EU remains unknown is also likely to have contributed to this trend.

The German economy grew by only 0.6% in 2019, but showed increasing economic momentum and a slight economic recovery at the beginning of 2020. This, however, came to an abrupt end with the outbreak of the coronavirus pandemic. The pandemic hit the German economy via a substantial slump in domestic consumption, investment demand and exports. In many consumer-related service sectors, companies had to significantly restrict, or even completely shut down, their operations in mid-March 2020 due to official measures to combat the pandemic, with industrial companies also scaling back their production. In the **manufacturing sector**, the production volume was down by almost 15% in a year-on-year comparison at the start of the year (January to May). Trends varied considerably in the major industries: whereas the mainstream construction industry continued to record significant growth and the chemical and pharmaceutical industry showed only a slight dip, production in the other sectors contracted significantly. In the automotive sector, production fell by as much as a third.

After reporting revenue growth of 1.9% in 2019, **wholesale** companies only recorded weak real growth of 0.6% in the first four months of 2020 compared to the same period of the previous year. March, however, already showed a declining revenue trend in a month-on-month comparison, which could be associated with the official measures to contain the virus and plant closures starting in mid-March and is likely to put a damper on revenue development in the following months, too. The **retail sector**, which had benefited from consumption-driven economic growth in Germany in previous years, suffered a considerable setback in the wake of the coronavirus pandemic. It was not only the closure of stationary retail outlets (with the exception of food retail) that had a negative impact on revenue: increasing uncertainty among consumers also curbed the propensity to buy. At the beginning of 2020 (January to May), revenue rose by only 1.2%, after full-year growth of over 3% for 2019. At the beginning of the year, the retail clothing sector had already recorded a substantial real drop in revenue of around 32%.

The **healthcare market**, including the hospital market, has already been reporting steady growth as a result of demographic trends and medical advances. We expect to see special effects in this sector in the short term as a result of the pandemic response. In the long term, too, a decentralised and efficient healthcare infrastructure (with a higher degree of digitalisation) could prove to be more highly valued.

Revenue in the **logistics sector** showed slight negative development (in real terms) at the start of 2020, dropping by 1.9% in a year-on-year comparison in the first three months of the year. Business climate measurements in the German logistics industry clouded over considerably at the beginning of the year, reaching an all-time low for the time series that started in 2005 in April. Business expectations had, however, already improved in May, reflecting the gradual easing of restrictions imposed to combat the coronavirus pandemic.

The global **project financing volume** rose significantly in the first quarter of 2020 and, according to the financial market data provider "Refinitiv", was 15% higher than the volume seen in the same period of the previous year, which, at that time, had proved to be the weakest first quarter since 2009. The North America (+80%) and Europe/Middle East/Africa (+43%) regions reported particularly strong growth. Western Europe alone recorded growth of 19%. By contrast, the volume of financing in Asia declined slightly compared with the same period of the previous year (-5%).

Investment in **transport infrastructure** was relatively weak across the globe at the beginning of the year (61% decline), marking the sharpest decline in all sectors covered.

The expansion of **renewable energies** made further progress in both Europe as a whole and Germany at the beginning of 2020. The considerable slowdown in Germany observed since 2018 (2018 saw a drop of 55% on the previous year and 2019 was the weakest year for wind energy in 20 years) did not continue at the beginning of 2020, although the level of activity remains weak. Even though significantly more onshore wind turbines went into operation in the first three months of 2020 than in the same period of the previous year, it is still the second-weakest spring quarter witnessed in the last ten years. The number of new permits issued in the first quarter even stagnated compared to the same quarter of the previous year.

The expansion in the solar segment continued in Europe. In Germany alone, new installations in the photovoltaics segment came to just under 1,926 megawatts in the first five months of the year, up by around 7% on the prior-year period. The planned abolition of the 52-gigawatt cap, which originally (under the current German Renewable Energies Act (EEG)) provided for the abolition of subsidies for all systems up to 750 kilowatts, is likely to keep the brisk construction activity observed at the start of the year high for the remainder of 2020, even if the degression in feed-in tariffs is likely to have a dampening effect to a certain extent.

The pandemic has left a clear mark on the **shipping markets**. Trading activities have declined drastically, putting charter rates for container vessels and bulkers, in particular, under considerable pressure. By contrast, a temporary and significant excess supply of crude oil led to increased demand for tankers for transportation and storage purposes and, as a result, to dramatic fluctuations in the development of charter rates.

The market for **container ships** started the new year at relatively high levels for charter rates and second-hand prices. In view of more stringent emissions regulations, numerous vessels were equipped with flue gas desulphurisation systems (known as scrubbers) and were temporarily unavailable on the market. The resulting shortage of tonnage, especially in the larger segments, ensured high charter rates. The slump in demand in the wake of the spread of the coronavirus and the measures taken to combat it caused charter rates to fall further and further. Shipping lines reduced the capacity on offer by cancelling departures, suspending entire routes and reducing the speed of service. As a result, freight rates, i.e. the price for transporting containers, were kept successfully on a stable trajectory. Chartered vessels that were no longer in use were returned to their owners at the first opportunity. Charter rates dropped significantly due to the large proportion of laid-up vessels. Towards the end of the second quarter, demand for transport rose again somewhat as restrictions in the key destination regions of Europe and North America eased.

The charter rates for **bulkers** had already made a weak start to the year due to weather-related setbacks in iron ore mining in Brazil, a drop in US grain exports and the delivery of new vessels, which further increased the excess supply of tonnage. The additional slump in demand caused by the coronavirus pandemic further exacerbated the crisis in the bulker segment. Although demand for essential goods such as grain remained relatively stable, steel production in particular, an activity that is sensitive to economic cycles, plummeted. This reduced the demand for the transportation of the necessary raw materials, iron ore and coal. At times, charter rates fell back to the lowest level seen since the beginning of 2017, while second-hand prices remained relatively stable.

On the market for **oil tankers**, enormous fluctuations in charter rates were witnessed in the first half of the year due to volatility on the oil market. After OPEC+ failed to reach an agreement on further production cuts, Saudi Arabia in particular flooded the market with cheap crude oil. This sent the oil price plummeting and a marked contango situation emerged on the futures market, i.e. the price for future deliveries was significantly higher than the spot rate. As a result, the storage of oil became so lucrative that it was not only onshore storage facilities that were used for this purpose. Tankers were also used as floating storage facilities. This additional demand resulted in the highest charter rates seen in more than ten years at times. Recently, however, the rising spot rate for oil has reduced this demand. What is more, as warehouses everywhere

are well stocked, the demand for transport is also low. Charter rates have slumped sharply as a result. The coronavirus crisis has now also hit the tanker market.

Coronavirus crisis exacerbating existing problems in the German banking market

The coronavirus crisis was reflected not least in the share prices of banks on both sides of the Atlantic, with significant discounts for both American and European credit institutions. The critical view taken by investors was triggered primarily by fears of a significant increase in bank loan defaults, driven by the sometimes dramatic slump in economic activity in a number of sectors. Banks are, however, also from the perspective of the rating agencies, currently in a much more resilient position than they were at the beginning of the financial crisis in 2008, particularly in terms of capital and liquidity resources, which most institutions have been able to expand significantly in recent years.

What is more, given the extremely challenging market environment, central banks and banking supervisors are providing institutions with support, both with their very favourable liquidity facilities (TLTROs) and by implementing reductions in other regulatory requirements (e.g. reduced SREP capital requirements), giving them more leeway to rise to the challenges created by the crisis. At the same time, banks are playing a central role in the implementation of the monetary and fiscal policy measures taken to tackle the crisis in the real economy, in Germany not least as part of the support programmes offered by the state-owned development bank, KfW.

Nevertheless, the crisis is exacerbating existing problems in the banking sector, first and foremost the weak profitability of European and, in particular, German institutions. This is because the crisis is expected to result in the challenging low interest rate environment lasting even longer and putting further pressure on margins. At the same time, we expect the negative impact of loan loss provisions to increase noticeably at a large number of institutions, while rating migrations will push risk-weighted assets up, meaning that pressure on the capital position is likely to come from both the income and risk sides. Against this backdrop, rating agencies have since issued a negative outlook for large parts of the European and German banking market. Hamburg Commercial Bank was also unable to escape this assessment for the market as a whole entirely unscathed, with the result that the Bank's S&P rating now also includes a negative outlook. The Bank's rating position awarded by Moody's, on the other hand, still includes a "stable" outlook. Going forward, the way in which individual banks deal with these challenges will be a decisive factor. A solid starting position in terms of capital, stringent cost management (taking into account the need to invest in IT and digitalisation) to mitigate the greater negative impact of loan loss provisions and pressure on the earnings side, as well as effective risk management, are likely to be crucial factors in this respect.

As part of the SREP process, the ECB has once again made reviewing banks' internal risk models a priority. The results will be benchmarked at both national and European level. The aim of the banking supervisory authority is to make the results of internal models more transparent and comparable. Ultimately, this is likely to increase the risk-weighted assets of many banks even before the introduction of Basel IV from 2022 onwards. Other key issues addressed by the ECB in the SREP process included IT and cybersecurity, governance and the sustainability of banks' business models, in particular with regard to profitability.

Overall conditions impacting Hamburg Commercial Bank's business

The overall environment, which was already challenging even before the blow dealt by the outbreak of the coronavirus pandemic, was also reflected in Hamburg Commercial Bank's business performance. As a result of the global recession, conditions in the markets relevant to the Bank have clouded over considerably overall, although the extent of the deterioration varies from market to market and within individual sub-segments and sectors. The real estate environment, for example, remained relatively unfazed by the recession in the first half of the year, although the outlook was starting to look less positive towards the end of the half-year. Overall, industry, retail and the service sector have been hit hard by the pandemic. The degree to which individual sectors have been affected depends on the extent to which they were exposed to the restrictions imposed by the lockdown measures and their consequences. The situation in the shipping markets deteriorated considerably against the backdrop of the slump in trade caused by the pandemic and its impact on charter rates.

In line with this market environment, there has been a significant drop in demand for new loans across all asset classes, particularly in real estate and in the corporate clients business. Hamburg Commercial Bank's gross new business volume, which amounted to only € 1.4 billion in the first half of the year, should be viewed in this context. Nevertheless, the market environment allowed the Bank to achieve conditions for new business and prolongations that were in line with, or in some cases even exceeded, its ambition levels.

The adverse macroeconomic environment was also reflected in Hamburg Commercial Bank's loan loss provisions. Net addition (€ -94 million) had to be made in the first half of 2020. Within this context, the Bank is generally benefiting from the conservative loan loss provisions policy it has adopted previous years and from the high level of risk shielding in its NPE portfolio. Moreover, the structure of the loan portfolio is relatively crisis-resistant. A large part of the portfolio relates to domestic financing, which should generally benefit from the extensive government aid programmes. In addition, the Bank has a relatively low exposure to the automotive and mechanical engineering industries, areas that have been particularly hard hit.

The extremely volatile financial markets caused by the coronavirus also had an impact on business developments. In particular, the widening of credit spreads observed during the reporting period, but also developments on the interest rate and currency markets, resulted in negative valuation effects overall, with a marked negative impact on the result from financial instruments categorised as FVPL. Hamburg Commercial Bank adapted its funding strategy in the first half of 2020 to reflect the situation on the financial markets. By way of example, the favourable liquidity facilities provided by the European Central Bank as part of its TLTRO were also used to optimise funding costs. Projects involving capital market issues have been postponed to the second half of the year. The transformation process, the Bank's business performance and position are explained in detail in the following sections.

Business development – Significant developments and events in the first half of 2020

First half of 2020 dominated by the coronavirus and the ongoing transformation process

With regard to business developments in the first half of 2020, which were dominated by the COVID-19 pandemic (coronavirus crisis), the following aspects are particularly worthy of mention:

Business Continuity Management steering the Bank through the crisis: maintaining operations and employee health as a top priority

In mid-March of the year under review, the COVID-19 pandemic led to a shutdown imposed by the German government, as in many countries around the world, combined with extensive restrictions such as rules limiting contact or restrictions on freedom to travel. In view of the systemic importance that banks have, the top priority for Hamburg Commercial Bank's day-to-day business was ensuring that business operations could be maintained. Within this context, particular importance was attached to protecting the health of employees and business partners.

One of the measures taken by the Bank to manage these tasks was the establishment of an interdisciplinary coronavirus working group as part of its existing business continuity management system. The necessary measures were communicated and implemented via this working group, which held discussions several times a day if necessary. One central component of the organisational measures was the implementation of split-mode operations, with working from home accounting for around 50% and the strict physical separation of employees in the Hamburg and Kiel office. The rapid establishment and expansion of the necessary IT infrastructure and the seamless use of modern communication media were particular success stories during this phase.

The extremely volatile market environment associated with the coronavirus crisis (especially on the financial markets and on the customer side) and its effects on the Bank's key management indicators were stringently monitored by very regular dialogue involving all members of the Management Board and by the implementation of appropriate reporting tools (coronavirus dashboard). One key component of the reporting process was the monitoring of risk-relevant changes in credit exposures using a "coronavirus watch list".

Systematic continuation of the transformation programme

As at the reporting date, the Bank is roughly in the middle of the three-year transformation process launched at the end of 2018. The measures associated with the transformation programme are consistent with the strategic objective of creating a commercial bank with very strong capital resources and an appropriate level of profitability. The business model, based on

the Bank's core competencies in the field of special financing, is geared towards high levels of efficiency, scalability and customer centricity. The move to the deposit guarantee fund (ESF) of the Federal Association of German Banks (BdB), which is planned for early 2022, will mark an important milestone.

The coronavirus crisis that emerged in the first half of 2020 and its implications represent a major challenge for the entire banking environment and, as a result, also for the transformation process at Hamburg Commercial Bank. The Bank is benefiting from the fact that the progress made in 2019, reflected in a further strengthened capital and risk position, provided it with tailwind as it embarked on 2020. In addition, the Bank had prepared itself for an adverse economic environment at an early stage by adjusting its strategy (keyword: de-risking) in the autumn of 2019. The coronavirus crisis makes it clear that the Bank must continue to pursue the path it has carved out. The main objectives are to focus and reposition the balance sheet structure (with total assets of around € 30 billion in the strategic target for 2022), further strengthen the capital position, safeguard liquidity and increase profitability. From a strategic point of view, the first half of 2020 was therefore characterised by an analysis of the transformation programme and its individual milestones with regard to the effects of the coronavirus crisis and by the identification of any necessary adjustments. The timing of some measures has been delayed slightly due to the coronavirus situation. In particular, this affects projects for the placement of loan portfolios, business and IT transformation and funding activities on the capital market. In addition, further measures were identified, or existing ones prioritised. Ultimately, the Bank is adhering to all key milestones of its transformation programme and the central long-term target KPIs for capital, liquidity, asset quality and profitability.

Close monitoring will continue in the second half of the year, taking into account developments in those external factors that are relevant to the Bank.

Focus on supporting customers, conventional new business reduced significantly with further improvement in profitability

Against the backdrop of the de-risking measures implemented by the Bank, conventional new business moved into the background in the first half of 2020. The marked decline in the propensity of customers to invest also has to be taken into account here. Accordingly, the gross new business volume amounted to a comparatively low € 1.4 billion, down considerably on the pro-rata planned figure. The Bank is further reducing its new business, among other measures, in a quest to counter the developments resulting from the coronavirus crisis, which are generally resulting in an increase in the volume of total assets (e.g. lower unscheduled repayments, draw-downs on approved credit lines). New business profitability has developed favourably and increased further. In addition to

the Bank's profitability-oriented business approach, the product mix within new business transactions also contributed to this development.

As a commercial bank, the overall focus was on supporting existing clients, also in the context of prolongations. The Bank also participated in the support programmes for small and medium-sized enterprises initiated by the German government and implemented via KfW.

Positive net income before taxes despite the impact of the coronavirus, further improvement in very solid capital position, solid liquidity position, NPE ratio increased

Despite the challenging environment, Hamburg Commercial Bank can report net income before taxes of € 71 million as at 30 June 2020. The result was driven by strong net interest income and also benefited from disposal gains. On the other hand, the coronavirus crisis and volatile capital markets had a negative impact, which was reflected in particular in the result from financial instruments categorised as FVPL, but also in loan loss provisions.

The Bank's excellent capital resources have improved further, which is reflected in an even higher CET1 ratio of 21.7%. This is due, in particular, to a further drop in risk-weighted assets (RWA).

The liquidity position, which is being managed in line with a particularly prudent strategy during the crisis, proved to be stable and crisis-resistant. The liquidity coverage ratio (LCR) of 168% reported as at 30 June 2020 is in line with expectations.

There were negative effects on the NPE ratio, which amounted to 3.2% on the reporting date (31 December 2019: 1.8%). The reclassification of a major legacy exposure from the Real Estate segment, which is to be reduced in the near future, had a particularly negative impact in this regard. With regard to expected developments in the second half of 2020, we refer to our comments in the section entitled "Expected business development of Hamburg Commercial Bank" in the chapter "Forecast, opportunities and risks report".

Management of pension obligations reorganised by implementing a CTA structure

In the first half of 2020, Hamburg Commercial Bank set up a trust structure for the active management of its pension obligations. This involved the establishment of an association, HCOB Trust e.V. ("Trust"), Hamburg, which has concluded a contractual trust agreement (CTA) with the Bank.

The CTA is being used to build up assets that are protected against insolvency, providing additional security for pension liabilities in the event of the Bank's insolvency (ring-fenced assets). The new structure enables the Bank to make targeted investments from a broad investment spectrum, taking risk/return aspects into account, allowing it to generate the necessary funds to cover its pension obligations. In accounting terms, the assets tied up in the trust qualify as plan assets under IAS 19 and are offset against existing pension obligations. As at 30 June 2020, the fair value of plan assets came to € 292 million, with further asset growth planned in the near future.

Earnings, net assets and financial position

Group performance in line with expectations overall

The following aspects, in particular, contributed to business development for the first half of 2020, which was consistent with expectations overall and was influenced to a significant degree by the impact of the COVID-19 pandemic, in addition to the systematic continuation of the transformation programme:

- The positive **net income before taxes**, in which the annual contributions for the bank levy and the deposit guarantee fund have already been recognised in full, amounted to € 71 million as at 30 June 2020 (same period of the previous year: € 96 million). At € 351 million (same period of the previous year: € 230 million), net interest income was noticeably higher than expected. In addition to encouraging operating performance, net income from hybrid financial instruments also had a marked positive impact here. The result from the disposal of financial assets classified as AC (€ +44 million), which was dominated by the sale of loans, also contributed to total income. On the other hand, the negative result from financial instruments categorised as FVPL (€ -149 million) had a considerable negative impact. Valuation losses arose within this context due to the volatility on the financial markets sparked by the coronavirus crisis, particularly due to a significant widening of credit spreads. On the basis of the above-mentioned developments, total income as at 30 June 2020 amounted to € 280 million (same period of the previous year: € 226 million). The consequences of the coronavirus crisis were also felt in loan loss provisions (€ -94 million), although the good credit quality and high risk shielding of the NPE portfolio helped to limit the losses. While expense items were reduced largely in line with the Bank's plan, the very positive other operating income (€ +100 million), which benefited from the sale of buildings, meant that net income before taxes was slightly higher than expected. In the same period of the previous year, net income before taxes was € 25 million higher at € 96 million. With total income that was significantly lower than in the reporting period, the comparable period of the previous year benefited from net reversals of loan loss provisions (€ +25 million).
- The return on equity (**RoE**) for the Group, calculated on the basis of net income before taxes as at 30 June 2020, is consistent with expectations at 3.3% (31 December 2019: 1.8%).
- The cost-income ratio (**CIR**) comes to 47.6% on 30 June 2020 (31 December 2019: 69.3%). This development is due, on the one hand, to the expected reduction in administrative costs as a result of the cost-cutting measures. At the same time, the earnings situation improved further, which also contributed to the drop in the CIR.

Key Group management indicators

	30.06.2020	31.12.2019 (30.06.2019)
Net income before taxes (€ m)	71	77 (96)
CIR	47.6%	69.3% (62.1%)
RoE	3.3%	1.8% (4.4%)
NPE ratio ¹⁾	3.2%	1.8%
CET1 capital ratio	21.7%	18.5%
LCR	168%	165%

¹⁾ As at 30 June 2020 and 31 December 2019, taking into account adjusting events after the reporting date.

- In the first half of 2020, the **NPE ratio** increased from 1.8% at the end of the previous year's reporting period to 3.2%, exceeding the forecast and the strategic target ratio of below 2%. With an exposure which declined by around 12%, this development is attributable in particular to the NPE classification of a larger individual exposure from the Real Estate segment. Measures have been put in place for a timely reduction in this exposure.
- As assumed in the forecast, the **CET1 ratio** improved further from the good level already seen on 31 December 2019 (18.5%) and came to a very strong 21.7% as at 30 June 2020. These capital resources put the Bank in a robust position to meet the further challenges associated with the coronavirus crisis. Both the increase in CET1 capital and, in particular, the decline in RWA had a positive effect on the ratio. The increase in CET1 capital compared with 31 December 2019 is due primarily to reduced regulatory capital deductions. The drop in RWA is mainly due to a reduction in RWA for credit risks.
- As at 30 June 2020, the liquidity ratio **LCR** came to 168%, which is virtually on a par with the end of the previous year (31 December 2019: 165%). At this good level, it is still well above the ECB's minimum requirements.

Further details underlying the business performance are given below in the "Earnings, net assets and financial position" and "Segment results" sections. The earnings performance of the operating segments and Other and reconciliation is presented in the "Segment results" section.

Management system and defined management indicators of the IFRS Group

The Bank's integrated management system is aimed at the targeted management of key value drivers – income, efficiency/costs and profitability, risk, capital and liquidity. The Bank uses a risk-adjusted key indicator and ratio system for this purpose that ensures that the Bank is 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 placed on the change in these key indicators compared to the same period of the previous year and, on the other, on their expected change over the remainder of 2020.

Further information on the management system and defined management indicators of the Hamburg Commercial

Bank Group, as well as information on the development expected for 2020 as a whole, is set out in Hamburg Commercial Bank's Group Management Report for the 2019 financial year in the "Management System" subsection in the "Basis of the Group" section, and in the "Forecast, opportunities and risks report" section.

Earnings

Statement of income

(€ m)	January – June 2020	January – June 2019	Change in %
Interest income from financial assets categorised as AC and FVOCI	369	435 ¹⁾	-15
Interest income from other financial instruments	396	719	-45
Negative interest on investments categorised as AC and FVOCI	-10	-14	-29
Negative interest on other cash investments and derivatives	-42	-93	-55
Interest expenses	-484	-900	-46
Positive interest on borrowings and derivatives	48	93	-48
Net income/loss from hybrid financial instruments	74	-10	>100
Net interest income	351	230	53
Net commission income	27	28	-4
Result from hedging	2	-4	>100
Result from financial instruments categorised as FVPL	-149	-37	> -100
Net income from financial investments	5	4 ¹⁾	25
Result from the disposal of financial assets classified as AC	44	5	>100
Total income	280	226	24
Loan loss provisions	-94	25	>100
Total income after loan loss provisions	186	251	-26
Administrative expenses	-181	-190	-5
Other operating result	100	80	25
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-29	-37	-22
Net income before restructuring and transformation	76	104	-27
Net income from restructuring and transformation	-5	-8	38
Net income before taxes	71	96	-26
Income tax expense	-67	-91	-26
Group net result	4	5	-20
Group net result attributable to Hamburg Commercial Bank shareholders	4	5	-20

¹⁾ The previous year figure was adjusted. Please refer to Note 3 for more details.

Total income up as expected

As expected, total income increased in the first half of 2020 and amounted to € 280 million (same period of the previous year: € 226 million). Within the individual income items, there have been partly opposing developments which are described in detail below:

The main reason for the increase in total income was the very positive development in **net interest income**, which amounted to € 351 million in the period under review, up considerably on the same period of the previous year (€ 230 million) despite a planned drop in the volume of interest-bearing receivables. This development reflects the progress made by the Bank in terms of operational efficiency, which is reflected in a further improvement in new business profitability and a further reduction in funding costs. Net interest income was also boosted significantly by the positive net income from hybrid financial instruments in the amount of € 74 million (same period of the previous year: € -10 million). This was mainly due

to a reassessment of interest and principal cash flows for the underlying instruments that will fall due in 2021.

Net commission income proved to be stable and came to € 27 million as at 30 June 2020 (same period of the previous year: € 28 million). As expected, commission income declined in line with the drop in the business volume. Commission expenses declined by roughly the same amount, which is mainly due to significantly reduced expenses for a funding activity that has since been discontinued.

On the other hand, total income was hit hard by the clearly negative **result from financial instruments categorised as FVPL** in the amount of € -149 million (same period of the previous year: € -37 million). The net result was affected to a considerable degree by the implications of the COVID-19 pandemic, which led to considerable volatility in the financial markets. In particular, the significant widening of credit spreads and developments on the interest rate and currency markets had a negative impact on Hamburg Commercial Bank: The

widening of credit spreads resulted in negative valuation effects for FVPL receivables and securities and for customer derivatives. The development in the interest rate environment had a negative impact on the valuation of interest rate hedging derivatives that cannot be taken into account in hedge accounting. The development in the USD/EUR exchange rate led to currency-induced valuation losses on certain securities, which are offset by corresponding valuation gains in OCI.

The **result from the disposal of financial assets classified as AC**, on the other hand, came to € 44 million (same period of the previous year: € 5 million), making a marked positive contribution to total income. This was mainly due to the income collected from the sale of receivables from public-sector debtors.

Loan loss provisions (income statement result) show net additions

Loan loss provisions (income statement) put pressure on net income before taxes with a net addition (€ -94 million same period of the previous year: net reversal in the amount of € 25 million).

The development of loan loss provisions in the period under review was affected, in particular, by the adverse economic development due to the coronavirus and by the Bank's de-risking strategy. Within this context, the first half of 2020 saw an increase in exposures at stage 3 of the IFRS 9 loan loss provisions model (specific loan loss provisions) and a drop at stages 1 and 2 (general loan loss provisions).

There was a net addition to specific loan loss provisions (€ -64 million) in the period under review, which is distributed among the Bank's operating segments with the exception of the Diversified Lending & Markets segment.

There was also a net addition to general loan loss provisions (€ -32 million), which was relatively moderate. On the one hand, the fact that the Bank applied more adverse economic scenarios than at the end of the previous year when measuring model overlays in the context of the coronavirus pandemic has had a negative impact. Within this context, the Bank continued to pursue its conservative loan loss provisions policy by applying appropriate assumptions as at 30 June 2020, too. On the other hand, the increase was limited by the reduced portfolio (de-risking) and the elimination of specific risks (especially in the Shipping segment) as well as by the use of macroeconomic assumptions that were already conservative to begin with.

The prior-year period was characterised by additions to general loan loss provisions in the Real Estate segment (particularly in connection with Brexit-related risks), which were more than offset by higher net reversals of specific loan loss provisions in the Shipping segment.

Administrative expenses: cost programme bearing fruit, decreasing personnel costs, investments in IT restructuring

Administrative expenses came to € -181 million as at 30 June 2020 (same period of the previous year: € -190 million).

Personnel expenses amounted to € -87 million in the reporting period (same period of the previous year: € -105 million). The number of employees in the Group as at 30 June 2020 fell further by 267 FTEs to 1,215 FTEs. The drop in personnel expenses shows that the cost-cutting measures implemented as part of the transformation programme are bearing fruit. As the extensive and far-reaching transformation process continues, with a target figure of approx. 720 FTEs for the end of 2022, personnel expenses will gradually continue to fall as the measures already adopted are implemented.

Operating expenses came to € -90 million (same period of the previous year: € -80 million). The increase affects the IT and buildings expense categories. It relates to forward-looking transformation measures which, as planned, initially have a cost-increasing effect, but in the medium term lay the foundation for a permanent reduction in operating expenses to achieve the strategic target CIR. With regard to IT costs, the increase relates, on the one hand, to IT project costs in the context of the Bank's large-scale IT restructuring plans. Following the successful outsourcing of the operation of the IT application landscape at the beginning of the year, the IT costs for the period under review also include the service fees paid to the strategic outsourcing partner. With regard to building costs, the temporary increase results from the temporary leaseback of building space as part of the building sales that were completed in February 2020. The building sales marked the first step in the building strategy, which will be a further driver of sustainable cost reductions in the medium term. In all other major cost categories, operating expenses were reduced overall as planned.

Depreciation of property, plant and equipment and amortisation of intangible assets came to € -4 million (same period of the previous year: € -5 million), roughly on a par with the prior-year period.

Other operating income makes marked positive contribution to net income before taxes

Other operating income amounted to € 100 million (same period of the previous year: € 80 million) and made a marked contribution to the positive net income before taxes, as in the previous year. It benefited significantly from income from the sale of buildings as part of the Bank's efforts to streamline its locations. In the same period of the previous year, other oper-

ating income had benefited from a partial reversal of a provision for litigation risks associated with the lending business and the recognition, in income, of a reimbursement claim from a settlement in a legal dispute.

Annual contributions for bank levy and deposit guarantee fund already recognised in full

The expenses for regulatory affairs, the deposit guarantee fund and banking associations were reduced further compared to the reference period and amount to € -29 million based on the fixed (bank levy)/expected (deposit guarantee fund) annual contributions (same period of the previous year: € -37 million).

Moderate negative impact of restructuring and transformation expenses

Net income from restructuring and transformation in the amount of € -5 million in total put moderate pressure on earnings. In the same period of the previous year, this figure came to € -8 million in total. The expenses in the reporting period mainly relate to costs for measures to accelerate the implementation of the Bank's transformation process.

Positive Group net result as at 30 June 2020 despite the coronavirus impact

Overall, Hamburg Commercial Bank achieved net income before taxes of € 71 million as at the reporting date (same period of the previous year: € 96 million). The net result as at 30 June 2020 is slightly ahead of expectations. Considerable valuation losses on financial instruments measured at fair value and the negative impact of loan loss provisions were offset by net interest income that was higher than expected and very positive other operating income. Net income before taxes fell by € 25 million compared with the same period of the previous year. With higher total income and a further reduction in costs in the period under review, the drop in net income before taxes is attributable to loan loss provisions, which had made a positive contribution to net income before taxes in the same period of the previous year with a net reversal.

After taxes, the Group net result comes to € 4 million (same period of the previous year: € 5 million). Income tax expense includes tax expenses from deferred taxes in the amount of € -67 million. Based on the tax planning for 2020, this deferred tax expense comprises an expense from the reversal of deferred tax assets on temporary differences and offsetting income from the recognition of deferred tax assets on loss carryforwards.

Net assets and financial position

Material items on the statement of financial position

(€ m)	30.06.2020	31.12.2019	Change in %
Assets			
Cash reserve	2,206	4,850	-55
Loans and advances to banks	2,033	2,521	-19
Loans and advances to customers	28,279	30,708	-8
Loan loss provisions	-777	-708	10
Trading assets	2,477	2,663	-7
Financial investments	6,113	6,100	0
Non-current assets held for sale and disposal groups	465	355	31
Other assets	961	1,223	-21
Total assets	41,757	47,712	-12
Equity and liabilities			
Liabilities to banks	7,938	5,066	57
Liabilities to customers	17,576	23,966	-27
Securitised liabilities	6,624	7,845	-16
Trading liabilities	1,656	1,946	-15
Provisions	1,323	1,699	-22
Subordinated capital	1,070	1,349	-21
Equity capital	4,362	4,350	0
Other liabilities	1,208	1,491	-19
Total equity and liabilities	41,757	47,712	-12

Systematic further reduction in total assets

In line with the de-risking strategy adopted by the Bank, the Group's total assets continued to decline as planned in the first half of 2020, falling by almost € 6 billion (equivalent to approx. 12%) to € 41,757 million (31 December 2019: € 47,712 million). The decline is reflected in almost all major balance sheet items. On the assets side, this is mainly reflected in the cash reserve and loans and advances to customers items. On the liabilities side, the decline is particularly evident in liabilities to customers, but also in securitised liabilities. By contrast, there was a significant increase in liabilities to banks. This development is due to the fact that the Bank adapted its funding strategy to reflect the situation on the financial markets in the context of the coronavirus pandemic in the first half of 2020 and, in order to optimise funding costs, also made use of the longer-term open market operations (TLTRO) offered by the ECB at favourable conditions. Deposits from customers and securitised liabilities were reduced on a corresponding scale. In detail, the developments were as follows:

The cash reserve was down considerably compared with the end of the previous year to € 2,206 million (31 December 2019: € 4,850 million). The drop reflects the continuous optimisation of the Bank's liquidity position. Hamburg Commercial

Bank has maintained a solid liquidity position even in the coronavirus crisis, which is reflected in the liquidity coverage ratio (LCR) of 168%.

Loans and advances to banks also decreased and amounted to € 2,033 million (31 December 2019: € 2,521 million).

Loans and advances to customers continued to decline significantly, by around 8%, as a result of active balance sheet management, also supported by the low volume of new business. As at 30 June 2020, they had a carrying amount of € 28,279 million (31 December 2019: € 30,708 million).

Loan loss provisions (for balance sheet items) increased slightly as of 30 June 2020 and amounted to € -777 million (31 December 2019: € -708 million). The increase is due to the additions made in the reporting period, which exceeded utilisations and reversals overall.

Trading assets were down on the end of the prior-year reporting period, falling to € 2,477 million (31 December 2019: € 2,663 million). Both the securities position held for trading purposes and the positive market values of derivatives declined slightly. The drop in the market values of derivatives is due to the continued reduction in holdings as the Bank strives to reduce the complexity of its business model.

Financial assets had a carrying amount of € 6,113 million (31 December 2019: € 6,100 million), more or less on a par with the level seen at the end of the previous year.

On the liabilities side, liabilities to banks increased considerably to € 7,938 million (31 December 2019: € 5,066 million). The increase is due to the fact that, as explained above, the Bank raised funds under the ECB's TLTRO programme to optimise its funding costs.

The reduction in the balance sheet volume on the assets side and, as a result, the lower funding requirements had an impact on the liabilities side of the balance sheet, in particular in the form of a very significant decline in liabilities to customers to € 17,576 million (31 December 2019: € 23,966 million). The above-mentioned expansion of refinancing via the ECB also had an impact here.

Securitised liabilities were also down considerably, to € 6,624 million, compared with the end of the previous year (31 December 2019: € 7,845 million). The decline is mainly due to an increase in own issues bought back, which are deducted in the item securitised liabilities.

Trading liabilities comprising negative fair values of derivatives, in particular (€ 1,656 million, 31 December 2019: € 1,946 million) were down in line with the positive fair values of trading assets.

As of 30 June 2020, provisions amounted to € 1,323 million (31 December 2019: € 1,699 million). The decrease is mainly related to the establishment of plan assets via a con-

tractual trust agreement (CTA). The fair value of the plan assets is netted with the net present value of the pension obligations. For further details, please refer to Note 33.

As at 30 June 2020, subordinated capital came to € 1,070 million, which represents a further drop compared with the level seen at the end of the previous year (carrying amount as at 31 December 2019: € 1,349 million). The drop is due, in particular to the execution of further repurchases of hybrid instruments as part of the "Liability Management Exercise (LME)". In this regard, we refer to the information provided in the combined management report for 2019 (section entitled "Business development – significant developments and events in the 2019 reporting year"). As at 30 June 2020, the Bank reached an agreement with all investors in the hybrid capital instruments concluded on a bilateral basis and bought back the corresponding instruments.

The Bank's reported equity did not show any major change as against the end of the previous year and amounted to € 4,362 million (31 December 2019: € 4,350 million).

Business volume also down

The business volume decreased at a slightly faster rate than total assets to € 47,969 million (31 December 2019: € 55,635 million), as off-balance-sheet business also declined: while sureties and guarantees dropped slightly to € 1,336 million (31 December 2019: € 1,438 million), irrevocable loan commitments have fallen considerably to € 4,876 million, a development that was to be expected in light of the coronavirus crisis (31 December 2019: € 6,485 million).

Structure of liabilities by financial instruments

(€ m)	30.06.2020		31.12.2019	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Pfandbriefe and asset-based funding	9,767	8,182	10,863	9,562
Covered bonds (Pfandbriefe)	5,746	4,509	6,481	5,214
Other secured funding	4,021	3,673	4,382	4,347
Unsecured liabilities (senior preferred)	19,049	6,358	21,609	6,011
Unsecured liabilities (senior non-preferred)	3,321	3,041	4,317	3,723
Profit participation certificates and other subordinated liabilities	1,069	957	1,069	1,069
Hybrid instruments	2	-	368	368
Total	33,208	18,538	38,226	20,733

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 car-

rying 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 (covered bonds, 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 € 9,767 million as at 30 June 2020 (31 December 2019: € 10,863 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. As at the reporting date, they amounted to € 22,370 million (31 December 2019: € 25,926 million). The call and time deposits are shown together with structured unsecured financial instruments in the "senior preferred" category and total € 19,049 million (31 December 2019: € 21,609 million). The "senior non-preferred" category consists primarily of bearer and registered bonds that do not have any structured elements and amounted to € 3,321 million as at 30 June 2020 (31 December 2019: € 4,317 million).

The two line items profit participation certificates and other subordinated liabilities (€ 1,069 million, 31 December 2019: € 1,069 million) and hybrid instruments (€ 2 million, 31 December 2019: € 368 million) in total represent subordinated capital. Of the hybrid instruments (Resparc I and Resparc II), less than € 1 million (31 December 2019: € 88 million) is reported under Securitised liabilities in the balance sheet.

Capital and funding

RWA, regulatory capital and capital ratios

	30.06.2020	31.12.2019
Risk-weighted assets (RWA) (€ bn)	19.0	21.0
Regulatory capital (€ bn)	5.1	4.9
of which: CET1 capital (€ bn)	4.1	3.9
Overall capital ratio (%)	27.0	23.5
Tier 1 capital ratio (%)	21.7	18.5
CET1 capital ratio (%)	21.7	18.5

Capital ratios at a very good level

The CET1 ratio increased slightly as against 31 December 2019 (18.5%) to 21.7%. This development is due, in particular, to the drop in RWA for credit risks due to declining balance sheet assets in conjunction with lower new business. CET1 capital improved in the reporting period, in particular as a result of lower regulatory capital deductions. The Tier 1 capital ratio and the overall capital ratio increased in line with the Common Equity Tier 1 ratio compared with 31 December 2019.

The capital ratios still exceed the limit set internally, as well as the regulatory requirements resulting from the SREP process, 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.

Hamburg Commercial Bank's leverage ratio came to a very solid 9.9% as at 30 June 2020 (31 December 2019: 8.2%). This development is attributable to an increase in Tier 1 capital and, in particular, to a drop in leverage exposure in the reporting period to € 41.8 billion (31 December 2019: € 47.5 billion). The leverage ratio is still significantly higher than both the internal limit and the regulatory benchmark of 3% (mandatory from the end of June 2021), and together with the very good CET1 ratio, pays testimony to the Bank's robust capital position.

Refinancing successfully implemented in a difficult environment

The refinancing situation in the reporting period was also marked by the coronavirus pandemic. Market-wide turbulence and access to low-cost, long-term funds from the European Central Bank (TLTRO) have led to key issue projects being postponed.

All in all, fundraising is in line with the planned figures. In the first half of 2020, the Bank was able to raise more than € 3.0 billion in long-term funds.

In addition to long-term refinancing, the reduction in deposits also contributed to the implementation of the funding strategy. Deposits were reduced as planned in connection with the further reduction of total assets. This was also a good way of helping the Bank to cope with increased deposit withdrawals from public authorities due to the extraordinary burdens resulting from the coronavirus pandemic.

Key liquidity ratios

	30.06.2020	31.12.2019
Total deposits (€ bn)	11.5	13.6
LCR (%)	168	165
NSFR (%)	107	114

The regulatory requirements for the liquidity ratios were exceeded during the reporting period.

The Risk Report contains supplementary information on the capital and refinancing situation of Hamburg Commercial Bank.

Segment results

Segment overview January – June 2020

(€ m)		Corpo- rates & Structured Finance	Real Estate	Shipping	Diversified Lending & Markets	Other and Reconcili- ation	Group
Total income	2020	143	126	40	2	-31	280
	2019	101	101	58	11	-45	226
Loan loss provisions	2020	-113	-49	66	-	2	-94
	2019	-23	-42	88	2	-	25
Administrative expenses	2020	-71	-70	-35	-6	1	-181
	2019	-82	-60	-39	-10	1	-190
Net income before taxes	2020	-52	-4	66	-3	64	71
	2019	-29	36	100	1	-12	96
Segment assets (€ bn)	30.06.2020	11.0	11.5	4.5	13.7	1.1	41.8
	31.12.2019	12.3	12.5	4.6	17.1	1.2	47.7

Adjustments to segment reporting

Compared with the segment reporting as at 30 June 2019, changes in the internal organisational structure have been taken into account in the segment reporting in accordance with the requirements set out in IFRS 8 (Management Approach). This mainly resulted in changes to the names of the segments Corporates & Structured Finance (formerly Corporate Clients) and Diversified Lending & Markets (formerly Treasury & Markets) and slight shifts between these two segments. In addition, from 2020 onwards, the overall bank positions including the liquidity reserve are reported in the Diversified Lending & Markets segment. The earnings effects resulting from the overall bank positions are allocated to the segments. The previous year's figures have been adjusted accordingly.

Business development in the segments

The **Corporates & Structured Finance** segment is well diversified and, as at the reporting date, combines the Corporate Banking & Advisory and Project Finance business areas in the energy and infrastructure sectors. The expertise pooled in this segment in the advisory fields of structured finance, leveraged buy-outs and mergers & acquisitions is offered to all the Bank's customers. The business unit is also a product specialist for payment transactions and trade finance, factoring and leasing, bundles distribution activities relating to capital market-related products and is responsible for bank-wide syndication activities, including the OtD approach, as well as for supporting institutional clients.

In the Corporates & Structured Finance segment, net income before taxes in the first half of 2020 amounted to € -52 million (same period of the previous year: € -29 million). This development is due, in particular, to the additions to loan loss provisions (€ -113 million, same period of the previous year: € -23 million), which were mainly driven by the addition to

general loan loss provisions (stages 1 and 2) against the backdrop of the coronavirus crisis. This was partially offset by an increase in total income and a reduction in administrative expenses. The increase in total income reflects not only encouraging development in operating income – net interest income and net commission income rose slightly overall – but also the sale of loans from the cover pool. At the same time, negative valuation effects for customer derivatives put pressure on total income.

New business development in the segment has to be viewed in the context of the challenging economic environment, as well as the more selective and risk-conscious approach to new business. New business in the conventional corporates segment in particular, but also – albeit to a lesser extent – in the Energy & Infrastructure area was down considerably in a year-on-year comparison. All in all, gross new business in the Corporates & Structured Finance segment came to a total of € 0.3 billion (same period of previous year: € 0.8 billion). By contrast, the cross-selling result remained virtually stable despite the significant reduction in new business. In view of the lower level of new business and the selective sale of commitments, segment assets declined by € 1.3 billion.

The **Real Estate** segment generated net income before taxes of € -4 million in the first six months of 2020 (same period of the previous year: € 36 million). The marked decline in net income was driven by higher loan loss provisions, the negative impact of valuation effects for customer derivatives and higher administrative expenses. What is more, the segment benefited from a positive one-off effect resulting from the reversal of provisions for legal risks in the previous year. By contrast, operating business showed positive development. Net interest and commission income from operating business increased and contributed to the rise in total income. Gross new business declined significantly to a total of € 0.3 billion (same period of the previous year: € 2.3 billion) as a result of the risk-

conscious approach to business and the lower demand for lending due to the economic environment. The upward trend in margins reflects the more selective approach and, above all, the lower funding costs.

In the **Shipping** segment, net income before taxes amounted to € 66 million (same period of the previous year: € 100 million). While operating income showed solid development in line with expectations, reversals of loan loss provisions, mainly in stages 1 and 2, also made a noticeable contribution to the result, albeit to a lesser extent than in the same period last year. Nevertheless, the segment still has solid risk coverage, even after the reversal of general loan loss provisions and the recognition of specific loan loss provisions in stage 3. At the same time, valuation effects from customer derivatives and loans categorised at fair value had a marked negative impact. In the challenging market environment, focused gross new business with national and international shipping companies with good credit ratings was on a par with the previous year's level (€ 0.5 billion).

The **Diversified Lending & Markets** segment generated net income before taxes that was in line with expectations at € -3 million (same period of the previous year: € 1 million). In the Markets area, income was generated from diversification as planned. On the other hand, negative effects resulted from the valuation of legacy portfolios. Diversified Lending also got off to a good start in operational terms, contributing € 0.2 billion to the Bank's new business with risk-conscious and selective new business.

"Other and Reconciliation" result

Administrative functions and overall bank positions are disclosed in Other under "Other and Reconciliation" as segments not subject to reporting requirements. "Reconciliation" also comprises items that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. In addition to the measurement and disclosure differences the result from restructuring and transformation is allocated in full to this division.

Net income before income taxes amounted to € 64 million as at the reporting date (same period of the previous year: € -12 million). The significant increase in net income is due primarily to a number of building sales in the context of the Bank's downsizing measures, which were reflected in an increase in other operating income. Compared with the same period of the previous year, the reporting period also includes a slight improvement in net income from restructuring and transformation, as well as negative effects resulting from valuation and hedge effects for overall bank positions.

The segment assets reported under "Other and Reconciliation" mainly comprise tax items, property, plant and equipment, other assets and reconciling items. Segment assets as at 30 June 2020 came to € 1.1 billion (same period of the previous year: € 1.2 billion).

Final assessment of Hamburg Commercial Bank's position

In the first half of 2020, the Bank's development was in line with expectations overall in a generally difficult environment. The development of its operating business was characterised by income and cost ratios that were largely in line with the plan, whereas the development of new business was characterised by deliberate restraint based on the more selective approach. Other key management indicators relating to capital and liquidity are also above the defined ambition levels on the reporting date, sometimes considerably so. The fact that the ambition level for the NPE ratio was overshot is mainly explained by a major case from the Bank's legacy portfolio which will be sold in the near future. Against this backdrop, the Bank expects the NPE ratio to have fallen by the end of the year – despite the difficult environment caused by the crisis – even if the Bank is likely to fall just short of the ambitious level of < 2%.

All in all, Hamburg Commercial Bank considers itself to have a solid position from which to tackle the current crisis. This is due, on the one hand, to the solid capital position and, on the other, to the forward-looking loan loss provisions policy on the basis of which the Bank anticipates macroeconomic risks and had already taken them into account in the balance sheet in the previous financial year by setting up corresponding loan loss provisions.

In terms of sustained profitability, the Bank considers itself to be on the right track, which is reflected not least in the increase in interest and commission income. This increasingly reflects the focus on more profitable new business, the realignment of the balance sheet and lower funding costs.

The Bank is responding to the ongoing challenge faced by the entire German banking system of achieving a cost base that is commensurate with the market environment by continuing to rigorously implement cost-saving measures as part of the transformation project. In this respect, too, the Bank is confident that the measures it had already taken in the previous year will enable it to achieve its objectives as planned, thus ensuring a sustainable and successful position for the Bank on the German banking market.

Details regarding the continuing challenges, as well as opportunities and risks of future development, can be found in the Forecast, opportunities and risks report.

Employees of Hamburg Commercial Bank

Far-reaching transformation, safeguarding the health of our employees and ensuring functioning operational processes

Human resources issues in the first half of the year were dominated by the Bank's ongoing, comprehensive transformation and by the organisational response to the challenges created by the global COVID-19 pandemic.

The Bank has set itself ambitious strategic cost targets as part of its multi-year transformation process, the achievement of which, especially against the backdrop of the current recession, is key to its successful transformation. All business units are required to implement the measures assigned to them to achieve their cost targets in a timely manner, allowing them to meet their respective cost targets. Negotiations on a renewed reconciliation of interests (based on the existing social compensation plan) with the works council members had already been concluded in the first quarter of 2020. The Bank is confident that it will be able to implement the staff reduction measures as planned, despite challenging factors in the overall environment. As at 30 June 2020, the number of staff employed by the Hamburg Commercial Bank Group had fallen to 1,215 FTEs (31 December 2019: 1,482).

In addition to the transformation process, the period under review focused on safeguarding the health of our employees and ensuring that our operations ran smoothly. The Bank took immediate and extensive action following the outbreak of the pandemic in Germany. Options for external IT access were increased significantly, which has considerably expanded the capacities available for employees wishing to work from home. The Bank introduced split-mode operations, i.e. the more or less 50/50 division of employees into those working from home and those working in the office. In addition, no trips were made between the Bank's locations in order to strictly separate the employees working in the Hamburg and Kiel offices. The flow of information to employees was ensured by a daily dialogue process.

Employees in the Group

	30.06.2020	31.12.2019
Full-time employees (FTE) in the Group¹⁾	1,215	1,482
of which: Women	428	545
of which: Men	787	937
of which: Employees in Germany	1,180	1,421
of which: Employees abroad	35	61
Total number of employees in the Group ("headcount")	1,417	1,705
Key employee figures		
Part-time employees (%)	23.3	24.8
Average age in years ²⁾	46.9	46.8
Average period of employment (years)	15.3	15.5

¹⁾ Total number of employees excluding trainees, temporary staff and interns.

²⁾ Head offices only; does not include branches or subsidiaries.

Dealing with COVID-19 at Hamburg Commercial Bank

With a "coronavirus" working group as a powerful team, HCOB had already established a framework to ensure its capacity to act back in February 2020 as part of its business continuity management system. The working group is responsible for making strategic and operational decisions in order to protect the health of employees and, at the same time, ensure that banking operations, and in particular the processes relevant to emergencies, can be maintained. To this end, the working group currently prepares new information received from the relevant external authorities and organisations on a daily basis, evaluates it and advises the Management Board on strategic decisions. The working group consists of a member of the Management Board and various representatives from the areas of Human Resources, Compliance, Facility Management, Communications and IT, as well as the company doctor.

The working group provides all employees with specific instructions and guidance in the form of regularly updated FAQs, and also provides information to managers on a regular basis. In the subject areas listed below, the "coronavirus working group" both sets the framework for the employees and makes concrete decisions: business trips/private travel, IT and technology, mobile working and working from home, hygiene

and physical distancing regulations in the Bank, as well as medical issues including what to do in the event of suspected or confirmed infections. The pioneering decisions taken on split-mode operations and the rapid and pragmatic establishment and expansion of technical solutions to support decentralised work are worthy of particular mention.

New target vision for collaboration

Hamburg Commercial Bank has adopted new principles for collaboration and management. The new target vision comprises six aspects. These are: leadership, working methods, team spirit, innovation, transparency and responsibility. With this new target vision, Hamburg Commercial Bank is adapting the principles that apply to collaboration and management to reflect the prevailing conditions in a dynamically developing bank that is making increasing use of state-of-the-art technology and relying on flatter hierarchies, as well as pragmatic and efficient dialogue. The new target vision pursues the approach of becoming faster and more agile as a Bank based on fundamental principles that the Bank puts into practice. The principles apply to all employees, irrespective of hierarchy and function. The new target vision marks the start of a process that will be continuously reviewed and refined and which serves to make the Bank better. During the introduction process in the second quarter of 2020, employees received tips and suggestions for each aspect to allow them to put the principles into practice. The principles are also put across in discussions and workshops.

The Bank continues to attach a great deal of importance to promoting young talent, hiring a total of more than 20 trainees and sandwich students for 2020. In addition, a new format for networking young talents was introduced, expanding Hamburg Commercial Bank's talent management system.

Management Declaration pursuant to Sections 289f and 315d of the German Commercial Code (HGB)

Equal opportunities, women in management positions, diversity concept and signing of the "Diversity Charter"

Hamburg Commercial Bank is continuing to actively address the issues of equal opportunity and the promotion of women with the assistance of its equal opportunities officer. In order to attach even greater weight to the issue of equal opportunities, the Bank signed the "Diversity Charter" in May 2020. This underscores its commitment to a working environment that is free of prejudice and sees the Bank undertake to create a suitable organisational culture and to review and, if necessary, adjust its human resources work in line with the charter's objectives.

The Bank set the following quotas in line with the law, which came into force in May 2015, regarding equal representation of women and men in management positions in the private sector and public services and the resulting introduction of Section 76 (4) of the German Stock Corporation Act (AktG):

At the level of BU heads reporting directly to the Management Board, Hamburg Commercial Bank was aiming to achieve a ratio of 16% women. It has reached this objective, with a current figure of 16%. The female department head ratio exceeds the target at 25% (target of 15%).

Statistics on equal opportunities as at 30 June 2020¹⁾

	Number			Ratio	
	Women	Men	Total	Women	Men
BU heads	3	16	19	16%	84%
Heads of department	13	39	52	25%	75%
Total	16	55	71	23%	77%

¹⁾ Head Office excluding employees released from their duties.

Pursuant to Section 111 (5) of the German Stock Corporation Act (AktG), Hamburg Commercial Bank is legally obliged to set target figures for the proportion of women on the Supervisory Board as well. In July 2017, the Supervisory Board defined a target of a 30% ratio of women. After the proportion of women had fallen to 11% as at 31 December 2019 following the reduction and replacement of the Supervisory Board after the Bank's privatisation, it was possible to recruit a woman as a member of the Supervisory Board on the shareholder side at the beginning of 2020. As a result, the ratio has risen again to 17%. Further details on equal opportunities can be found in the "Employees of Hamburg Commercial Bank" section of the combined management report for the 2019 financial year.

Forecast, opportunities and risks report

Forecast report including opportunities and risks

The following section should be read in conjunction with the other sections in this interim management report. The forward-looking statements contained in this forecast report are based on assumptions and conclusions based on information available to the Bank at the time this interim management report was prepared. 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).

Global economy set to contract this year

The global economy is likely to increasingly bounce back as the year progresses. In view of the coronavirus-related economic downturn in the first half of the year, the Bank nevertheless expects to see negative economic growth for 2020 as a whole. We expect global GDP to slump by 6.2% in 2020. Next year, the global economy could expand at a rate of 5.2%.

In the US, the slump in gross domestic product is likely to come in at -6.5% (2019: 2.3%). This is largely due to the development of the pandemic throughout the country. The US has reported the highest number of coronavirus infections worldwide, with no sign of the infection curve flattening to date. At the same time, tensions between the USA and China have intensified again. Although the "phase one agreement" was able to take some of the heat out of the ongoing trade dispute, the

new security law in Hong Kong and mutual recriminations in connection with the coronavirus pandemic created new potential for conflict.

In China, the slowdown in growth that has been observed over the past few years is likely to result in an abrupt crash. Whereas GDP growth still came to 6.1% in 2019, GDP could shrink by as much as 2.6% this year. Although China has made a relatively good job of bringing the coronavirus under control, the Chinese economy is likely to remain sluggish in the second half of the year. The development of the pandemic abroad is proving to be a problem due to a lack of unit sales opportunities and disruptions affecting global supply chains. The tense relationship with the US in the trade dispute also represents a further economic risk for China.

Following a deep recession in the eurozone in the first six months, we expect the economy to recover in the second half of the year. Nevertheless, the coronavirus pandemic is not yet over, despite relatively low infection rates. The risk of a second wave and newly emerging infection hotspots are hampering the economic outlook. We expect to see a recession of 8.7% in 2020 as a whole.

Germany's economy is expected to shrink by 7.2% in 2020, making the recession somewhat less severe than in the EMU region as a whole. The German government has launched major stabilisation measures and a comprehensive economic stimulus package. While the furlough programme is likely to put a damper on the unemployment rate, it is unlikely to stop it increasing.

The sustained uncertainty surrounding Brexit represents a further risk factor for both Germany and the entire eurozone. As long as no free trade agreement has been concluded and no hard Brexit has been completed, the uncertainty continues.

Monetary policy remains extremely expansionary

In view of the much gloomier economic and inflation outlook, the Fed and the ECB took massive monetary policy steps in the first half of the year. Loose monetary policy is expected to be maintained in the coming months, too, which is likely to be reflected in the further expansion of total assets, in particular. Yields on government bonds are predicted to remain low overall.

The US Federal Reserve is discussing whether the central bank will directly control the yield curve, i.e. control the yield levels of individual maturity segments. Based on forward rates, ten-year US government bond yields will rise slightly in the second half of the year. If the expected recovery of the US

economy does not materialise in the second half of the year, or is much weaker than expected, yields could fall instead.

In the coming months, the ECB will be adding further bonds to its balance sheet as part of the PEPP purchase program and, as announced, will be offering new TLTRO long-term financing. This should keep government bond yields low and ensure favourable refinancing conditions. Ten-year Bund yields will hardly rise at all in the second half of 2020 according to the forward markets.

Inflation in the eurozone, however, has reached zero and should have risen to 0.4% by the end of the year. Should the downside risks continue to mount, negative inflation is within the realms of possibility. In this case, the ECB could decide to make additional net bond purchases in the second half of the year.

According to the assessment of the futures markets, the euro should appreciate in the second half of 2020 and stand at USD 1.15 at the end of the year. If the turbulence on the global financial markets continues, however, there could be inflows into the US dollar, which would support the US currency.

Outlook for relevant markets

Following the developments in the first half of 2020, the Bank is making downward adjustments to the forecast statements it made in the combined management report for the 2019 financial year with regard to the development of the relevant markets in the wake of the coronavirus pandemic and the associated global recession. In detail, the Bank now expects to see the following development.

German real estate markets

The German real estate markets cannot escape the impact of the pandemic and the recession, and are being affected by them to varying degrees. Not least the slump in the domestic economy is resulting in lower earnings for retailers and hoteliers, meaning that these market segments have been the hardest hit. The extensive support measures taken by the German government, however, are helping to stabilise the economy and households to such an extent that rent losses, especially in the commercial segment, can be largely limited. Another stabilising factor is the fact that interest rates will remain extremely low for a longer period of time after all thanks to central bank policy.

In the **housing markets** of most major cities, the weak labour market situation is likely to lead to a much greater decline in the influx of new residents and noticeably slower growth in demand. Although there will be some delays in new construction due to the pandemic, it will continue to increase and is likely to slightly outstrip demand. This means that the reduction in the number of vacant apartments is coming to an end, although vacancies remain at a low level. Residential rents, however, are now likely to stagnate. In view of the price level achieved following the very strong growth witnessed in previ-

ous years and the increasing risk aversion among some investors, including with regard to residential real estate, slight losses in value cannot be ruled out.

Negative demand for space is expected on the **office property markets** as companies freeze recruitment and cut jobs. As the number of office completions will rise again in 2020 despite a number of project postponements due to the pandemic, vacancies are likely to increase to a considerable degree. They nevertheless remain low, meaning that office rents will only fall moderately. The increasing risk aversion among a far from insignificant number of investors is likely to have more of an impact than in the case of residential real estate, meaning that the market values of office properties are likely to suffer noticeable losses.

As far as **retail properties** are concerned, lower non-food revenue due to the store closures in the spring in response to the pandemic and the greater reluctance among consumers to spend during the recession are expected to have a much more serious impact than at the end of 2019. The local supply sector, on the other hand, will be largely able to escape this trend. This means that the development in rents and market values for retail properties is likely to vary. Whereas rents for shopping centres and inner-city locations are likely to drop considerably, hardly any losses are expected for specialist retail parks that focus on local supply, and they will continue to be in demand among investors. On the other hand, market value losses, some of which will be significant, are to be expected if investors' risk aversion to shopping centres, department stores and retail properties in less attractive locations increases to any considerable degree.

Industry, trade and services, infrastructure and renewable energy

The overall conditions for German growth will remain particularly challenging in the second half of 2020, with the consequences of the coronavirus pandemic and government support measures coming to the fore on the one hand, while geopolitical and foreign trade risks remain on the other (such as the risk of a hard Brexit at the end of 2020 or the potential for the renewed escalation of the trade conflict between the US and China). This weakness is reflected in the development of exports and investments, which are not expected to recover until later on in the year, if at all. While catch-up effects in private consumption, as well as fiscal policy impetus (such as the temporary reduction in value-added tax) should support demand and, as a result, the **retail industry**, the ongoing high levels of uncertainty surrounding the further course of the pandemic and the risk of permanent job and income losses are having a negative impact. The industrial sector is also likely to take a long time to regain momentum, meaning that a direct marked recovery is unlikely to be on the cards for the **manufacturing industry** or for **wholesalers and companies operating in the foreign trade** sector. Instead, only moderate rebound effects are expected for the time being. The **logistics**

sector, in particular, is subject to the risks of a prolonged general macro-economic downturn and a slowdown in global trade. Construction output is likely to be close to the capacity limit, meaning that no further substantial expansion is to be expected.

In the case of **transport infrastructure**, the considerable contraction in the global economy is likely to have a very negative effect on the one hand, whereas the ongoing considerable need for maintenance should provide positive stimuli for investment on the other. Institutional investors are likely to continue to be important in the low interest rate environment.

The prospects for the expansion of **renewable energies** remain mixed as far as 2020 is concerned. The aid planned as part of the expansive fiscal measures to combat the coronavirus pandemic and relief measures that have been discussed for some time now (such as the abolition of the photovoltaic subsidy cap), the sustainability elements included in the aid package at EU level and the European Commission's climate protection plan should, however, provide new growth impetus for renewable energies in Europe.

Shipping markets

The **shipping markets** are likely to recover in tandem with the economy as a whole. As the restrictions ease, demand for transport should also increase. The recovery is, however, likely to vary from region to region and market segment to market segment, and will be rather sluggish overall. Nevertheless, fleet growth is expected to be low due to the restrained orders for new ships placed in recent years. The question, however, as to whether the demand for transport will make a quick return to pre-crisis levels is uncertain. The crisis is likely to have a lasting impact on the global economy. For example, supply chains could be made more regional, at least in part, in order to reduce reliance on far-flung production locations. Another factor that is having a negative impact is the geopolitical tensions between the US and China, calling the implementation of the first few trade agreements into question. With regard to the individual sub-markets, the expectations are as follows:

- In the **container segment**, it will probably take a long time before the current excess supply of tonnage can be put to use again. Although the worst is likely to be over in the second half of the year, charter rates are expected to remain low. Even in the medium term, the pre-crisis levels are unlikely to be reached as the special effect associated with the introduction of the emissions requirements starts to wane.
- **Bulkers** are also likely to benefit from the revival of world trade, allowing them to make some gains towards the end of the year.
- The weak phase for **oil tankers**, on the other hand, could last longer. Given generous oil inventories and the fact that production is expected to be significantly reduced for the foreseeable future, the recovery in demand is unlikely to

be reflected in additional demand for transport until later on.

Challenging market environment for banks

Against the backdrop of the coronavirus crisis, which is likely to be increasingly reflected in hard macroeconomic data, but also in sustained high levels of uncertainty and potentially high volatility on the financial markets, the banking environment will remain challenging in the second half of the year. On the one hand, the coronavirus crisis is likely to spark an increasing number of insolvencies in the corporate sector, while on the other hand, the complex geopolitical situation (e.g. trade conflicts, Brexit) will remain an additional source of uncertainty.

In view of this difficult market environment, the ECB is likely to maintain its expansive monetary policy and also continue to support the banks with temporary regulatory relief, while at the same time sticking to its long-term regulatory agenda.

Banks are likely to focus on holding their own in this complex environment and, on the one hand, actively manage their loan portfolios while on the other making more drastic and earlier adjustments to their cost structures to reflect the sustained adverse market environment. On the funding side, capital market participants are likely to pay even greater attention than before to how banks' key indicators will develop. Developments in the risk position, capital and liquidity resources and sustained profitability will be of central importance.

In addition, further fundamental regulatory adjustments are already emerging. The changes summarised under Basel IV, which, amongst other things, will serve to improve the comparability of RWA profiles and the reduction of complexity concerning risk identification, are at the same time aimed at the harmonisation of supervisory practices in the EU and are designed to improve transparency vis-à-vis the markets. The focus here is on the banks' internal models for calculating risk. Within this context, we expect to see a noticeable increase in RWA throughout Europe, and, as a result, pressure on the capital ratios, at those banks that make extensive use of internal models for the purpose of determining risk.

Expected business development of Hamburg Commercial Bank

Continuation of systematic implementation of transformation programme with a focus on capital expansion, increased de-risking and strict cost discipline

With regard to the forecast for the key management indicators, their basis and the opportunities and risks associated with them, please refer to the "Forecast, opportunities and risk report" of the combined management report for the 2019 financial year in the section entitled "Forecast report including opportunities and risks". The following sections contain an updated assessment, taking into account developments in the first half of 2020.

This forecast was based on the macroeconomic assumption that the very weak economic growth witnessed in 2019 in both Germany and the eurozone would continue in 2020, although it was impossible to rule out a recession for Germany or the eurozone for 2020. The actual macroeconomic development in the first half of 2020 has been much more negative than assumed in the plans due to the COVID-19 pandemic coupled with a deep global recession. The economic impact of the coronavirus crisis is presenting all sectors, and as a result also the banking sector, with considerable challenges that were impossible to anticipate. This means that the marked consequences will inevitably have an impact on the course of business at Hamburg Commercial Bank as well. The unprecedented scale of the crisis, on the one hand, and the massive fiscal and monetary policy measures taken to combat it, on the other, make it extremely difficult to arrive at any concrete forecast of the quantitative effects for the 2020 financial year.

With a view to the Bank's intended admission to the BdB's deposit guarantee fund (ESF) at the beginning of 2022, the focus is clearly on positioning the Bank in such a way that it will definitely fulfil the conditions for admission even in a macroeconomic environment that is clearly more adverse due to the coronavirus.

Accordingly, in the first half of the year, the Bank carried out a comprehensive analysis, applying various economic and stress scenarios, of the impact these scenarios could have on the Bank and the parameters that are relevant for its admission to the ESF. The strategic guidelines were refined further on the basis of this analysis. These provide the framework for the measures to be taken in the further course of the transformation process and, at the same time, form the basis for the corporate planning update which will be carried out at the beginning of the second half of the year.

The measures are designed to ensure that the Bank meets the criteria for admission to the ESF even in conservative, adverse economic scenarios. In summary, the essential aspects include expanding the Bank's very good capital position, protecting its portfolio quality and maintaining strict cost discipline, which makes a significant contribution to sustainable profitability. The Bank is sticking to its fundamental strategic

business orientation. With regard to expected business developments in the second half of 2020, the following issues will therefore be its focal points.

The accelerated implementation of the de-risking process that was already launched in 2019 is of the utmost importance. The acceleration makes sense above all because rating migrations are expected to increase considerably in view of the economic environment. In view of a potential increase in the NPE ratio in this context, the Bank will counter this development by putting an action plan in place that will involve forging ahead with the reduction or restructuring of selective exposures. Priority will be given to existing NPE cases and exposures for which an increased risk of future defaults has been identified. In addition, the project to sell loan portfolios, which was temporarily suspended as a result of the COVID-19 pandemic, was resumed in June. Taking these packages of measures into account, the Bank expects that the NPE ratio can be significantly reduced from its level of 3.2% at the end of the first half of the year. Given the changed macroeconomic environment, however, the forecast value from the previous year will be slightly exceeded – in spite of the measures taken. On the basis of its good starting position (generous capital resources, good asset quality, high risk coverage of the loan portfolio), the Bank also intends to emerge from the current crisis situation with strong key indicators. De-risking will have a positive impact on the Bank's capital position and portfolio quality. With regard to the consolidated income statement, and based on conservative planning assumptions regarding the macroeconomic environment and the de-risking process, there will be considerable negative effects in the second half of the year, particularly with regard to loan loss provisions. Also given the comfortable risk coverage of the loan portfolio, however, the Bank expects these negative effects to be limited by reduced general loan loss provisions, which will have the opposite effect. This means that, based on a continued conservative loan loss provisions policy, the effects on the consolidated income statement should be in line with the strategic objective for the whole of 2020 overall.

The implementation of the de-risking strategy also provides for a further significant reduction in new business targets (also against the background of a noticeable decline in investment demand in the relevant markets), a more selective approach to loan extensions and a reduction in the volume of revolving credit lines, the latter particularly in the corporate clients segment. Decisions on new business and loan extensions will systematically take into account not only the risk aspect but also the contribution to earnings, which will have a positive impact on profitability. Ultimately, the Bank will be systematically getting rid of business that is either not viable from a risk perspective or that makes too small a contribution to earnings measured against the risk and RWA exposure.

The Bank will continue to concentrate on its profile as a specialist finance provider a focus on real estate, shipping and

project financing (energy and infrastructure), as well as a focused corporates business. Concentration risks in the individual asset classes will be optimised further. The current market environment offers the Bank opportunities in the project financing business, particularly as a result of the ESG (environmental, social, governance) megatrend. As part of the strategic repositioning of the balance sheet, the Diversified Lending business area, which is currently being established, will continue to be developed in a risk-conscious and opportunity-oriented manner, with the investment focus being placed on crisis-resistant sectors.

Given the recession and the resulting impact on new business, maintaining strict cost discipline and, as a result, the stringent implementation of cost-cutting measures as part of the transformation programme will be of central importance for the Bank's profitability targets. All cost measures are designed to achieve an appropriate target CIR of about 40%, to be achieved on a sustainable basis from 2022 onwards. In the second half of the year, the focus in the context of the cost targets will continue to be on the successful implementation of the HR management measures to achieve the strategic target of approx. 720 full-time employees (FTEs) at the end of 2022. Measured against the level of over 1,700 FTEs at the end of 2018, this represents a substantial reduction of almost 60% of the Bank's FTEs and highlights the scope of the transformation process.

Due to the significant reduction in the number of employees and the objective of becoming a small, dynamic bank, the Bank is aiming to move to new headquarters in Hamburg in the medium term. Within this context, it is currently planning the sale of its current head office.

On the project side of things, and in addition to de-risking activities, the focus for the second half of the year will be on business and IT transformation and on strengthening the three lines of defence (3 LoD) model. With regard to the latter project, the focus is on strengthening the control functions that are already in the front office, also to increase traction with customers. With regard to the further development of the rating module landscape, the Bank will be gradually changing its models in 2021 and 2022. The Bank has already included an increase in RWA associated with the changeover and the resulting impact on the CET1 ratio in its projections for the years concerned in full. In line with the Bank's transformation objectives, all projects will be reviewed for efficiency on an ongoing basis as part of a dynamic and agile process. For further details on these projects, please refer to the information provided in the combined management report for 2019.

On the basis of business developments in the first half of the year and given the above-mentioned measures, the Bank confirms its forecasts published in the combined management report for the 2019 financial year for its most important key management indicators, with the exception of the NPE ratio, despite the massive effects and challenges created by the coronavirus crisis, or expects to exceed them with regard to the CET1 ratio.

Overall appraisal and net income forecast

2020 will be a decisive year of transformation for Hamburg Commercial Bank. Based on the fact that the transformation process has gone according to plan to date, and given the satisfactory business development in the first half of 2020 and the Bank's focused orientation, there is no doubt from today's perspective that the Bank will meet the requirements for successful admission to the BdB's ESF at the beginning of 2022. Nevertheless, the expected far-reaching effects of the coronavirus crisis, the exact extent of which cannot yet be predicted at present, both in macroeconomic terms and specifically for Hamburg Commercial Bank, represent a challenge. The Bank will rise to this challenge by systematically forging ahead with its transformation programme, making targeted adjustments to reflect the new realities and requirements resulting from the coronavirus crisis. Against this backdrop, the focus in the second half of the year will be on accelerating the reduction in non-strategic positions, focusing on cost discipline and further expanding the equity position, which is already very good. Although the coronavirus crisis is likely to bring challenging times for the Bank, particularly in terms of loan loss provisions and the NPE ratio, it has solid crisis buffers in place thanks to its strong capital position and the high risk shielding of its loan portfolio. The Bank has also addressed further measures to ensure that even in adverse economic scenarios, the conditions for admission to the BdB's ESF are met.

As a result, following the generally satisfactory performance achieved in the first half of 2020, and despite the challenges posed by the coronavirus crisis, the Bank is confident from today's perspective that it will largely achieve the targets it has set for 2020. Compensatory measures will be taken with regard to the NPE ratio, which is expected to end the year slightly higher than forecast in the previous year due to the deterioration in the macroeconomic environment.

The Bank still expects to be able to achieve positive IFRS net income before taxes for the 2020 financial year, slightly above the level seen in 2019. This earnings forecast is subject to any unforeseeable effects resulting from the implementation of the restructuring/transformation process or unforeseeable geopolitical influences, such as a significantly longer period of recession and only slow economic recovery in the context of the coronavirus crisis.

The earnings forecast and future development of Hamburg Commercial Bank are associated with major challenges, which are described in detail in the combined management report as at 31 December 2019.

Risk report

The main risks to which the Bank is exposed include default risks, market risks, liquidity risks, operational risks, business strategy risks and reputation risks. The methods, instruments and processes used to manage these risks are explained in detail in the Risk Report contained in the Group management report for the 2019 financial year. In addition, the „Forecast, Opportunities and Risks Report“ contained in this interim report provides information on the anticipated business situation, including a current assessment of the main opportunities and risks for Hamburg Commercial Bank for the remainder of the year.

Determination of risk appetite and risk guidelines

The Strategic Risk Framework (SRF), which 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 and measures taken to achieve these objectives. The focus is on securing and allocating the scarce resources of capital and liquidity and optimising earnings in the long term, taking into account the risk appetite, business strategy objectives, market environment and both the existing and planned portfolio.

The transformation into a profitable private bank, implementation of the objectives of the new owners and meeting of the requirements of other stakeholders, in particular the banking supervisory authorities and the Deposit Guarantee Fund of the Association of German Banks, is supported by the SRF.

The SRF contains the risk strategy principles („tone from the top“) as the key guidelines for risk-conscious action and the cornerstone of a sustainable risk culture. These provide

the framework for the development of the Risk Appetite Statement (RAS) and the risk strategy. The SRF also forms the basis for the business strategy and provides a central foundation for bank planning.

The RAS is broken down into a financial and non-financial RAS on the basis of the risk inventory and is aimed at providing a condensed description of risk appetite in order to achieve the overall Bank's objectives. The financial RAS consists of a catalogue of key figures and ratios and the non-financial RAS of qualitative targets regarding the 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 RAS. It provides the framework for the sub-risk strategies (default risk for performing and non-performing exposure, respectively, market and liquidity risks, non-financial risk along with reputation, operational and business strategy risks).

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 also 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.

Key risk indicators of the Group

A functioning limit system requires that the risk appetite be derived on a rigorous basis. Based on the Bank's risk capacity, the risk appetite is defined separately for 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 avert risks that could jeopardise its continued existence and to achieve the risk strategy objectives.

Key risk indicators of the Group

	30.06.2020		Limit	Guideline
ICAAP utilisation from an economic perspective/RBC	55%	<	90%	-
Economic capital required (in EUR bn)	2.0	<	2.9	-
of which: for default risks	1.0	<	1.3	-
for market risks	0.8	<	1.0	-
for liquidity risks	0.1	<	0.3	-
NPE ratio	3.2% ²⁾	-	-	< 2.5%
CET1 ratio (same-period calculation) ¹⁾	21.7%	>	11.0%	-
T1 ratio (same-period calculation) ¹⁾	21.7%	>	12.5%	-
Overall capital ratio (same-period calculation) ¹⁾	27.0%	>	14.5%	-
MREL	24.7%	>	7.3%	-
Leverage ratio	9.9%	>	4.0%	-
Liquidity coverage ratio (LCR)	168%	>	115%	-
Net stable funding ratio (NSFR)	107%	>	102%	-
NLP2 in the stress case Month 1 (in EUR bn)	4.4	>	0.5	-

¹⁾ Same-period calculation: calculation taking fully into account the balance sheet carrying amounts as at the reporting date, all else being equal.

²⁾ Taking into account adjusting events after the reporting date.

ICAAP under the economic perspective/risk-bearing capacity

Hamburg Commercial Bank assesses capital adequacy from both a normative and an economic perspective in accordance with the ECB's Internal Capital Adequacy Assessment Process (ICAAP) guideline. 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 significantly restricted concept of capital and a broader concept of risk. The measurement of risks is based on refined 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 quantifiable under internal procedures (overall risk) to the available economic risk coverage potential.

In addition to the regulatory Tier 1 capital modified for economic purposes, the risk coverage potential includes, inter alia, a negative balance comprising unrealised gains and losses on

all assets and liabilities. Positive balances and positive effects associated with the Bank's own credit rating are not taken into account based on the ICAAP requirements.

Hamburg Commercial Bank analyses its risk-bearing capacity comprehensively on a quarterly basis as well as within the framework of its planning process.

The risk coverage potential amounted to € 3.7 billion as at 30 June 2020 (31 December 2019: € 3.8 billion). The slight reduction is in particular due to the NPE classification of a single real estate financing transaction, which is planned for winding down by the end of the year.

The overall risk takes into account default risk, market risk – which is split into interest rate risks in the banking book (IR-RBB) and other market risks –, 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. Operational risks are determined by means of a modified standard approach, which also takes account of results from the scenario analyses. The economic capital requirements for the individual risk types are aggregated into an overall economic risk. No risk-reducing correlations are utilised in the process.

Overall economic risk amounted to € 2.0 billion as at the reporting date (31 December 2019: € 2.0 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 € 1.0 billion (31 December 2019: € 1.0 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 30 June 2020 (31 December 2019: € 0.6 billion). € 0.4 billion of this amount is attributable to interest rate risks in the banking book (IRRBB).

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 danger of increased refinancing costs for the subsequent closure of open liquidity positions. The Liquidity Value at Risk (LVaR), as a measure of the economic capital required for liquidity risk, was € 0.1 billion as at 30 June 2020 (31 December 2019: € 0.1 billion). Insolvency risk, 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 insolvency risk is included in the section entitled „Liquidity risk“.

The economic capital required for operational risks amounted to € 0.2 billion as at 30 June 2020 (31 December 2019: € 0.2 billion).

Utilisation of risk coverage potential amounted to 55 % as at the reporting date (31 December 2019: 51 %). The increased utilisation of risk potential is mainly due to the higher market risk as a result of the increased market volatility caused by the Covid-19 pandemic as well as the slight decline in the risk coverage potential. The risk-bearing capacity was ensured at all times during the period under review.

The following table shows the economic risk coverage potential of the Group, the economic capital required for the individual risk types, the residual risk coverage potential buffer and the utilisation of risk coverage potential.

ICAAP/risk-bearing capacity of the Group

(€ bn)	30.06.2020	31.12.2019
Economic risk coverage potential	3.7	3.8
Economic capital required	2.0	2.0
of which: for default risks	1.0	1.0
for market risks	0.8	0.6
Interest rate risks in the banking book (IRRBB)	0.4	0.4
Other market risks	0.3	0.2
for liquidity risks	0.1	0.1
for operational risks	0.2	0.2
Risk coverage potential buffer	1.6	1.9
Utilisation of risk coverage potential (in %)	55	51

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 minimum capital ratios 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. For 2020, the following SREP requirements apply to the Bank. The total capital requirement (P2R), excluding the combined capital buffer requirements, is 10.75 %, including a Pillar 2 surcharge of 2.75 %. In addition, there is a Pillar 2 Guidance (P2G) of 1.0 %. The CRD V requirements for coverage of the Pillar 2 surcharge have been brought forward in the framework of the Covid-19 relief measures. The Pillar 2 surcharge may be covered by 56.25 % CET1 capital and 75 % Tier 1 capital (T1). Taking into account the Covid-19 relief measures, the regulatory capital requirements, including the combined capital buffer requirements, are approximately 8.6 % for CET1 capital (including P2G of around 9.6 %), around 10.6 % for T1 capital and approximately 13.3 % for the overall capital requirement.

In addition, the minimum regulatory capital ratios are tested under the normative perspective in the ICAAP over a multi-year time horizon in a base and stress scenario in the future.

Regulatory capital ratios ¹⁾

(%)	30.06.2020	31.12.2019
Overall capital ratio	27.0%	23.5%
Tier 1 capital ratio	21.7%	18.5%
CET1 capital ratio	21.7%	18.5%

¹⁾ Regulatory group according to CRR.

Regulatory capital¹⁾

(€ bn)	30.06.2020	31.12.2019
Regulatory capital	5.1	4.9
of which: Tier 1 capital	4.1	3.9
of which: CET1 capital	4.1	3.9
of which: Additional Tier 1 capital	-	-
of which: Supplementary capital	1.0	1.0

¹⁾ Regulatory group according to CRR.

Risk-weighted assets (RWA)¹⁾

(€ bn)	30.06.2020	31.12.2019
Market risks	0.3	0.2
Operational risks	1.4	1.5
Credit risks	14.4	16.5
Other RWA	2.9	2.8
Total RWA	19.0	21.0

¹⁾ Regulatory group according to CRR.

The reduction in aggregated RWA at Group level is primarily due to reduced RWA for credit risks, as a result of the decrease in assets related to the decline in new business. The RWA for necessary adjustments to the model parameters for credit risks (reported under „Other RWA“) increased slightly during the reporting period.

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 16.4 % as at 30 June 2020 (31 December 2019: 16.2 %). The corresponding Tier 1 ratio reached 16.4 % (31 December 2019: 16.2 %), the corresponding overall capital ratio amounted to 21.3 % (31 December 2019: 20.9 %). The single entity (HGB) regulatory requirements for capital ratios 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, an institution-specific MREL (Minimum Requirement for Own Funds and Eligible Liabilities) requirement for Hamburg Commercial Bank has been defined by the European Single Resolution Board (SRB), the resolution authority responsible for the Bank. As at

the reporting date, the requirement had been reduced to 6.1 % TLOF (total liabilities and own funds) at Group level (31 December 2019: 8.4 %). The requirement was adhered to at all times during the reporting period.

Risks for the capital ratio trend

Risks may arise from the regulatory environment, for instance, from interpretation decisions or audits, in addition to macro-economic 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 impact the future LGD/PD estimates in the internal models and result in increases in RWA and thereby adversely impact the capital ratios.

As part of the optimisation and restructuring of the capital structure at the end of 2018, the Bank cancelled silent participations in the Bank with effect from 31 December 2020. As a result, the outstanding hybrid capital instruments will either be settled in 2021 at the HGB carrying amount for the 2020 financial year or had been repaid by the Bank prior to the redemption date in 2021 as part of voluntary repurchase offers. Individual and groups of investors in hybrid instruments had taken legal action against the Bank. During the reporting period, a settlement was reached with all remaining silent partners, which led to the withdrawal of the lawsuits by these silent partners.

Hamburg Commercial Bank extensively uses models approved by the supervisory authorities to map counterparty risk (Internal Ratings Based Approach, IRBA). The Bank is planning to simplify its model landscape in 2021 and 2022 in two steps from the Advanced IRB approach (A-IRB) to the Foundation IRB approach (F-IRB) and thereby in particular waive internal loss given default estimates for regulatory capital purposes. The share of the total portfolio subject to regulatory capital backing under the credit risk standard approach is slightly higher in this context but continues to apply to only a small portion of the assets. The Bank has taken this simplification of its rating model landscape into account in the projections of risk-weighted assets and capital ratios for the years affected.

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“. The original introduction date of January 2022 has been postponed by one year due to the Covid-19 crisis, and the new requirements must thus be successively implemented from 2023 until 2028. Under Basel IV, there are plans to significantly restrict the advantages of internal models. Through the simplification of its

model landscape, the Bank does not currently anticipate any further significant adverse impacts.

The envisaged transition to the voluntary guarantee scheme of the Federal Association of German Banks (Bundesverband deutscher Banken, BdB) is associated with requirements, including requirements regarding the risk-bearing capacity/capitalisation. Should inclusion in the form of full membership of the BdB guarantee scheme not succeed as planned, this could have significant adverse impact on the Bank's business model as described in the section on liquidity risk.

Scenario calculations

In addition to the above-described economic perspective, 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). Adherence to the stipulated capital requirements 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 scenario.

The normative approach is not limited to the Pillar 1 risks covered by the regulatory capital requirements but also takes account of reciprocal relationships that have an economic effect on the key regulatory ratios.

In addition to stress tests specific to risk types, the Bank also regularly conduct 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 Management Committee approves macroeconomic and segment-specific forecasts for the carrying out of dynamic stress tests. These expected and stress forecasts are incorporated in different simulation scenarios for the normative perspective and presented quarterly to the Asset and Liability Committee (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. The impact of macroeconomic scenarios, such as a severe economic downturn or asset-specific crises including adverse impacts resulting from regulatory developments, is calculated regularly for the Pillar 1 and 2 capital ratios and leverage ratio.

Due to the current economic crisis triggered by Covid-19, a significant deterioration in the risk parameters is expected. The Bank therefore continuously considers different Covid-19 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 parameters required internally by the Bank and, as a result, with the regulatory requirements (Pillar 2 requirement) at the level of the Hamburg Commercial Bank Group. If capital buffer requirements (Pillar 2 requirement) 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. 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.

The results are incorporated in Hamburg Commercial Bank's internal reporting system and analysed on a regular basis by the Management Board in terms of an action-oriented management dialogue. Besides the review of the capital adequacy for the buffer maintained for risk coverage potential, regulatory capital and liquidity maintained under the economic perspective as at the reporting date and in the different stress scenarios, this analysis is used to discuss the need for 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 pre-defined options. 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 options used during the recovery plan action are closely coordinated with each other, and in particular serve the purpose of ensuring 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. Scenarios that could endanger Hamburg Commercial Bank's ability to survive are identified for these. 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

In line with the strategic focus of Hamburg Commercial Bank – as one of the leading bank partners of larger medium-sized enterprises – with lending as its anchor product, default risk accounts for the largest proportion of the Bank's overall risk potential.

The global spread of the coronavirus has a significant impact on economic activities.

Immediately at the start of the Covid-19 pandemic, Hamburg Commercial Bank established a working group, which closely monitors the effects of the pandemic on the credit portfolio as well as legal and banking supervisory changes on an ongoing basis. In addition, the Bank has analysed its loan portfolio at a sub-portfolio as well as case-by-case level, regarding the impact of the pandemic. Based on these results, customers for whom the Bank determined an increased risk due to the pandemic were actively addressed. Where necessary, appropriate measures were initiated to manage the credit risk (e.g. KfW programme).

The following table shows the exposures where special measures have been taken due to the Covid-19 crisis, according to the new financial reporting (FinRep) requirements. The information is reported on the basis of the exposure at default (EaD) and shows the whole EaD of customers where at least one of the above-mentioned measures has been utilised. This means that the EaD amount shown also includes the exposure of the customers concerned that is not covered by these measures. The EaD corresponds to the total volume of loan receivables, securities, equity holdings, derivative financial instruments (positive market values after netting) and off-balance-sheet transactions (taking the credit conversion factor

into account). Risk-mitigating effects (such as recognition of collateral) are not included in EaD.

Special measures in connection with Covid-19 customers affected by exposure at default

(€ m)	30.06.2020
Forbearance measures in connection with Covid-19	258
Partially state-guaranteed (new) loans (e.g. KfW programme)	102
vdp repayment moratorium for commercial real estate financing	235
Consumer loan moratorium ¹⁾	1

¹⁾ Deferrals of consumer loans in accordance with Art. 240 Section 3 Par. 1 EGBGB.

The EaD of the total exposure amounted to € 42,741 million as at 30 June 2020. 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 69 % of the total exposure at the Group level (31 December 2019: 71 %).

The ratio of non-performing exposure increased compared to the end of the previous year. This is reflected accordingly in the NPE ratio which, after taking into account adjusting events after the reporting date, has increased to 3.2 %, and thus lies above the internal target of 2.5 %. It is due in particular to the NPE classification of a single real estate financing transaction in the United Kingdom, which is planned for winding down by the end of the year.

The risk structure of the loan portfolio has deteriorated moderately due to the effects of the Covid-19 pandemic.

Default risk structure by rating category^{1) 2)}

(€ m)	30.06.2020		
	Business areas	Other and reconciliation	Total
1 (AAAA) to 1 (AA+)	9,355	-	9,355
1 (AA) to 1 (A-)	8,245	-	8,245
2 to 5	11,961	-	11,961
6 to 9	9,723	85	9,807
10 to 12	976	-	976
13 to 15	883	-	883
16 to 18 (default categories)	1,325	-	1,325
Other ³⁾	98	92	190
Total	42,564	177	42,741

¹⁾ Default risk structure regardless of adjusting events after the reporting date. The shown NPE ratio takes into account € 52 million additional defaults from rating categories 10 to 12 and 13 to 15 of adjusting events.

²⁾ Mean default probabilities (in %): 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: 10.00–45.00; 16 to 18: 100.00.

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 our consolidated equity holdings.

Default risk structure by rating category¹⁾

(€ m)	31.12.2019		
	Business areas	Other and reconciliation	Total
1 (AAAA) to 1 (AA+)	10,643	1,967	12,610
1 (AA) to 1 (A-)	7,315	1,793	9,108
2 to 5	12,229	338	12,567
6 to 9	11,033	2	11,035
10 to 12	1,472	-	1,472
13 to 15	689	4	693
16 to 18 (default categories)	735	-	735
Other ²⁾	96	239	335
Total	44,211	4,343	48,554

¹⁾ Mean default probabilities (in %): 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⁾ 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 our consolidated equity holdings.

EaD broken down by sectors important for Hamburg Commercial Bank is presented in the following table:

Default risk structure by sector

(€ m)	30.06.2020		
	Business areas	Other and reconciliation	Total
Industry	6,594	-	6,594
Shipping	4,675	-	4,675
Trade and transportation	2,168	-	2,168
Credit institutions	4,474	-	4,474
Other financial institutions	1,670	85	1,755
Land and buildings	9,526	-	9,526
Other services	4,663	92	4,755
Public sector	8,502	-	8,502
Private households	294	-	294
Other	-	-	-
Total	42,564	177	42,741

Default risk structure by sector

(€ m)	31.12.2019		
	Business areas	Other and reconciliation	Total
Industry	7,140	-	7,140
Shipping	4,921	-	4,921
Trade and transportation	2,473	-	2,473
Credit institutions	2,118	2,604	4,722
Other financial institutions	1,834	17	1,851
Land and buildings	10,713	1	10,714
Other services	4,502	369	4,871
Public sector	10,182	1,343	11,525
Private households	327	9	336
Other	-	-	-
Total	44,211	4,343	48,554

The following table shows EaD broken down by residual maturities:

Default risk structure by residual maturities

(€ m)	30.06.2020		
	Business areas	Other and reconciliation	Total
Up to 3 months	5,520	1	5,521
> 3 months to 6 months	2,146	-	2,146
> 6 months to 1 year	4,330	-	4,330
> 1 year to 5 years	17,681	-	17,681
> 5 years to 10 years	8,430	85	8,515
> 10 years	4,456	92	4,548
Other	-	-	-
Total	42,564	177	42,741

Default risk structure by residual maturities

(€ m)	31.12.2019		
	Business areas	Other and reconciliation	Total
Up to 3 months	8,861	404	9,265
> 3 months to 6 months	2,260	176	2,436
> 6 months to 1 year	2,728	485	3,213
> 1 year to 5 years	17,216	2,222	19,438
> 5 years to 10 years	8,647	765	9,412
> 10 years	4,498	291	4,789
Other	-	-	-
Total	44,211	4,343	48,554

The following table provides an overview of the foreign exposure by region, which reached € 17,445 million as at 30 June 2020 (31 December 2019: € 18,073 million):

Foreign exposure by region¹⁾

(€ m)	30.06.2020		
	Business areas	Other and reconciliation	Total
Eurozone	9,425	99	9,524
Western Europe	3,418	-	3,418
Eastern Europe	171	-	171
Africa	472	-	472
North America	896	-	896
Latin America	701	-	701
Middle East	94	-	94
Asia-Pacific region	2,020	-	2,020
International organisations	151	-	151
International stock exchanges	-	-	-
Total	17,346	99	17,445

¹⁾ The values as at 30 June 2020, like the values as at 31 December 2019, are based on the revised allocation according to the legal country of domicile, without any further collateral allocations.

Foreign exposure by region¹⁾

(€ m)	31.12.2019		
	Business areas	Other and reconciliation	Total
Eurozone	9,053	850	9,903
Western Europe	2,567	876	3,443
Eastern Europe	206	-	206
Africa	466	-	466
North America	594	79	673
Latin America	844	-	844
Middle East	74	-	74
Asia-Pacific region	2,123	-	2,123
International organisations	16	282	298
International stock exchanges	42	-	42
Total	15,985	2,088	18,073

¹⁾ The values as at 31 December 2019 are based on the revised allocation according to the legal country of domicile, without any further collateral allocations.

Exposure at default in selected European countries¹⁾

(€ m)	Public sector		Banks		Corporates/Other		Total	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Greece	-	-	-	-	-	1	-	1
Italy	15	4	4	-	181	164	200	168
Portugal	70	63	-	-	154	94	224	157
Russia	-	-	-	-	-	-	-	-
Spain	10	50	49	30	244	292	303	372
Turkey	-	-	-	-	101	135	102	135
Total	95	117	53	30	680	686	829	833

¹⁾ The values as at 30 June 2020 and 31 December 2019 are based on the revised allocation according to the legal country of domicile, without any further collateral allocations.

The allocation of business to the individual regions and for the presentation of selected European countries is based on the gross exposure according to the legal country of domicile. The information is reported without any further collateral allocations.

Due to their unfavourable fiscal and economic data, a number of European countries have long been subject to increased monitoring and, in the course of the Covid-19 pandemic, also predominantly to stricter limits. These include in particular Greece, Italy, Portugal and Spain.

As a result of economic developments and the EU sanctions, the exposure to Russia is subject to significant restrictions. In the current economic and geopolitical environment, new business with Turkey remains suspended, and the existing exposure is subject to increased reduction efforts. The foregoing table shows the EaD of the exposures to the European countries shown.

The direct country exposure to the countries shown above as at 30 June 2020 was maintained approximately at the level of 31 December 2019. The commitments in the Corporates/Other sector for Turkey relate primarily to corporate/ship financing arrangements with Hermes coverage, which are free from country risk (transfer risk) due to the existing collateral.

In addition, in the course of the Covid-19 pandemic and the distortions on the raw materials markets as a result of the collapse in global demand, particularly for crude oil, the Bank has sharpened monitoring of and limits on oil-producing countries in its portfolio.

In addition, as the outcome of the negotiations on the long-term relationship between the UK and the EU following the end of the transition phase is still open, the exposure in the UK (€ 874 million) will be monitored more closely.

Loan loss provisions

The change in loan loss provisions amounted to € -94 million as at the reporting date (same period of the previous year: € +25 million). There was a net addition to loan loss provisions at stage 3 of € -64 million in the period under review, which is distributed among the Bank's operating segments with the exception of the Diversified Lending & Markets segment. There was also a net addition to loan loss provision at stages 1 and 2, which was relatively moderate at € -32 million. The fact that the Bank applied more adverse economic scenarios than at the end of the previous year when measuring model overlays in the context of the coronavirus pandemic has had a negative impact. Within this context, the Bank continued to pursue its conservative loan loss provisions policy by applying appropriate assumptions also as at 30 June 2020.

The following table provides an overview broken down by segment. Further information on the change in loan loss provisions in the individual divisions is set out in the „Segment“ section.

Changes in loan loss provisions in the lending business

(€ m)	January-June 2020				Total
	Stage 3 loan loss provisions	Stages 1 and 2 loan loss provisions	Loan loss provisions recog- nised on financial invest- ments	Currency translation income on loan loss provisions	
Corporates & Structured Finance	- 23	- 90	-	-	- 113
Shipping	- 10	79	-	-3	66
Real Estate	- 33	- 21	-	5	- 49
Diversified Lending & Markets	-	- 1	1	-	-
Other & reconciliation	2	1	-	- 1	2
Group	- 64	- 32	1	1	- 94

Changes in loan loss provisions in the lending business

(€ m)	January-June 2019				Total
	Stage 3 loan loss provisions	Stages 1 and 2 loan loss provisions	Loan loss provisions recog- nised on financial invest- ments	Currency translation income on loan loss provisions	
Corporates & Structured Finance	- 16	- 7	-	-	- 23
Shipping	81	7	-	-	88
Real Estate	- 1	- 41	-	-	- 42
Diversified Lending & Markets	-	1	1	-	2
Other & reconciliation	2	- 2	-	-	-
Group	66	- 42	1	-	25

Total loan loss provisions

(€ m)	30.06.2020	31.12.2019
Loans and advances to customers AC	25,972	28,410
Loans and advances to banks AC	1,989	2,466
of which: volume of impaired loans (gross carrying amount Stage 3)	981	649
Total loan loss provisions (Stage 3) for loans and advances to customers	- 491	- 343
Total loan loss provisions (Stages 1 and 2) for loans and advances to customers	- 286	- 365
Total loan loss provisions for balance sheet items	- 777	- 708
Provisions for Stage 3 in the lending business	- 30	- 46
Provisions for Stages 1 and 2 in the lending business	- 17	- 7
Total loan loss provisions for off-balance sheet items	- 47	- 53
Total loan loss provisions	- 824	- 761

The conservative loan loss provisions policy and the high level of risk coverage of the NPE portfolio are reflected in the Bank's solid loan loss provisions. As at 30 June 2020, the Group's loan loss provisions calculated in accordance with IFRS 9 increased compared to the end of the previous year to € -824 million.

The total loan loss provisions comprise stage 3 loan loss provisions of € -521 million (31 December 2019: € -390 million) as well as stage 1 and 2 loan loss provisions of € -303 million (31 December 2019: € -371 million).

The volume of impaired loans increased during the reporting period to € 981 million (31 December 2019: € 649 million). This increase is due, in particular, to the assignment at stage 3 of a single real estate financing transaction, which is planned for winding down by the end of the year.

Details regarding the total loan loss provisions are presented in Notes 11 and 20 in the notes to the Group financial statements.

Market risk

The system for measuring and managing market risks at Hamburg Commercial Bank is based on the economic daily profit and loss and on a value-at-risk approach. For the purposes of the same-day measurement and management of market risks, the Bank applies a VaR approach with a 99.0 % confidence level, a holding period of one day and a historical observation period of 250 days. To measure the contribution to risk-bearing capacity, the economic capital required for market risk positions is determined on a monthly basis, with a confidence level of 99.9 % and a holding period of one year.

As at 30 June 2020, the daily market risk of the trading book positions was € 2.1 million and that of the banking book positions was € 27.1 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 € 27.2 million. The daily interest rate risk in the banking book (IRRBB) amounted to € 21.0 million. In addition to the risk determined by the system, the Value at Risk of Hamburg Commercial Bank includes VaR add-ons of € 0.6 million for residual risks for corporate bonds, Pfandbriefe and government bonds as well as € 2.7 million for backtesting (both included only at the Hamburg Commercial Bank Group level).

Developments with respect to the daily VaR for individual market risk types during the first six months of 2020 are presented in the table set out below.

Overall, VaR increased during the reporting period compared to the previous year-end. The main drivers were the high market volatilities in the context of the Covid-19 crisis.

To cover the long-term pension liabilities by a diversified asset portfolio, the Bank has implemented a Contractual Trust Agreement (CTA). By establishing the CTA portfolio in the second quarter 2020, a shift was achieved between the individual risk types. The increase in the credit spread as well as the equity risk are in contrast to the significant reduction in the interest rate risk position.

As part of the VaR approach, strict limits are set on the economic capital required for market risk positions and the daily VaR. Limits are also imposed on the potential net present value losses that would result from a 200 bp interest rate shock (Basel interest rate shock) in relation to the Bank's regulatory capital. The cumulative economic daily profit and loss has a stop loss limit. In addition, risk guidelines are set for the overall VaR in the trading book, the interest rate VaR in the banking book and the credit spread VaR in the banking book.

The present value IRRBB basis used in the measurement of market risk is expanded by an earnings-oriented perspective, under which the change in average interest income is simulated in different scenarios up to a 5-year time horizon.

Daily Value at Risk of the Group

(€ m)	Interest rate risk ¹⁾		Credit spread risk ¹⁾		Foreign exchange risk		Equity risk		Total ²⁾	
	Jan.-June 2020	Jan.-Dec. 2019	Jan.-June 2020	Jan.-Dec. 2019	Jan.-June 2020	Jan.-Dec. 2019	Jan.-June 2020	Jan.-Dec. 2019	Jan.-June 2020	Jan.-Dec. 2019
Average	24.3	14.8	9.7	6.8	1.3	1.8	0.8	0.8	25.8	14.6
Maximum	31.6	27.6	14.1	8.6	2.0	6.2	3.1	1.0	30.3	22.7
Minimum	20.3	6.5	6.9	5.6	0.6	0.4	0.5	0.6	19.7	11.0
Period end amount	21.0	22.0	11.8	8.0	1.3	0.9	3.1	0.6	27.2	19.3

¹⁾ Interest rate risk excluding credit spread risk.

²⁾ Due to correlations, the VaR does not result from adding up individual values.

Liquidity risk

Hamburg Commercial Bank assesses liquidity adequacy from both a normative and an economic perspective in accordance with the ECB’s Internal Liquidity Adequacy Assessment Process (ILAAP) guideline. The normative perspective is an assessment of the ability to fulfil all regulatory, supervisory and, in part, internal liquidity requirements and guidelines today and in the future and covers a multi-year assessment period. The objective is the forward-looking assessment of liquidity adequacy. In addition to a baseline scenario, adverse scenarios are also to be 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 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 ensure liquidity adequacy through stress test programmes. Using the economic perspective, only internal parameters (Pillar 2 ratios) are considered from today’s perspective. Any structural events occurring at the Bank or in the environment are taken into account.

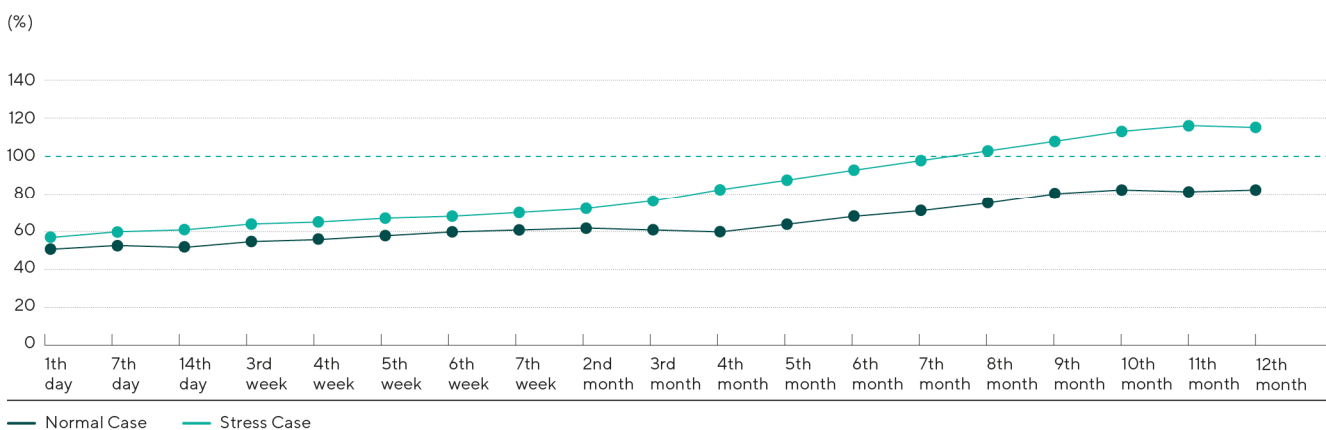
A distinction is made between insolvency risk and liquidity maturity transformation risk in the internal risk management process.

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.

Insolvency risk 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 (LMP), which is determined by the assets (maturity/currency structure) and liabilities (funding structure by maturity/currency/investor).

The gaps, i.e. the balances arising from incoming and outgoing payments, are shown on a cumulative basis from day one to twelve months in order to map future liquidity requirements. They are compared to the respective liquidity potential, which is applied to close the cumulative gaps of the individual maturity bands and consequently represents the respective limit for insolvency risk. Utilisation of this limit is monitored daily. The following chart shows the relative utilisation levels of the liquidity potential for specific cumulative liquidity gaps in the normal case and stress case liquidity maturity profile as at 30 June 2020.

Utilisation of Liquidity Potential as at 30 June 2020



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 normal and stress cases for insolvency risk.

The maximum utilisation is 82 % in the twelfth month in the normal case assessment, which is based on the assumption of business development in an ordinary 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 liquidity potential was not exceeded for the minimum survival period of one month defined in MaRisk. Instead, the minimum survival period as at 30 June 2020 extends beyond the 7-month period. Compared to the 2019 year-end, utilisation levels have increased slightly in the normal case and stress case in all maturity bands. The changes are due, in particular, to deliberate moves to reduce excess liquidity. 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 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. Their basis of calculation is laid down in the CRR and the CRR Delegated Regulation (EU) 2015/61. The minimum threshold of 100 % pursuant to CRR was maintained at all times in the reporting period. As at 30 June 2020, it amounted to 168 % (31 December 2019: 165 %). The net stable funding ratio (NSFR), which must be adhered to from 2021 at the earliest, is calculated as the ratio of available stable funding resources across all maturities to the stable funding required and must also be at least 100 % after full implementation. As at 30 June 2020, the NSFR amounted to 107 % under the QIS (31 December 2019: 114 %).

Hamburg Commercial Bank calculates the additional liquidity monitoring metrics (AMM), including the preparation of the stipulated liquidity maturity profile. By means of the AMM, the LCP (liquidity capacity period) is determined for the supervisory authorities. 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. At this date the Bank's liquidity reserves are no longer sufficient from a purely contractual perspective to meet further payment obligations. This figure is determined by the Bank on a daily basis and was six months as at 30 June 2020.

The regulatory requirements for the liquidity ratios were met at all times during the reporting period.

Hamburg Commercial Bank has adjusted its funding strategy to the situation on the financial markets in the first half of 2020, in the context of the coronavirus pandemic. To optimise the funding costs, long-term open market transactions (TLTRO) on favourable terms offered by the European Central Bank were also used. Besides the issuing activities, deposits from corporates in particular contributed to the refinancing of the business. Retail deposits were wound down completely during the first half of the year. The Bank continuously monitors opportunities for future retail funding. The diversification of the funding structure, as well as the reduction of concentrations within deposits, continue to pose significant challenges for future refinancing, even if access to the capital markets improved after privatisation. Execution of funding measures in the market can also be made more difficult by potential tensions in the financial markets, in the context of the unknown duration of the coronavirus pandemic. A less supportive monetary policy adopted by the central banks could also limit the refinancing options and potentially increase funding costs. Due to the current expansionary monetary policy of the ECB in the context of the persistent coronavirus pandemic, the Bank does not anticipate a more restrictive ECB policy in the medium term.

Should inclusion in the form of full membership of the guarantee scheme of the Federal Association of German Banks (BdB) not succeed as planned, this would likely lead to a considerable outflow of deposits, triggering a significant increase in funding costs. As a result of the different manner in which the deposit guarantee funds work, i.e. institutional protection under the protection system of the German Savings Banks Finance Group versus protection of deposits in the guarantee scheme of the Federal Association of German Banks, there is also a risk of liquidity outflows associated with the change in the deposit guarantee fund. Furthermore, non-inclusion in the private guarantee scheme would put sustained pressure on the rating position.

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 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 in the economic survival period.

Part of the assets denominated in foreign currency are refinanced via derivatives (e.g. via EUR/USD basis swaps). With significantly reduced USD funding requirements, the exchange rate now has only a limited influence on the liquidity position.

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.

Other material risks

In addition to operational risk, business strategy risk and reputation risk are included in the non-financial risks (NFR) of Hamburg Commercial Bank. In order to better address the diversity of these risks and the regulatory requirements, the Bank has adopted a corresponding Non-Financial Risk Framework, which provides an overview of the roles and responsibilities within a Three Lines of Defence model, and the procedures, methods and implementation of the Bank's NFR management.

The Bank's realignment is associated with a comprehensive transformation process. This includes measures such as implementing the business IT transformation process and staff reduction measures.

The IT risks of this business IT transformation process will be reduced by a step-by-step approach with four parallel phases of the old and new environment, as well as by sustainable partnerships, effective management and independent quality assurance.

Against the backdrop of the current staff reduction, the Human Resources business unit is focusing increasingly on measures to reduce personnel risk and actively supporting the planned reduction in staff. A large number of personnel 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.

Along with the transformation, the first half of 2020 was characterised by the Covid-19 crisis and the resulting uncertainties. In the reporting period, no losses were incurred due to the coronavirus pandemic. Ensuring and maintaining business operations is controlled by Business Continuity Management. Further information is provided in the section „Business development - significant developments and events in the first half of 2020“ in the interim management report.

Hamburg Commercial Bank recognised provisions for litigation risks and costs of € 135 million as at the reporting date (31 December 2019: € 144 million) within the legal risk category, which is a component of operational risk. In addition, there are also contingent liabilities arising from legal disputes. A major portion of the provisions for litigation risks relates to the legal proceedings mentioned in the 2019 Annual Report. In the reporting period, the following developments occurred in this regard.

An agreement that is positive from the Bank's perspective has been reached with all the individual and groups of investors in hybrid financial instruments who had filed lawsuits against the Bank in court, calling not only for the termination

to be declared ineffective but also for the value of the instruments to be written up to the nominal value or for damages to be paid to compensate for lost interest payments, which has led to these claims being withdrawn.

As part of the legal disputes between Hamburg Commercial Bank AG and a Turkish shipping group, in one of the current cases a Turkish court has now issued an oral judgement in the first instance. The full written judgement is expected soon and will then be checked by HCOB and its legal advisers. HCOB and its legal advisers believe that the verdict is unlawful and will therefore pursue all legal avenues to contest it.

Further information on non-financial risk can be found in the Group management report for the 2019 financial year.

Hamburg 18. August 2020

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Interim group financial statements

- 46 Group statement of income**
- 47 Group statement of comprehensive income**
- 48 Group statement of financial position**
- 50 Group statement of changes in equity**
- 52 Group cash flow statement**

Group explanatory notes

- 53 Group explanatory notes**
- 53 General information
- 57 Notes on the group statement of income
- 64 Notes on the group statement of financial position
- 74 Segment reporting
- 77 Disclosures on financial instruments
- 108 Other disclosures

- 111 Review Report**

- 112 Responsibility statement by the management board**

Group statement of income

for the period from 1 January to 30 June 2020

(€ m)	Note	January-June 2020	January-June 2019	Change in %
Interest income from financial assets categorised as AC and FVOCI		369	435 ¹⁾	-15
Interest income from other financial instruments		396	719	-45
Negative interest on investments categorised as AC and FVOCI		-10	-14	-29
Negative interest on other cash investments and derivatives		-42	-93	-55
Interest expenses		-484	-900	-46
Positive interest on borrowings and derivatives		48	93	-48
Net income/loss from hybrid financial instruments		74	-10	> 100
Net interest income	(5)	351	230	53
Net commission income	(6)	27	28	-4
Result from hedging	(7)	2	-4	> 100
Result from financial instruments categorised as FVPL	(8)	-149	-37	> -100
Net income from financial investments	(9)	5	4 ¹⁾	25
Result from the disposal of financial assets classified as AC	(10)	44	5	> 100
Total income		280	226	24
Loan loss provisions	(11)	-94	25	> 100
Total income after loan loss provisions		186	251	-26
Administrative expenses	(12)	-181	-190	-5
Other operating result	(13)	100	80	25
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(14)	-29	-37	-22
Net income before restructuring and transformation		76	104	-27
Net income from restructuring and transformation	(15)	-5	-8	38
Net income before taxes		71	96	-26
Income tax expense		-67	-91	-26
Group net result		4	5	-20
Group net result attributable to Hamburg Commercial Bank shareholders		4	5	-20

¹⁾The prior-year figure was adjusted. Please refer to Note 3 for more details.

Earnings per share

(€)	Note	January-June 2020	January-June 2019
Undiluted	(16)	0.01	0.02
Diluted	(16)	0.01	0.02
Number of shares (millions)		302	302

Group statement of comprehensive income

for the period from 1 January to 30 June 2020

Reconciliation with total comprehensive income/loss

(€ m)	January-June 2020	January-June 2019
Group net result	4	5
Income and expenses that have been reclassified to the statement of income or may be reclassified at a later date		
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement (before taxes)		
Unrealised gains and losses (before taxes)	-29	17
Gains and losses (before taxes) reclassified to the statement of income	-6	-5
Income taxes recognised	12	1
	-23	13
Differences resulting from currency translation	2	4
	2	4
Subtotal	-21	17
Income and expenses that will not be reclassified to the statement of income at a later date		
Credit risk-induced changes in the value of liabilities designated at fair value (before taxes)	8	-7
Income taxes recognised	-3	2
	5	-5
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	29	-131
Income taxes recognised	-10	42
	19	-89
Subtotal	24	-94
Other comprehensive income for the period	3	-77
Total comprehensive income	7	-72
Total comprehensive income attributable to Hamburg Commercial Bank shareholders	7	-72

Group statement of financial position

as at 30 June 2020

Assets

(€ m)	Note	30.06.2020	31.12.2019	Change in %
Cash reserve	(17)	2,206	4,850	-55
Loans and advances to banks	(18)	2,033	2,521	-19
Loans and advances to customers	(19)	28,279	30,708	-8
Loan loss provisions	(20)	-777	-708	10
Positive fair values of hedging derivatives	(21)	128	134	-4
Positive adjustment item from portfolio fair value hedges		145	147	-1
Trading assets	(22)	2,477	2,663	-7
Financial investments	(23)	6,113	6,100	0
Intangible assets	(24)	8	6	33
Property, plant and equipment	(25)	15	98	-85
Investment property	(25)	1	41	-98
Non-current assets held for sale and disposal groups	(26)	465	355	31
Current tax assets		21	82	-74
Deferred tax assets	(27)	591	658	-10
Other assets	(28)	52	57	-9
Total assets		41,757	47,712	-12

Equity and liabilities

(€ m)	Note	30.06.2020	31.12.2019	Change in %
Liabilities to banks	(29)	7,938	5,066	57
Liabilities to customers	(30)	17,576	23,966	-27
Securitised liabilities	(31)	6,624	7,845	-16
Negative fair value of hedging derivatives		534	609	-12
Negative adjustment item from portfolio fair value hedges		347	394	-12
Trading liabilities	(32)	1,656	1,946	-15
Provisions	(33)	1,323	1,699	-22
Current tax liabilities		6	11	-45
Other liabilities	(34)	321	477	-33
Subordinated capital	(35)	1,070	1,349	-21
Equity	(36)	4,362	4,350	-
Share capital		3,018	3,018	-
Capital reserve		79	75	5
Retained earnings		1,048	1,016	3
Revaluation reserve		178	196	-9
Currency conversion reserve		35	33	6
Group net result		4	12	-67
Total equity and liabilities		41,757	47,712	-12

Group statement of changes in equity

(€ m)	Note	Share capital	Capital reserve
As at 1 January 2019		3,018	75
Group net result		-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-
Credit risk-induced changes in the value of liabilities designated at fair value		-	-
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement		-	-
Exchange rate changes		-	-
thereof resulting from currency translation		-	-
Other comprehensive income		-	-
Comprehensive income as at 30 June 2019		-	-
Compensation for the Group net loss for the previous year		-	-
As at 30 June 2019		3,018	75
As at 1 January 2020		3,018	75
Adjusted amount as at 1 January 2020		3,018	75
Group net result		-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-
Credit risk-induced changes in the value of liabilities designated at fair value		-	-
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		-	-
Exchange rate changes		-	-
thereof resulting from currency translation		-	-
Other comprehensive income		-	-
Comprehensive income as at 30 June 2020		-	-
Additions from the Group net result for the previous year		-	-
Transactions with shareholders		-	4
Share-based payment ¹⁾		-	4
As at 30 June 2020	(35)	3,018	79

¹⁾ The increase in the capital reserve is related to the share-based remuneration of the Management Board (share bonus). Pursuant to IFRS 2, the consideration for the resulting personnel expenses is recognised in equity (here: capital reserve). As at 30 June 2020, the capital reserve includes € 2 million in expenses from share-based payments for the 2019 financial year, which were, for reasons of simplification, recognised under provisions as at 31 December 2019, and the expected expenses for the 2020 financial year (pro-rata) in the amount of € 2 million.

	Retained earnings	Currency conversion reserve	Revaluation reserve	Group net result	Total before non-controlling interests	Non-controlling interests	Total
	1,012	22	238	70	4,435	2	4,437
	-	-	-	5	5	-	5
	-89	-	-	-	-89	-	-89
	-	-	-5	-	-5	-	-5
	-	-	13	-	13	-	13
	-	-	-	-	-	-	-
	-	4	-	-	4	-	4
	-89	4	8	-	-77	-	-77
	-89	4	8	5	-72	-	-72
	70	-	-	-70	-	-	-
	993	26	246	5	4,363	2	4,365
	1,016	33	196	12	4,350	-	4,350
	1,017	33	196	12	4,351	-	4,351
	-	-	-	4	4	-	4
	19	-	-	-	19	-	19
	-	-	5	-	5	-	5
	-	-	-23	-	-23	-	-23
	-	2	-	-	2	-	2
	19	2	-18	-	3	-	3
	19	2	-18	4	7	-	7
	12	-	-	-12	-	-	-
	-	-	-	-	4	-	4
	-	-	-	-	4	-	4
	1,048	35	178	4	4,362	-	4,362

Group cash flow statement

Condensed cash flow statement

(€ m)	January–June 2020	January–June 2019
Cash and cash equivalents as at 1 January	4,850	5,362
Cash flow from operating activities	-2,554	-5,309
Cash flow from investing activities	160	857
Cash flow from financing activities	-250	-40
Cash and cash equivalents as at 30 June	2,206	870

Cash and cash equivalents are equivalent to the Cash reserve item in the statement of financial position and comprise cash on hand, balances at central banks, treasury bills, discounted treasury notes and similar debt instruments issued by public-sector bodies and bills of exchange.

The Cash flow from operating activities is calculated using the indirect method, whereby the Group net income/loss for the year is adjusted for non-cash expenses (increased) and non-cash income (reduced), and cash changes in assets and liabilities used in operating activities are taken into account.

In the reporting period, significant new issues with a volume of € 1,461 million were made (previous year: € 1,802 million). The volume of repayments/repurchases in this period amounted to € 2,422 million (previous year: € 1,199 million), and the volume of maturing issues came to € 448 million (previous year: € 809 million).

Further information on the liquidity position of Hamburg Commercial Bank is presented in the Group management report under Net assets and financial position and in the Risk Report.

Group notes

(selected explanatory notes)

General information

1. Accounting principles

As the ultimate parent company, Hamburg Commercial Bank AG, which has its registered office in Hamburg, prepares consolidated financial statements for the Group.

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

Taking into account the requirements set out in IAS 34, the half-year financial report consists of condensed interim Group financial statements and an interim Group management report. The condensed interim Group financial statements consist of a statement of income, a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a condensed cash flow statement and selected explanatory notes.

The interim Group financial statements as at 30 June 2020 were prepared in accordance with IFRS as published by the International Accounting Standards Board (IASB) and adopted as European law by the European Union (EU). In particular, the application of IAS 34 (Interim Financial Reporting) has been observed.

In the interim Group financial statements, the same accounting policies have been applied as in the Group financial statements of Hamburg Commercial Bank AG as at 31 December 2019.

In accordance with IAS 34.C4, Hamburg Commercial Bank does not prepare further expert opinions to define the present value of defined benefit obligations during the year and takes the data from the last expert opinion as at 31 December 2019 as a basis. Every quarter, pension provisions are reviewed for changes in key parameters, which are then adjusted if necessary and taken into account for accounting purposes (in particular changes in the discount rate). Plan assets are measured at fair value and netted with the pension provisions.

The following accounting standards are applicable for the first time in the current financial year:

Amendments to IAS 1 and IAS 8 Definition of Material

With these amendments, the definition of materiality is aligned across the IFRS, and certain aspects of the definition are clarified. This is accompanied by examples of relevant circumstances.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

The first-phase amendments provide for a temporary exemption from the application of specific hedge accounting rules for hedging relationships that are directly affected by the IBOR reform. Because of this relief, hedges do not necessarily have to be discontinued as a result of the IBOR reform. Nevertheless, potential inefficiencies must still be recognised in the statement of income in accordance with both IAS 39 and IFRS 9. In addition, the amendments include a clarification of when the initial relief is no longer applicable, i.e. in particular when the uncertainty resulting from the IBOR reform ceases.

Amendment to IFRS 3 Business Combinations

The amendments to IFRS 3 relate to the definition of a business. Under IFRS 3, acquisitions are only classified as business combinations pursuant to IFRS 3 (Business Combinations) if the conditions for definition as a business are met. If there is no business involved, the transaction is treated as an asset purchase for accounting purposes. The accounting applied to the acquisition of businesses and that applied to asset purchases

differs, among other things, in the recognition of goodwill, the recognition and measurement of contingent consideration, the recognition of transaction costs and deferred taxes.

In order to be considered a business, an acquisition must include inputs and substantive processes that, together, contribute significantly to the ability to produce outputs. Essentially, the changes to the definition of a business relate specifically to the creation of a framework for assessing when a substantive process exists, and to the narrower use of the term "outputs". In addition, companies can opt to perform what is known as a "concentration test". This involves examining whether the entire fair value of the acquired gross assets is largely concentrated in one asset or a group of similar assets. If such a concentration is identified, it is concluded, without any further assessment being performed, that the acquisition does not relate to a business.

The changes do not materially affect the Group financial statements of Hamburg Commercial Bank.

In addition to the IFRS, Hamburg Commercial Bank has also complied with the German Accounting Standard GAS 16 Interim Financial reporting in preparing this interim report.

These interim Group financial statements have been reviewed by an auditor.

All findings up until 18 August 2020 have been taken into account.

Going concern assumption

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.

2. Adjustments to the prior-year figures

I. Changes in the Group statement of income

In the previous year, the presentation in the statement of income was adjusted to reflect the following circumstances (see also the detailed information in the Annual Report as at 31 December 2019 under Adjustments to the prior-year figures):

Hamburg Commercial Bank no longer allocates proceeds from the closing of underlying transactions, which contributed to an adjustment item because of portfolio fair value hedges, to net interest income. The adjustment item is reversed in the same item of the statement of income in which the disposal result of the corresponding underlying transaction is recognised (cf. IAS 39 AG128).

This leads to the following adjustments in the presentation of the prior-year figures in the interim report as at 30 June 2020:

For the prior-year period from 1 January 2019 to 30 June 2019, this results in a reduction in net income from financial investments of approximately € 3 million and an increase in net interest income of approximately € 3 million. An adjustment was made to the prior-year figures (cf. Note 5 and Note 9).

II. Changes to segment reporting

In the second half of 2019, the segment reporting of Hamburg Commercial Bank was changed (see comments in the Annual Report as at 31 December 2019). The corresponding prior-year figures in the segment reporting have therefore been adjusted accordingly (cf. Note 37).

3. Impact of COVID-19 on the Group financial statements of Hamburg Commercial Bank

I. Estimates and discretionary decisions

Uncertainties with regard to the estimates required in line with impairment provisions have increased due to the COVID-19 pandemic. This concerns in particular the integration of forward-looking macroeconomic scenarios and their weighting in the calculation of expected losses.

Determining the extent to which a significant deterioration in credit quality occurs and the associated shift between provisioning levels 1 and 2 is per se a key discretionary decision. As institutions such as IASB, EBA and ESMA have clarified that the COVID-19 pandemic does not automatically lead to a shift in provisioning levels, this requires discretionary decisions determining whether the credit default risk of a debtor has increased significantly or whether the debtor in question only suffers a temporary liquidity bottleneck because of COVID-19 while the credit default risk has not increased significantly.

II. Changes in loan loss provisions as at 30 June 2020

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”) are taken into account and regular checks are performed to analyse whether alternative macroeconomic developments have a material non-linear impact on the amount of loan loss provisions.

So-called Model Overlays take risk factors that are relevant to the valuation into account, unless they are already included in the calculation parameters of the models. Loan loss provisions are then adjusted either directly or indirectly by altering the credit risk parameters to reflect these effects.

Macroeconomic forecasts for 2020

	Basis Scenario	Stress Scenario
GDP USA (%)	-6.5	-8.5
GDP eurozone (%)	-8.7	-12.6
GDP Germany (%)	-7.2	-10.0
Fed funds rate (%)	0.125	0.000
ECB MRO rate (%)	0.00	0.50
3M Euribor (%)	-0.46	-0.80
10Y Bunds (%)	-0.39	-1.00
EUR/USD exchange rate	1.12	1.05
Unemployment rate Germany (%)	6.1	7.1

In the light of the current COVID-19 crisis in the first half of 2020, the resulting economic effects on loan loss provisions were calculated in separate scenarios. The pandemic has caused a stress scenario for Hamburg Commercial Bank, the effects of which are currently neither fully reflected in the actual parameters of the ECL calculation nor can the exact severity and length of the crisis be reliably predicted.

For this reason, the economic risks arising from the COVID-19 pandemic in the reporting period are reflected in the weighting of the economic scenarios, which mainly impacts the Bank’s Model Overlays.

Because of Hamburg Commercial Bank’s de-risking strategy and the associated portfolio reduction, which has a compensatory effect, the calculated impact of the COVID-19 pandemic leads only to a slight increase in Model Overlays as at the reporting date.

The sensitivity of the ECL model is reflected by upward and downward shifts in the forecasts. If the duration and impact of the COVID-19 crisis were to be greater or lesser than assumed in the ECL model, this would affect in particular the ratings of borrowers in industries that are expected to be significantly affected by the COVID-19 pandemic. Therefore, the Bank analysed the effects a corresponding rating shift would have on loan loss provisions. Loan loss provisions amounted to € 824 million as at 30 June 2020 and include Model Overlays of € 218 million, of which € 196 million resulted from the above-stated economic scenarios. A rating shift in the sense of a downgrade by two notches would result in an increase in loan loss provisions of € 73 million, while an upgrade by two notches would reduce loan loss provisions by € 22 million.

4. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg, the scope of consolidation includes 21 fully consolidated subsidiaries (31 December 2019: 26).

As at 31 December 2019, there are no associates or joint ventures accounted for using the equity method.

The changes in the scope of consolidation in the first half of 2020 relate to the subsidiaries listed below.

I. Information on subsidiaries – changes to the scope of consolidation**A) ADDITIONS**

There were no additions in the reporting period.

B) DISPOSALS

Contrary to the inclusion as at 31 December 2019, the following companies are no longer included in the scope of fully consolidated companies:

- Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg
- CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg
- CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg
- HCOB Gastro+Event GmbH, Hamburg
- Senior Assured Investment S.A., Luxembourg

In the first half of the year, the first-mentioned three companies from the Capcellence Group were transferred to the fully consolidated CAPCELLENCE Holding GmbH & Co. KG, Hamburg.

With the entry in the commercial register on 11 February 2020, HCOB Gastro+Event GmbH was merged with the fully consolidated HCOB Facility Management GmbH.

Following the transfer of the main assets (certificates) of Senior Assured Investment S.A. to the Bank, the previously fully consolidated company no longer has any operating activities and was deconsolidated as at 1 January 2020 due to its immateriality for the presentation of net assets, financial position and results of operations of the Hamburg Commercial Bank Group.

II. Information on consolidated structured entities

Hamburg Commercial Bank's scope of consolidation includes six fully-consolidated structured entities. These companies are controlled due to contractual rights and/or principal-agent relationships. In four of these companies, HCOB holds the majority of voting rights.

Notes on the Group statement of income

5. Net interest income

(€ m)	January-June 2020	January-June 2019
Net interest income		
Interest income from		
Lending and money market transactions categorised as AC and FVOCI	328	363
Fixed-interest securities categorised as AC and FVOCI	30	49
Impaired financial assets	11	23
Interest income from financial assets categorised as AC and FVOCI	369	435
thereof attributable to financial assets measured at AC	356	417
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	13	18
Interest income from		
Other lending and money market transactions	20	25
Other fixed-interest securities	6	9
Trading transactions	3	4
Derivative financial instruments	364	678
Current income from		
Long-term equity investments	3	3
Interest income from other financial instruments	396	719
Negative interest on investments categorised as AC and FVOCI	-10	-14
thereof attributable to financial assets measured at AC	-10	-14
Negative interest on other cash investments and derivatives	-42	-93
Interest expenses for		
Liabilities to banks	30	34
Liabilities to customers	133	180
Securitised liabilities	30	50
Subordinated capital	6	8
Other liabilities	7	10
Derivative financial instruments	278	618
Interest expenses	484	900
thereof attributable to financial liabilities not measured at fair value through profit or loss	89	153
Positive interest on borrowings and derivatives	-48	-93
thereof attributable to financial liabilities not measured at fair value through profit or loss	-7	-6
Net income from re-estimating interest and repayment cash flows	80	8
Net income from discounting and compounding	-6	-18
Net income/loss from hybrid financial instruments	74	-10
thereof attributable to financial liabilities not measured at fair value through profit or loss	74	-10
Total	351	230

Interest income and expenses relating to trading and hedging derivatives are disclosed under the Interest income and expense from/for trading and hedging derivatives item.

Net interest income includes income and expenses arising from the amortisation of the adjustment items for portfolio fair value hedge relationships and corresponding proceeds from

the closing of the underlying transactions that contributed to the adjustment item.

For receivables subject to specific loan loss provisions, both the interest income and the loan loss provisions have to be adjusted by multiplying them by the original effective interest rate in net interest income.

The negative interest from investments categorised as AC and FVOCI results from lending and money market transactions. The negative interest on other investments and derivatives is due in full to derivative financial instruments.

The positive interest is mainly attributable to derivative financial instruments.

The term hybrid financial instruments covers silent participations, profit participation capital and bonds measured at amortised cost, the return on which is profit-related and which participate in the net loss for the year and accumulated losses of the Bank.

The net income from hybrid financial instruments includes the effects on earnings resulting from the application of IFRS 9 B5.4.6.

The difference between the valuation for tax purposes and measurement under IFRS 9 B5.4.6 results in deferred tax expenses of € 6 million (previous year: deferred tax income of less than € 1 million).

6. Net commission income

Net commission income

(€ m)	January-June 2020	January-June 2019
Commission income from		
Lending business	15	16
Securities business	1	2
Guarantee business	5	5
Payments and account transactions as well as documentary business	9	11
Other commission income	1	5
Commission income	31	39
Commission expense from		
Lending business	1	2
Securities business	1	1
Payments and account transactions as well as documentary business	1	2
Other commission expenses	1	6
Commission expenses	4	11
Total	27	28

Financial instruments that are not measured at fair value through profit or loss account for € 27 million of net commission income (previous year: € 32 million). Financial instruments that are measured at fair value through profit or loss account for € 0 million of net commission income (previous year: € -4 million).

7. Result from hedging

The change in value attributable to the hedged risk for designated underlying and hedging transactions in effective hedging relationships is reported under the Result from hedging item. The item contains the profit contributions from micro and portfolio fair value hedges. Hedge accounting is used solely for interest rate risks.

Result from hedging

(€ m)	January-June 2020	January-June 2019
Fair value changes from hedging transactions	-70	-115
Micro fair value hedge	-78	-96
Portfolio fair value hedge	8	-19
Fair value changes from underlyings	72	111
Micro fair value hedge	81	91
Portfolio fair value hedge	-9	19
Total	2	-4

8. Result from financial instruments categorised as FVPL

The result from financial instruments categorised as FVPL includes the realised result and the valuation result of financial instruments in the FVPL Trading, FVPL Designated and FVPL Other categories. The interest income and expense and results from current dividends in these holding categories are reported under the Net interest income item.

Gains and losses arising on currency translation are generally disclosed under this line item of the income statement. In derogation of the above, the results from the translation of loan loss provisions denominated in foreign currency are disclosed under the Loan loss provisions item.

Other products comprises income from foreign exchange transactions, credit derivatives and commodities.

Result from financial instruments categorised as FVPL

(€ m)	January-June 2020	January-June 2019
Bonds and interest rate derivatives		
FVPL Held For Trading	-153	-103
FVPL Designated	13	9
FVPL Other	-5	37
Total	-145	-57
Equities and equity derivatives		
FVPL Held For Trading	-1	3
FVPL Designated	2	-3
FVPL Other	-5	7
Total	-4	7
Other products		
FVPL Held For Trading	3	-1
FVPL Designated	-	-
FVPL Other	-3	14
Total	-	13
Total	-149	-37

The result from financial instruments categorised as FVPL includes net income from foreign currency of € -3 million (previous year: € 1 million).

During the reporting period, € -10 million (previous year: € 4 million) of the changes in fair value of the financial assets categorised as FVPL Designated related to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € -16 million (previous year: € -4 million) is attributable to changes in the credit spread.

9. Net income from financial investments

This item shows the realised results of the FVOCI-categorised financial investments including the reversal amounts from portfolio fair value hedges.

Regarding the adjusted prior-year figures, we refer to Note 3 Adjustments to the prior-year figures.

Net income from financial investments

(€ m)	January-June 2020	January-June 2019
Realised results from financial assets categorised as FVOCI	5	4
Total	5	4

10. Result from the disposal of financial assets classified as AC

This item includes all realised results from the sale and premature repayment of, as well as substantial modifications to, financial assets categorised at amortised cost.

Of the disposals made in the reporting period, € 7 million result from early repayments and € 37 million from a sale. This is "rare" sale within the meaning of IFRS 9 B4.1.3b which is to be classified as "harmless" for the business model of HCOB.

Result from the disposal of financial assets classified as AC

(€ m)	January - June 2020	January - June 2019
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	44	5
Total gains	44	5
Total	44	5

11. Loan loss provisions

This item shows the change in loan loss provisions for all loans and advances to banks, loans and advances to customers and

financial investments, as well as leasing receivables, categorised as AC and FVOCI, and for off-balance-sheet business.

Loan loss provisions

(€ m)	January–June 2020	January–June 2019
Loans and advances to customers		
Insignificant increase in loan default risk (level 1/12M ECL)	-25	-4
of which AC	-25	-4
Significant increase in loan default risk (level 2/lifetime ECL)	3	-42
of which AC	3	-40
of which FVOCI	-	-2
Impaired credit rating (level 3/lifetime ECL)	-78	74
of which AC	-78	74
Result from the change in loan loss provisions on loans and advances to customers	-100	28
Financial investments		
Significant increase in the loan default risk (level 2/lifetime ECL)	1	1
of which FVOCI	1	1
Result from the change in loan loss provisions for financial investments	1	1
Off-balance-sheet business		
Insignificant increase in the loan default risk (level 1/12-month ECL)	1	3
Significant increase in the loan default risk (level 2/lifetime ECL)	-11	1
Impaired credit rating (level 3/lifetime ECL)	16	-
Provisions in lending business in accordance with IAS 37	-1	-6
Result from changes in provisions in the lending business	5	-2
– Direct write-downs	5	4
+ Payments received on loans and advances previously written down	4	3
+ Result of non-substantial modifications	-	-1
Result from other changes to loan loss provisions	-1	-2
Result from changes in loan loss provisions before currency translation gains or losses and compensation	-95	25
Currency translation gains or losses on loan loss provisions denominated in foreign currency	1	-
Total loan loss provisions	-94	25

12. Administrative expenses**Administrative expenses**

(€ m)	January–June 2020	January–June 2019
Personnel expenses	87	105
Operating expenses	90	80
Depreciation of property, plant and equipment, leasing assets and investment properties and amortisation of intangible assets	4	5
Total	181	190

13. Other operating result

Other operating result

(€ m)	January-June 2020	January-June 2019
Other operating income	124	108
Other operating expenses	24	28
Total	100	80

The increase in other operating income was driven by the sale of buildings as locations are concentrated.

Other operating income includes income from the reversal of provisions in the amount of € 9 million (previous year: € 55 million). Other operating expenses include expenses from allocations to provisions in the amount of € 5 million (previous year: € 6 million).

14. Expenses for regulatory affairs, deposit guarantee fund and banking associations

Expenses for regulatory affairs, deposit guarantee fund and banking associations

(€ m)	January-June 2020	January-June 2019
Expenses for European bank levy	23	29
Expenses for deposit guarantee fund	3	3
Expenses for banking supervisory authority	3	4
Expenses for banking associations	-	1
Total	29	37

The event triggering the obligation to pay the bank levy in accordance with IFRIC 21 is established at the beginning of each year. This means that the expenses for the bank levy are recognised in full at the beginning of the year and not pro rata temporis.

15. Net income from restructuring and transformation

Net income from restructuring and transformation

(€ m)	January-June 2020	January-June 2019
Personnel expenses due to restructuring	1	-
Operating expenses due to restructuring	1	-
Income from the reversal of provisions	1	6
Net income from restructuring	-1	6
Expenses from privatisation	-	14
Expenses from transformation	4	-
Net income from restructuring and transformation	-5	-8

In both 2018 and 2019, Hamburg Commercial Bank approved extensive restructuring programmes, which included the planned reduction in the number of employees as well as extensive projects to support the Bank's transformation.

In the 2019 financial statements, the item was renamed Result from restructuring and transformation. This takes account of the fact that the expenses from privatisation have become less significant since 2019, while the expenses from transformation have become more significant. These expenses refer in particular to measures supporting the Bank's strategic objectives, which are to result in the seamless transition to the deposit guarantee fund of private banks by 2022.

16. Earnings per share

To calculate earnings per share, the Group net result attributable to Hamburg Commercial Bank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review. As in the previous year, Hamburg Commercial Bank AG did not issue any dilutive shares as at 30 June 2020, i.e. diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

Earnings per share

	January-June 2020	January-June 2019
Attributable Group net result (€ m) - undiluted/diluted	4	5
Number of shares (millions)		
Average number of ordinary shares outstanding - undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.01	0.02
Diluted	0.01	0.02

Notes on the Group statement of financial position

17. Cash reserve

Cash reserve

(€ m)	30.06.2020	31.12.2019
Balances at central banks	2,206	4,780
thereof at the Deutsche Bundesbank	2,199	4,769
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	-	70
Total	2,206	4,850

18. Loans and advances to banks

Loans and advances to banks

(€ m)	30.06.2020	31.12.2019
Payable on demand	1,241	1,719
Other loans and advances	792	802
Total	2,033	2,521

The development of the carrying amounts of loans and advances to banks is shown in Note 38

19. Loans and advances to customers

Loans and advances to customers

(€ m)	30.06.2020	31.12.2019
Retail customers	349	394
Corporate clients	25,358	27,478
Public authorities	2,572	2,836
Total	28,279	30,708

The development of the carrying amounts of loans and advances to customers is shown in Note 38.

20. Loan loss provisions

Loan loss provisions

(€ m)	30.06.2020	31.12.2019
Loan loss provisions for loans and advances to customers classified as AC, incl. leasing	777	708
Loan loss provisions in the lending business	777	708
Loan loss provisions for items in the statement of financial position	777	708
Provisions in the lending business	47	53
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	824	761

In accordance with IFRS 9, the Loan loss provisions item is only set up for transactions classified as AC. For information on the development of the total IFRS 9 portfolio of loan loss provisions for banks and loans and advances to customers, please refer to Note 38.

21. Hedge accounting

Hamburg Commercial Bank continues to apply the portfolio fair value hedge approach in accordance with IAS 39, making use of the option under IFRS 9.6.1.3. Furthermore, Hamburg Commercial Bank now uses the micro fair value hedge approach in accordance with IFRS 9 for financial instruments measured at fair value directly in equity under IFRS 9. The following section provides a description of the hedging and underlying transactions used for hedging purposes, including the risk management strategy, the impact on cash flows and the effects on net assets, statement of comprehensive income and statement of changes in equity.

I. Risk management strategy

In order to avoid distortions in the statement of income resulting from interest-bearing financial instruments, micro and portfolio fair value hedge accounting is used to hedge the market price risk interest. For micro fair value hedges, structured euro swaps are designated as hedging instruments for structured euro underlying transactions. These designated hedges correspond to economic back-to-back hedges which neutralise the market price risks associated with the underlying transactions. The effectiveness of these hedges is ensured by a critical term match and ineffectiveness is expected from model adjustments, measurement mismatches and the inclusion of tenor basis spreads. In portfolio fair value hedges on interest rate risks, the underlying transactions as a whole are hedged by means of interest rate swaps. Effectiveness is measured in accordance with the rules set out in IAS 39 and the hedge ratio is calculated using the dollar offset method.

Ineffectiveness can result from maturities of assets and liabilities that do not match, and from the reference interest rate of the hedging transactions. Hedge accounting is used solely for interest rate risks.

II. Effects on cash flows

In order to assess the cash flows to be expected, the nominal and average prices of the hedging instruments in micro fair value hedges are presented below.

Micro fair value hedges

(€ m)	Maturity date		
	2027	2037	2038
Nominal value of hedging instruments	100	450	200
Average swap rate	3.869	3.694	3.633

III. Effects on net assets and statement of comprehensive income

The effects on the net assets and statement of comprehensive income are presented separately for hedging transactions and underlying transactions.

HEDGING INSTRUMENTS

This section presents the nominal values, hedge adjustment and the positive and negative fair values of derivatives used in hedge accounting. Only interest rate swaps are currently

taken into account as hedging instruments. If a derivative is only designated pro rata in hedge accounting, the Positive/negative fair value of hedging derivatives item contains

the corresponding share of the derivative's fair value, nominal value and hedge adjustment. The residual amount is reported under the Trading assets/Net trading income item.

Hedging instruments¹⁾

(€ m)		30.06.2020			31.12.2019		
Hedge type/type of risk	Balance sheet item	Nominal value	Carrying amount	Change in Fair Value (ytd)	Nominal value	Carrying amount	Change in Fair Value (ytd)
Fair value hedge/interest rate risk							
Interest rate derivatives (assets side)	Positive fair values of hedging derivatives	2,716	128	-4	4,556	134	46
Interest rate derivatives (liabilities side)	Negative fair value of hedging derivatives	3,729	534	58	4,858	609	174

¹⁾ The portfolios are newly designated/redesignated on a monthly basis at the time of the integration of the new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

Asset-side transactions are reported in the balance sheet item Positive fair values of hedging derivatives and derivatives on the liabilities side are shown in the balance sheet item Negative fair values of hedging derivatives. There is a direct link between the development in the positive and negative fair values of hedging derivatives. The overall changes in this item are mainly due to changes in the portfolio compositions and movements in interest rates in the euro and US dollar capital markets.

As at the balance sheet date, mainly interest rate swaps with Euribor reference are designated. With regard to the Euribor reference interest rates, the conditions for taking advantage of the relief granted are not met, as Hamburg Commercial Bank believes that there is no uncertainty regarding the Euribor. Of the € 6,445 million nominal, € 92 million are accounted for by interest rate swaps with Euribor reference,

which are thus directly affected by the changes in the reference rate reform. In assessing whether the hedge is prospectively highly effective, the Bank assumes for these instruments that the interest rate on which the cash flows of the hedge are based is not changed by the IBOR reform.

UNDERLYING TRANSACTIONS

This section presents financial instruments on the assets and liabilities side used in portfolio fair value hedge accounting. The following table shows the carrying amounts, accumulated changes in value (Itd) and since the beginning of the financial year (ytd) for these financial instruments. The underlying transactions currently only include assets (receivables and securities) and liabilities within the framework of portfolio fair value hedges. Hedge accounting is used solely for interest rate risks.

Underlying transactions¹⁾

(€ m)		30.06.2020			31.12.2019		
Hedge type/type of risk	Balance sheet item	Carrying amount	Cum. hedge adjustment (ltd)	Hedge adjustment (ytd)	Carrying amount	Cum. hedge adjustment (ltd)	Hedge adjustment (ytd)
Fair value hedge/interest rate risk							
Portfolio fair value hedge: Fixed-interest rate loans, debentures, securities	Positive adjustment item from portfolio fair value hedges	5,358	140	-2	5,464	142	-53
Micro fair value hedge	Loans and advances to customers	1,160	182	76	1,099	106	93
Portfolio fair value hedge: Fixed-interest issues	Negative adjustment item from portfolio fair value hedges	9,246	341	-29	10,146	370	-29
Portfolio fair value hedge (inactive)	Positive adjustment item from portfolio fair value hedges	603	5	-	675	5	-
Portfolio fair value hedge (inactive)	Negative adjustment item from portfolio fair value hedges	62	6	-18	176	24	-37
Micro fair value hedge (inactive)	Loans and advances to customers	224	51	-4	226	55	-19
Micro fair value hedge (inactive)	Liabilities due to customers, securitised liabilities, subordinated capital	34	8	-	56	8	-8

¹⁾ The portfolios are newly designated/redesignated on a monthly basis at the time of the integration of the new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

22. Trading assets

Only financial assets in the FVPL Trading category are reported under the Trading assets item. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value that are either not designated as a hedge derivative or are used as hedging instruments but do not meet the requirements of IFRS 9 for hedge accounting.

Trading assets

(€ m)	30.06.2020	31.12.2019
Debentures and other fixed-interest securities	-	58
Positive fair value of financial derivatives	2,293	2,468
Other, including promissory notes held for trading	35	42
Receivables from syndication transactions	149	95
Total	2,477	2,663

23. Financial investments

In particular, financial instruments not held for trading purposes are reported as financial investments. This item includes bonds and other fixed-interest securities, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, holdings in joint ventures and associates not carried at equity in the Group financial statements.

Financial investments

(€ m)	30.06.2020	31.12.2019
Debentures and other fixed-interest securities	6,069	6,052
Shares and other non-fixed-interest securities	8	12
Long-term equity investments	35	36
Interests in affiliated companies	1	-
Total	6,113	6,100

The development in the carrying amounts of financial investments for the current year is shown in Note 38.

24. Intangible assets

Intangible assets

(€ m)	30.06.2020	31.12.2019
Software	3	5
acquired	3	5
Software in development	5	1
acquired	5	1
Total	8	6

As at the reporting date, the amount shown in the Software under development item relates entirely to the development of the target IT platform SAP S/4 Hana.

25. Property, plant and equipment and investment property

Property, plant and equipment

(€ m)	30.06.2020	31.12.2019
Land and buildings	7	88
Plant and equipment	5	7
Right-of-use assets from leasing	2	3
Assets under construction	1	-
Total	15	98

In the reporting period, reclassifications were made from land and buildings to assets held for sale and disposal groups in the net carrying amount of € 88 million. In addition, € 7 million was reclassified from investment property to land and buildings.

As at the reporting date, the Investment property item includes rights-of-use from properties held under a lease (which meet the definition of investment property). These properties are intended to generate rental income or increase in value, but are not used for the Group's own business activities.

Investment property

(€ m)	30.06.2020	31.12.2019
Investment property	1	41
Total	1	41

In the reporting period, transfers were made from the Investment property item to Assets and disposal groups held for sale, and to Land and buildings.

26. Non-current assets held for sale and disposal groups

Non-current assets held for sale and disposal groups

(€ m)	30.06.2020	31.12.2019
Loans and advances to customers	338	246
Financial investments	8	8
Property, plant and equipment	88	97
Investment property	31	4
Total before loan loss provisions	465	355
Total	465	355

The loans and advances to customers (public-sector entities) in the amount of € 246 million reported under this item as at 31 December 2019 were sold in two transactions in the first quarter of 2020. The two transactions generated proceeds of € 37 million, which are recognised in the Result from the disposal of financial assets classified as AC item.

In June 2020, Hamburg Commercial Bank AG decided to sell further loans and advances to customers with a carrying amount of € 339 million. This sale is expected to be carried out in the third quarter of 2020. Parts of the loans and advances to customers are sold as a disposal group. These loans and advances are also due from public debtors. Loans and advances from the Corporates & Structured Finance segment are measured at amortised cost and do not include any loan loss provisions.

27. Deferred tax assets

Of the deferred tax assets of € 591 million (31 December 2019: € 658 million), € 149 million (31 December 2019: € 113 million) relate to tax loss carry-forwards.

As at 30 June 2020, € 141 million of this amount is attributable to the head office (31 December 2019: € 107 million) and € 8 million attributable to the Luxembourg branch (31 December 2019: € 6 million).

The value of deferred tax assets results from the positive future tax results expected in the tax planning as derived from corporate planning.

The Bank still plans to sell an equity holding measured at fair value, which is recognised under the Financial investments item. The equity holding to be sold is allocated to the Other and Reconciliation column in the segment report.

The disposal of property, plant and equipment and investment property totalling € 101 million is related to finalising the concentration process for the locations in Hamburg and Kiel, which are now in one building each. Based on the signing of the sale contracts for eleven Group-owned properties in December 2019, the corresponding closing took place in February 2020. In total, the disposal generated a profit of EUR 71 million, which is recognised under other operating income. The selling costs incurred in connection with the disposals in the amount of € 2 million were already expensed in the 2019 financial year.

The additions to property, plant and equipment (€ 88 million) and investment property (€ 32 million) relate to the sale of the main building at the Hamburg site expected to be finalised by the end of the 2020 financial year. In line with the property strategy of the transformation programme, the building will continue to be used after the sale for a transitional period until a new building is rented. In segment reporting, the corresponding assets are included in Other and Reconciliation.

28. Other assets

Other assets

€ 24 million of the assets disclosed in the table relate to financial instruments (31 December 2019: € 32 million).

(€ m)	30.06.2020	31.12.2019
Prepaid expenses	11	10
Receivables from fund transactions	9	11
Receivables from other taxes	4	5
Other assets	28	31
Total	52	57

29. Liabilities to banks

Liabilities to banks

The increase in liabilities to banks is due to the fact that the Bank raised funds from the ECB's TLTRO programme.

(€ m)	30.06.2020	31.12.2019
Payable on demand	479	421
Other term liabilities	7,459	4,645
Total	7,938	5,066

30. Liabilities to customers

Liabilities to customers

The significant decline in fixed-term liabilities to customers is mainly due to lower funding needs, as the balance sheet volume on the assets side continues to decline.

(€ m)	30.06.2020	31.12.2019
Savings deposits	8	9
Other liabilities		
Payable on demand	6,326	7,026
Term liabilities	11,242	16,931
Total	17,576	23,966

31. Securitised liabilities

Securitised liabilities

(€ m)	30.06.2020	31.12.2019
Debentures issued	6,624	7,845
Total	6,624	7,845

Debentures issued include less than € 1 million of hybrid financial instruments (31 December 2019: € 88 million). The carry-

ing amount of these hybrid financial instruments was determined based on assumptions relating to future earnings of Hamburg Commercial Bank (IFRS 9.B5.4.6).

In the Securitised liabilities item, repurchased own debentures in the amount of € 3,437 million (31 December 2019: € 2,487 million) were deducted.

32. Trading liabilities

The Trading liabilities item comprises exclusively financial obligations of the FVPL Trading category. Mainly included in this category are derivatives with a negative fair value which are either not designated as a hedging derivative or are used as hedging instruments but do not meet the requirements of IFRS 9 for hedge accounting.

Trading liabilities

(€ m)	30.06.2020	31.12.2019
Negative fair value from derivative financial instruments		
Interest rate-related business	1,268	1,602
Currency-related business	15	30
Other business	323	314
Liabilities from syndication transactions	50	-
Total	1,656	1,946

33. Provisions

Provisions

(€ m)	30.06.2020	31.12.2019
Provisions for pension obligations and similar obligations	822	1,095
Other provisions		
Provisions for personnel expenses	21	40
Provisions in the lending business	50	55
Provisions for restructuring	190	245
Provisions for litigation risks and costs	135	144
Other provisions	105	120
Total	1,323	1,699

In the reporting period, HCOB AG transferred assets to HCOB Trust e.V. (Hamburg) as part of a contractual trust arrangement to cover pension benefit obligations. HCOB Trust e.V. takes on the role of a trustee towards the beneficiaries. The assets transferred to HCOB Trust e.V. are plan assets according to IAS 19. As at 30 June 2020, plan assets amounted to

€ 292 million (previous year: € 40 million), which is netted with pension benefit obligations. The net change in pension provisions in the amount of € 273 million refers mainly to payments for pension benefit obligations in the amount of € 26 million and transfers of early retirement obligations from the restructuring provisions in the amount of € 20 million as well as service and interest expenses of € 10 million. Because of the increase in the discount rate, pension benefit obligations decrease by € 26 million. In addition, net pension benefit obligations are reduced by a further € 250 million due to Hamburg Commercial Bank AG's contributions made to plan assets. The fair value of plan assets is up by € 1 million in the reporting period, which reduces the pension benefit obligations by the same amount as at 30 June 2020.

Provisions for restructuring decreased compared to 31 December 2019 due to transfers to liabilities and the utilisation of the current restructuring program.

Further information on the Bank's legal risks is provided in the Risk Report under "Other material risks".

34. Other liabilities

Other liabilities

(€ m)	30.06.2020	31.12.2019
Collateral provided for liabilities assumed	194	331
Liabilities for outstanding invoices	46	52
Other tax liabilities	5	7
Personnel liabilities	15	11
Deferred income	9	9
Liabilities from leases (lessee)	3	6
Liabilities for restructuring	32	44
Other	17	17
Total	321	477

The collateral provided for liabilities assumed serves to hedge leasing transactions of our customers with third parties.

€ 260 million of the liabilities reported here relate to financial instruments (31 December 2019: € 407 million).

35. Subordinated capital

Subordinated capital

(€ m)	30.06.2020	31.12.2019
Subordinated debt	1,069	1,069
Silent participations	1	280
Total	1,070	1,349

The carrying amounts for silent participations were determined on the basis of assumptions regarding the future earnings situation of Hamburg Commercial Bank and the exercise of termination or extension options (IFRS 9.B5.4.6).

In addition to hybrid instruments disclosed here, hybrid instruments are also disclosed in the line item Securitised liabilities (cf. Note 31). The reduction is due in particular to further repurchases of hybrid instruments as part of the so-called Liability Management Exercise (LME).

36. Equity

Equity

(€ m)	30.06.2020	31.12.2019
Share capital	3,018	3,018
Capital reserve	79	75
Retained earnings	1,048	1,016
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-205	-232
of which: Deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	65	74
Revaluation reserve	178	196
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	3	-2
of which: Valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	175	198
Currency conversion reserve	35	33
Group net result	4	12
Total before non-controlling interests	4,362	4,350
Non-controlling interests	-	-
Total	4,362	4,350

Changes in ordinary shares

(Number of shares)	30.06.2020	31.12.2019
Number at the beginning of the year	301,822,453	301,822,453
Number at the end of the year	301,822,453	301,822,453

Segment reporting

37. Segment reporting

(€ m/%)	Corporates & Structured Finance		Real Estate		Shipping		Diversified Lending & Markets	
	30.06. 2020	30.06. 2019	30.06. 2020	30.06. 2019	30.06. 2020	30.06. 2019	30.06. 2020	30.06. 2019
Net interest income	105	91	144	97	83	53	-20	-38
Net commission income	15	18	5	5	8	8	-	-
Result from hedging	-	-	-	-	-	-	-	-
Result from financial instruments categorised as FVPL	-18	-10	-26	-6	-51	-4	17	49
Net income from financial investments including other income ¹⁾	41	2	3	5	-	1	5	0
Total income	143	101	126	101	40	58	2	11
Loan loss provisions	-113	-23	-49	-42	66	88	-	2
Administrative expenses	-71	-82	-70	-60	-35	-39	-6	-10
Other operating result	-1	-12	-	51	-	-1	5	3
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-10	-13	-11	-14	-5	-6	-4	-5
Net income before restructuring and transformation	-52	-29	-4	36	66	100	-3	1
Net income from restructuring and transformation	-	-	-	-	-	-	-	-
Net income before taxes	-52	-29	-4	36	66	100	-3	1
Cost/income ratio (CIR)	50%	92%	56%	39%	88%	68%	86%	71%
Return on equity before taxes	-7%	-4%	-1%	7%	17%	29%	-2%	0%
Average equity	1,524	1,498	1,131	979	756	698	316	592
(€ bn)	30.06. 2020	31.12. 2019	30.06. 2020	31.12. 2019	30.06. 2020	31.12. 2019	30.06. 2020	31.12. 2019
Segment assets	11.0	12.3	11.5	12.5	4.5	4.6	13.7	17.1

¹⁾ Including the result from the disposal of financial assets classified as AC

(€ m/%)	Other		Reconciliation		Total Other and Consolida- tion		Group	
	30.06. 2020	30.06. 2019	30.06. 2020	30.06. 2019	30.06. 2020	30.06. 2019	30.06. 2020	30.06. 2019
Net interest income	-	1	39	26	39	27	351	230
Net commission income	-	-	-1	-3	-1	-3	27	28
Result from hedging	-	-	2	-4	2	-4	2	-4
Result from financial instruments categorised as FVPL	1	-	-72	-66	-71	-66	-149	-37
Net income from financial investments including other income items ¹⁾	-	-	-	1	-	1	49	9
Total income	1	1	-32	-46	-31	-45	280	226
Loan loss provisions	-	1	2	-1	2	-	-94	25
Administrative expenses	-	-	1	1	1	1	-181	-190
Other operating result	96	39	-	-	96	39	100	80
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-	-	1	1	1	1	-29	-37
Net income before restructuring and transformation	97	41	-28	-45	69	-4	76	104
Net income from restructuring and transformation	-	-	-5	-8	-5	-8	-5	-8
Net income before taxes	97	41	-33	-53	64	-12	71	96
Cost/income ratio (CIR)	-	-	-	-	-	-	47.6%	62.1%
Return on equity before tax	-	-	-	-	-	-	3.3%	4.4%
Average equity	639	618	-	-	639	618	4,366	4,385

(€ bn)	30.06. 2020	31.12. 2019	30.06. 2020	31.12. 2019	30.06. 2020	31.12. 2019	30.06. 2020	31.12. 2019
Segment assets	1.0	1.0	0.1	0.3	1.1	1.2	41.8	47.7

¹⁾ Including the result from the disposal of financial assets classified as AC.

Segment reporting is in accordance with the provisions of IFRS 8. The segments reflect the Bank's internal organisational structure, which is based on product and customer groups and which corresponds to the delimitation for internal Group management purposes. The formation of the segments is intended to achieve the greatest possible homogeneity of customer groups with regard to a focused loan financing product range as well as other products and services.

Compared with the segment reporting as at 30 June 2019, changes in the internal organisational structure have been taken into account in segment reporting in accordance with the requirements of IFRS 8 (management approach). This mainly resulted in changes to the names of the segments Corporates & Structured Finance (formerly Corporate Clients) and Diversified Lending & Markets (formerly Treasury & Markets) and slight shifts between these two segments. In addition, from 2020, the Bank's overall positions including the liquidity reserve will be reported in the Diversified Lending & Markets segment. The earnings effects of the Bank's overall positions are allocated to the segments. The previous year's figures have been adjusted accordingly.

The reallocation between net interest income and net income from financial investments in the Diversified Lending & Markets segment in the previous year has also been taken into account (cf. Note 3).

Hamburg Commercial Bank comprises the segments Corporates & Structured Finance, Shipping, Real Estate and Diversified Lending & Markets as well as Total Other and Reconciliation. The business activities of the Corporates & Structured Finance, Shipping and Real Estate segments focus on offering financing solutions in the lending business.

In the Corporates & Structured Finance segment, the strategic focus is mainly on the Energy & Infrastructure, Trade & Food, Healthcare and Industry & Services business areas. Moreover, this segment includes the advisory areas and products Structured Finance, Leveraged Buy-out, Mergers & Acquisitions, Syndication, Factoring, Leasing and Transaction Banking for all customers of the Bank as well as specific services for institutional clients. The Real Estate segment comprises national and international transactions with real estate clients, while the Shipping segment focuses on shipping clients.

The Diversified Lending & Markets segment comprises the capital market activities, which were realigned during the transformation process. Its focus is on the management of strategic investments and the treasury function including the centralised management of the Bank's liquidity and market price risks, management of the cover pool and issuer activities. The liquidity buffer required in accordance with MaRisk is also included here. In addition, the lending business with international corporates, which is currently being developed, is also reported under this segment. This portfolio will contribute to the diversification of the Bank's overall portfolio.

The administrative expenses incurred by the segments comprise the direct personnel and operating costs attributable to the segments, as well as the allocation of the Bank's overhead costs. The Bank's overhead costs are allocated in full to the individual segments on the basis of internal standard processing costs.

Loan loss provisions are shown in the segments in which they originated. The expenses for regulatory affairs, the deposit guarantee fund and banking associations are allocated to the segments.

The Total Other and Reconciliation column corresponds to the sum of the "Other" and "Reconciliation" columns. In the "Other" column, the non-reportable corporate and service functions are disclosed.

The "Reconciliation" column contains effects from different accounting methods between the parameters reported internally and the presentation in the Group financial statements. In accordance with IFRS 8.28, the reconciliation effects included in the individual income items are presented separately and explained in greater detail below.

Net interest income for the purpose of internal reporting to management is calculated in accordance with Fund Transfer Pricing (FTP). The investment and financing income, the other effects from equity and the transformation contribution are allocated to the segments according to the liquidity costs that have been offset. The transformation contribution mainly includes the results from the liquidity management of the banking book and, as a result, temporary effects resulting from the increase in liquidity during the privatisation phase.

Reconciliation effects relating to net interest income in the amount of € 39 million are due largely to valuation differences. These are largely the result of the use of internal transactions

as part of internal interest rate and liquidity management/the consideration of imputed interest rate margins (fund transfer pricing, FTP) instead of gross interest in the lending business. Further reconciliation effects result, in particular, from the use of what are, in some cases, different calculation and amortisation methods within the context of internal reporting. In addition, in the internal management system, the measurement results of the hedging derivatives in hedge accounting are only recognised upon the disposal of AC or FVOCI positions, whereas under the IFRS hedge accounting regulations, the hedge adjustments are continuously amortised within the Net interest income item.

The reconciliation effects of the result from financial instruments categorised as FVPL (€ -72 million) include differences resulting from the presentation of capital market transactions between the internal management system and IFRS accounting, as well as from the hedging of certain financial instruments that can be included in the portfolio fair value hedge in full in the internal recognition of the interest rate hedge transaction, whereas under the IFRS, they cannot, or can only partly, be included in the portfolio fair value hedge.

In addition, net income from restructuring and privatisation is also shown in full under reconciliation as an item for reconciliation with the internally managed values.

Total income recognised in the segments is exclusively generated from business conducted with external customers.

Geographical information and information on income from external clients for each product and service is not collected for management reporting purposes due to a lack of management relevance and disproportionately high costs, which means that a disclosure in accordance with IFRS 8.32 and 8.33 is not required.

The cost/income ratio (CIR) and return on equity (RoE) are shown in the segment report for the four operating segments and the Group.

Because of its direct relevance to management, the allocation key for the allocation of the average reported equity capital to the segments is the regulatory capital commitment.

The CIR is calculated as the ratio of Administrative expenses to Total income plus Other operating income. Return on equity is the ratio of net income before taxes to average equity capital.

Notes on financial instruments

38. Information on the development of loan loss provisions and the carrying amounts of financial instruments not measured at fair value through profit or loss

The following table shows the development of the gross carrying amounts of financial instruments not measured at fair value through profit or loss in the balance sheet items Loans and advances to banks, Loans and advances to customers, Financial investments, Assets held for sale and for the off-balance sheet business.

The development in loan loss provisions for financial instruments not measured at fair value through profit or loss is also shown separately by balance sheet item.

In contrast to the presentation in the previous year, the presentation of the changes in carrying amounts has been adjusted to make the presentation more transparent.

Development in gross carrying amounts for loans and advances to banks

(€ m)	30.06.2020				Total
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts as at 1 January 2020	2,520	1	-	-	2,521
of which AC	2,465	1	-	-	2,466
of which FVOCI	55	-	-	-	55
Transfer to LECL level 2	2	-2	-	-	-
of which AC	2	-2	-	-	-
Other changes	-488	-1	-	-	-489
of which AC	-476	-1	-	-	-477
of which FVOCI	-12	-	-	-	-12
Carrying amounts as at 30 June 2020	2,034	-2	-	-	2,032
of which AC	1,991	-2	-	-	1,989
of which FVOCI	43	-	-	-	43

Development in gross carrying amounts for loans and advances to banks

(€ m)	31.12.2019				Total
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts as at 1 January 2019	3,166	-	-	-	3,166
of which AC	3,000	-	-	-	3,000
of which FVOCI	166	-	-	-	166
Other changes	-646	1	-	-	-645
of which AC	-535	1	-	-	-534
of which FVOCI	-111	-	-	-	-111
Carrying amounts as at 31 December 2019	2,520	1	-	-	2,521
of which AC	2,465	1	-	-	2,466
of which FVOCI	55	-	-	-	55

Development in gross carrying amounts for loans and advances to customers

(€ m)	30.06.2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans pur- chased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2020	26,672	2,750	649	-	30,071
of which AC	25,011	2,750	649	-	28,410
of which FVOCI	1,604	-	-	-	1,604
thereof receivables under finance leases	57	-	-	-	57
Transfer to LECL level 2	-591	591	-	-	-
of which AC	-591	591	-	-	-
Transfer to LECL level 3	-40	-398	438	-	-
of which AC	-40	-398	438	-	-
Transfer to 12M ECL	158	-158	-	-	-
of which AC	158	-158	-	-	-
Other changes	-1,764	-528	-106	6	-2,392
of which AC	-1,810	-528	-106	6	-2,438
of which FVOCI	49	-	-	-	49
thereof leasing	-3	-	-	-	-3
Carrying amounts as at 30 June 2020	24,435	2,257	981	6	27,679
of which AC	22,728	2,257	981	6	25,972
of which FVOCI	1,653	-	-	-	1,653
thereof receivables under finance leases	54	-	-	-	54

Development in gross carrying amounts for loans and advances to customers

(€ m)	31.12.2019					
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans pur- chased or originated credit-impaired (POCI)		Total
Carrying amounts as at 1 January 2019	28,152	3,017	955	-		32,124
Transfer to LECL level 2	-1,085	1,238	-153	-		-
of which AC	-1,085	1,238	-153	-		-
Transfer to LECL level 3	-75	-194	269	-		-
of which AC	-75	-194	269	-		-
Transfer to 12M ECL	547	-547	-	-		-
of which AC	536	-536	-	-		-
of which FVOCI	11	-11	-	-		-
Other changes	-867	-764	-422	-		-2,053
of which AC	-459	-766	-274	-		-1,499
of which FVOCI	-392	2	-	-		-390
thereof Receivables under finance lease transactions	-16	-	-	-		-16
Carrying amounts as at 31 December 2019	26,672	2,750	649	-		30,071
of which AC	25,011	2,750	649	-		28,410
of which FVOCI	1,604	-	-	-		1,604
thereof receivables under finance leases	57	-	-	-		57

Development in loan loss provisions for loans and advances to customers

(€ m)	30.06.2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans pur- chased or origi- nated credit- impaired (POCI)	Total
Loan loss provisions on 1 January 2020	57	308	343	-	708
Transfer to LECL level 2	-3	3	-	-	-
Transfer to LECL level 3	-	-102	102	-	-
Transfer to 12M ECL	16	-17	-	-	-1
Reversals due to disposals, repayments and other reductions	34	88	36	-	158
Additions due to new additions and other increases	59	85	115	-	259
Utilisation	-	-	33	-	33
Change in line with effective interest rate	-	-	5	-	5
Exchange rate changes	1	1	-5	-	-3
Loan loss provisions as at 30 June 2020	96	190	491	-	777

Development in loan loss provisions for loans and advances to customers

(€ m)	31.12.2019				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2019	94	241	496	-	831
Transfer to LECL level 2	-25	25	-	-	-
Transfer to LECL level 3	-1	-19	20	-	-
Transfer to 12M ECL	30	-30	-	-	-
Reversals due to disposals, repayments and other reductions	76	131	111	-	318
Additions due to new additions and other increases	33	218	60	-	311
Utilisation	-	-	134	-	134
Change in line with effective interest rate	-	-	8	-	8
Exchange rate changes	2	4	4	-	10
Loan loss provisions on 31 December 2019	57	308	343	-	708

As in the prior-year period, changes in loans and advances to customers in the reporting period relate only to transactions classified as AC.

Development in gross carrying amounts for financial investments

(€ m)	30.06.2020					
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)		Total
Carrying amounts as at 1 January 2019	5,442	51	-	-		5,493
of which AC	112	-	-	-		112
of which FVOCI	5,330	51	-	-		5,381
Other changes	81	-51	-	-		30
of which AC	-25	-	-	-		-25
of which FVOCI	106	-51	-	-		55
Carrying amounts as at 30 June 2020	5,523	-	-	-		5,523
of which AC	87	-	-	-		87
of which FVOCI	5,436	-	-	-		5,436

Development in gross carrying amounts for financial investments

(€ m)	31.12.2019					
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)		Total
Carrying amounts as at 1 January 2019	9,413	55	-	-		9,468
Transfer to LECL level 2	-58	58	-	-		-
of which FVOCI	-58	58	-	-		-
New additions and increases	1,148	-	-	-		1,148
of which AC	19	-	-	-		19
of which FVOCI	1,129	-	-	-		1,129
Other changes	-3,912	-62	-	-		-3,974
of which AC	-2	-	-	-		-2
of which FVOCI	-3,910	-62	-	-		-3,972
Carrying amounts as at 31 December 2019	5,443	51	-	-		5,494
of which AC	112	-	-	-		112
of which FVOCI	5,331	51	-	-		5,382

Development in loan loss provisions for financial investments

(€ m)	30.06.2020			
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions as at 1 January 2020	-	1	-	1
Reversals due to disposals and other reductions	-	1	-	1
Loan loss provisions as at 30 June 2020	-	-	-	-

Development in loan loss provisions for financial investments

(€ m)	31.12.2019			
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit- impaired (LECL level 3)	Total
Loan loss provisions as at 1 January 2019	-	5	-	5
Reversals due to disposals and other reductions	-	4	-	4
Loan loss provisions on 31 December 2019	-	1	-	1

In both the reporting period and the prior-year period, changes in financial investments relate only to transactions categorised as FVOCI.

Development in gross carrying amounts of non-current assets held for sale and disposal groups

(€ m)	30.06.2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-im- paired (LECL level 3)	Loans purchased or originated credit- impaired (POCI)	Total
Carrying amounts as at 1 January 2020	245	-	-	-	245
Other changes	93	-	-	-	93
Carrying amounts as at 30 June 2020	338	-	-	-	338

Development in gross carrying amounts of non-current assets held for sale and disposal groups

(€ m)	31.12.2019				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit- impaired (LECL level 3)	Loans purchased or originated credit- impaired (POCI)	Total
Carrying amounts as at 1 January 2019	-	-	-	-	-
Other changes	245	-	-	-	245
Carrying amounts as at 31 December 2019	245	-	-	-	245

In the reporting period as well as in the prior-year period, the changes in non-current assets and disposal groups held for sale relate only to transactions classified as AC.

Carrying amounts of off-balance sheet business

(€ m)	30.06.2020				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2020	6,906	312	93	-	7,311
Other changes	-1,802	49	-2	-	-1,755
Carrying amount as at 30 June 2019	5,104	361	91	-	5,556

Carrying amounts of off-balance sheet business

(€ m)	31.12.2019				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2019	8,110	386	77	-	8,573
Transfer to LECL level 2	-204	204	-	-	-
Transfer to LECL level 3	-25	-11	36	-	-
Transfer to 12M ECL	101	-101	-	-	-
Other changes	-1,076	-167	-19	-	-1,262
Carrying amounts as at 31 December 2019	6,906	311	94	-	7,311

Development in loan loss provisions for off-balance-sheet business

(€ m)	30.06.2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions on 1 January 2020	4	3	46	-	53
Reversals due to disposals and other reductions	2	1	21	-	24
Additions due to new additions and other increases	1	13	5	-	18
Loan loss provisions on 30 June 2020	3	14	30	-	47
thereof provisions for contingent liabilities	-	-	13	-	13
thereof provisions for irrevocable loan commitments	3	14	4	-	21
thereof other loan provisions	-	-	13	-	13

Development in loan loss provisions for off-balance-sheet business

(€ m)	31.12.2019				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2019	6	6	48	-	60
Transfer to LECL level 3	-	-1	1	-	-
Transfer to 12M ECL	4	-4	-	-	-
Reversals due to disposals and other reductions	13	1	40	-	54
Additions due to new additions and other increases	7	3	37	-	47
Loan loss provisions on 31 December 2019	4	3	46	-	53
thereof provisions for contingent liabilities	-	-	11	-	11
thereof provisions for irrevocable loan commitments	4	3	10	-	17
thereof other loan provisions	-	-	25	-	25

39. Disclosure of fair value in accordance with IFRS 7 and IFRS 13

I. Determination of Fair Value

Under IFRS 13 the fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is determined on the basis of the listed price on an active market (mark-to-market), or if this is not possible on the basis of recognised valuation techniques and models (mark-to-matrix or mark-to-model). Irrespective of whether and to what extent the inputs applied in determining the fair value are observable in the market, financial instruments are assigned to one of the three fair value hierarchy levels as defined in IFRS 13.

Fair value can be determined using the mark-to-market method if a market price is available at which a transaction could be entered into or has been entered into for a similar financial instrument as at the measurement date.

This is generally the case for shares traded on liquid markets. Such an unadjusted market price at the measurement date for the identical instrument is classified as level 1 of the valuation hierarchy under IFRS 13.

If such a market price is not available for the identical instrument, the measurement is carried out using valuation techniques or models.

VALUATION TECHNIQUES AND MODELS

When using valuation techniques, the market approach is the preferable method for determining the fair value. The fair value is determined to the extent possible on the basis of prices that come from transactions executed on the measurement date. If the fair value cannot be determined from market or transaction prices for the identical financial instrument, prices of comparable financial instruments or indices, which are representative for the financial instrument, are used as an alternative and adjusted where necessary (mark-to-matrix method). The fair value is assigned to level 2 of the fair value hierarchy if the adjustment to the prices or parameters observable in the market is not material. However, if the adjustment is material and affects unobservable inputs, the fair value is assigned to level 3.

The fair value is determined based on the income approach using a valuation model if the market approach using the mark-to-market or mark-to-matrix method is not possible or is not of sufficient quality. Where available, inputs observable in the market as well as quality assured market data from appropriate pricing agencies or also validated prices from market partners (arrangers) are also used as a primary source for model valuations.

Fair values determined by means of model valuations, for which only observable inputs are used or which are only based to an insignificant extent on unobservable inputs, are assigned to level 2 of the fair value hierarchy. If the fair values determined using valuation models are based to a significant extent on unobservable inputs, they are assigned to level 3 of the fair value hierarchy.

The fair value of receivables and liabilities measured at amortised cost is mainly determined by discounting the contractual future cash flows of the financial instruments. In the case of receivables with a default rating, the fair values are determined based on the still to be expected future cash flows.

VALUE ADJUSTMENTS

If the value of a financial instrument measured at fair value as determined by a valuation technique or model does not take adequate account of factors such as bid-offer spreads or closing costs, liquidity, model risks, parameter uncertainties and credit and/or counterparty default risks, the Bank makes corresponding valuation adjustments, which a purchaser of similar positions would also take into account. The methods applied for this draw to some extent on unobservable market parameters in the form of estimates.

Funding costs and benefits arise on the hedging of the risks relating to an uncollateralised OTC derivative with a collateralised OTC derivative. A funding valuation adjustment is determined as part of the method used to determine fair values for derivatives and is included in the fair value of the uncollateralised OTC derivative for funding costs/benefits arising on the provision or receipt of collateral due to the hedging asymmetry of the derivatives.

Hedge relationships (back-to-back transactions) and corresponding risk-compensating effects are taken into account when determining value adjustments to be made for model risks and uncertainties regarding parameters. The value adjustment for the credit risk is determined for OTC derivatives at the level of a group of financial instruments of a business partner (so-called portfolio-based valuation adjustment). This is permitted if the conditions stipulated in IFS 13.49 for a portfolio-based measurement are met.

The portfolio-based valuation adjustment for the credit risk is allocated to assets or liabilities in proportion to the fair value of the asset or liability respectively before the valuation adjustment is taken into account. Allocation only takes place to the assets or liabilities depending on whether there is an excess of assets or liabilities (so-called "relative fair value approach", net approach).

DAY ONE PROFIT AND LOSS

The use of a valuation model may give rise to differences between the transaction price and the fair value determined using such a valuation model on the initial recognition date. If the relevant market for the fair value calculation differs from the market in which the transaction was contracted and the valuation model is based on significant non-observable parameters, these differences (so-called day one profits and losses) are deferred as day one profit and loss reserves. This reserve is reversed over the term. Implicitly, the time factor is thereby considered significant to the difference accrued and is taken into account accordingly, and it is assumed that this is also the procedure that would be followed by a third-party market participant in its pricing.

MEASUREMENT PROCESSES

The Bank has implemented various processes and controls for the purpose of determining the fair values of financial instruments and has embedded principles regarding the use of measurement methods in a guideline in the written rules of procedure. These measures also ensure that financial instruments to be assigned to level 3 of the fair value hierarchy are measured in accordance with IFRS 13. The Group Risk Management division, which is independent from the Bank's market departments, is responsible for ensuring that the measurement methods applied are in accordance with external accounting requirements. Information available on the methods applied by other market participants is also taken into account in this regard.

Fair values of financial instruments assigned to level 3 are determined again on a periodic basis – but at least on a monthly basis. Any changes in value that have occurred since the previous period are reviewed for plausibility. If the relevant market to be used to determine the fair value differs from the market in which the transaction was contracted and the valuation model is based on significant unobservable parameters, such differences (so-called day one profits and losses) are deferred as a day one profit and loss reserve. If there are material differences between the fair values determined by the Bank and prices offered by counterparties, the valuation model used is subjected to an ad hoc validation process.

II. Fair values of financial instruments

The fair values of financial assets and financial liabilities are disclosed by classes of financial instruments and compared with the respective carrying amount below:

Fair values of financial instruments

Assets

(€ m) 30.06.2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVOCI Mandatory	7,133	7,133	3,283	3,795	55
Loans and advances to banks	43	43	-	43	-
Loans and advances to customers	1,654	1,654	-	1,654	-
Financial investments	5,436	5,436	3,283	2,098	55
FVPL Designated	168	168	-	168	-
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	130	130	-	130	-
Financial investments	38	38	-	38	-
FVPL Held For Trading	2,477	2,477	-	2,147	330
Trading assets	2,477	2,477	-	2,147	330
FVPL Other	1,029	1,029	7	641	381
Loans and advances to customers	469	469	-	132	337
Financial investments	552	552	7	509	36
Non-current assets held for sale and disposal groups	8	8	-	-	8
AC assets	29,502	30,324	n.a.	n.a.	n.a.
Cash reserve	2,206	2,206	n.a.	n.a.	n.a.
Loans and advances to banks	1,990	1,993	n.a.	n.a.	n.a.
Loans and advances to customers	25,195	26,012	n.a.	n.a.	n.a.
Financial investments	87	89	n.a.	n.a.	n.a.
Non-current assets held for sale and disposal groups	338	372	n.a.	n.a.	n.a.
Other assets	24	24	n.a.	n.a.	n.a.
No IFRS 9 category	327	322	-	128	-
Positive fair values of hedging derivatives	128	128	-	128	-
Receivables under finance leases	54	54	n.a.	n.a.	n.a.
Value adjustments from the portfolio fair value hedge	145	140 ¹⁾	n.a.	n.a.	n.a.
Total assets	40,636	41,453	3,290	6,879	766

¹⁾ The part of the value adjustments from the portfolio fair value hedge that is attributable to financial investments, loans and advances to banks and loans and advances to customers in the FVOCI holding category is recognised at fair value. The remaining € 5 million pertain to loans and advances in the AC holding category.

Fair values of financial instruments

Assets

(€ m) 31.12.2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVOCI Mandatory	7,039	7,039	3,764	3,255	20
Loans and advances to banks	55	55	-	55	-
Loans and advances to customers	1,604	1,604	-	1,604	-
Financial investments	5,380	5,380	3,764	1,596	20
FVPL Designated	218	218	-	218	-
Loans and advances to customers	131	131	-	131	-
Financial investments	87	87	-	87	-
FVPL Held For Trading	2,663	2,663	58	2,260	345
Trading assets	2,663	2,663	58	2,260	345
FVPL Other	1,035	1,035	11	607	417
Loans and advances to customers	506	506	-	133	373
Financial investments	521	521	11	474	36
Non-current assets held for sale and disposal groups	8	8	-	-	8
AC assets	35,407	36,265	-	9,207	27,058
Cash reserve	4,850	4,850	-	4,850	-
Loans and advances to banks	2,466	2,470	-	1,796	674
Loans and advances to customers	27,702	28,554	-	2,202	26,352
Financial investments	112	114	-	82	32
Non-current assets held for sale and disposal groups	245	245	-	245	-
Other assets	32	32	-	32	-
No IFRS 9 category	338	333	-	134	-
Positive fair values of hedging derivatives	134	134	-	134	-
Receivables under finance leases	57	57	n.a.	n.a.	n.a.
Value adjustments from the portfolio fair value hedge	147	142 ¹⁾	n.a.	n.a.	n.a.
Total assets	46,700	47,553	3,833	15,681	27,840

¹⁾ The part of the value adjustments from the portfolio fair value hedge that is attributable to financial investments, loans and advances to banks and loans and advances to customers in the FVOCI holding category is recognised at fair value. The remaining € 5 million pertain to loans and advances in the AC holding category.

The carrying amounts of loans and advances to banks and loans and advances to customers classified as AC are shown less the reported loan loss provisions, since fair value also reflects possible impairments.

Fair values of financial instruments

Liabilities

(€ m) 30.06.2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVPL Designated	1,268	1,268	-	725	543
Liabilities to banks	118	118	-	11	107
Liabilities to customers	557	557	-	245	312
Securitised liabilities	593	593	-	469	124
FVPL Held For Trading	1,656	1,656	-	1,524	132
Trading liabilities	1,656	1,656	-	1,524	132
AC liabilities	32,200	32,970	n.a.	n.a.	n.a.
Liabilities to banks	7,820	7,813	n.a.	n.a.	n.a.
Liabilities to customers	17,019	17,583	n.a.	n.a.	n.a.
Securitised liabilities	6,031	6,133	n.a.	n.a.	n.a.
Other liabilities	260	260	n.a.	n.a.	n.a.
Subordinated capital	1,070	1,181	n.a.	n.a.	n.a.
No IFRS 9 category	881	881	-	534	-
Negative fair value of hedging derivatives	534	534	-	534	-
Value adjustments from the portfolio fair value hedge	347	347	n.a.	n.a.	n.a.
Total liabilities	36,005	36,775	-	2,783	675

Fair values of financial instruments

Liabilities

(€ m) 31.12.2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVPL Designated	1,788	1,788	-	980	808
Liabilities to banks	122	122	-	11	111
Liabilities to customers	633	633	-	290	343
Securitised liabilities	1,033	1,033	-	679	354
FVPL Held For Trading	1,946	1,946	-	1,859	87
Trading liabilities	1,946	1,946	-	1,859	87
AC liabilities	36,845	37,662	-	37,212	450
Liabilities to banks	4,944	4,931	-	4,900	31
Liabilities to customers	23,333	23,954	-	23,768	186
Securitised liabilities	6,812	6,911	-	6,801	110
Other liabilities	407	407	-	407	-
Subordinated capital	1,349	1,459	-	1,336	123
No IFRS 9 category	1,003	1,003	-	609	-
Negative fair value of hedging derivatives	609	609	-	609	-
Value adjustments from the portfolio fair value hedge	394	394	n.a.	n.a.	n.a.
Total liabilities	41,582	42,399	-	40,660	1,345

In the period under review, financial instruments measured at fair value were transferred from one hierarchy level to another.

These transfers are shown below, together with the carrying amounts at the time of transfer for each class of financial instruments.

Transfer, Assets

(€ m) 30.06.2020	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Trading assets (FVPL Trading)	-	-	3	-3	3	-3
Financial investments						
thereof FVOCI Mandatory	127	-437	437	-127	-	-
Total	127	-437	440	-130	3	-3

Transfer, Assets

(€ m) 31.12.2019	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Trading assets (FVPL Trading)	44	-6	15	-45	1	-9
Financial investments						
thereof FVOCI Mandatory	454	-1,235	1,235	-454	-	-
Total	498	-1,241	1,250	-499	1	-9

As in the prior-year period, there were no transfers of liabilities in the reporting period.

IFRS 13 and IDW RS HFA 47 specify the principles to be applied in determining the fair value. They also include the guidelines for assigning input factors to the fair value hierarchy levels. Hamburg Commercial Bank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities that are commonly traded on the OTC market. Average prices determined on the basis of binding offers or transaction-based prices are level 2 input factors

within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities were accordingly transferred from level 1 to level 2 or vice versa in the reporting period – depending on the prices used for measurement. The following shows the reconciliation for all assets and liabilities recognised at fair value and assigned to level 3 in the fair value hierarchy. The data is presented from the start to the end of the period. The table takes into account all movements of assets and liabilities that were or are allocated to level 3 during the reporting period.

RECONCILIATION, ASSETS

(€ m)	Change in balance affecting income			Quantitative change in balance	
30.06.2020	1 January 2020	Net income recognised in profit or loss	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	373	-31	-	14	-5
Trading assets (FVPL Trading)	345	-64	-	56	-
Financial investments					
thereof FVOCI Mandatory	20	-	1	34	-
thereof FVPL Other	36	-	-	-	-
Non-current assets held for sale and disposal groups					
thereof FVPL Other	8	-	-	-	-
Total	782	-95¹⁾	1	104	-5

¹⁾ Of the net income in the income statement, € 94 million relates to the result from financial instruments categorised as FVPL and € 1 million to net interest income.

RECONCILIATION, ASSETS

(€ m)	Change in balance affecting income			Quantitative change in balance	
31.12.2019	1 January 2019	Net income recognised in profit or loss	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	411	53	-	173	-223
Trading assets (FVPL Trading)	291	-24	-	99	-
Financial investments					
thereof FVOCI Mandatory	15	-	1	4	-
thereof FVPL Other	90	-1	-	-	-1
Non-current assets held for sale and disposal groups					
thereof FVPL Other	8	-	-	-	-8
Total	815	28¹⁾	1	276	-232

¹⁾ Of the net income in the income statement, € 32 million relates to the result from financial instruments categorised as FVPL and € -4 million to net interest income.

Quantitative change in balance			Transfers			Exchange rate changes	30 June 2020	Net income from assets held as at 30 June 2020
Issues	Settlements	From level 3	To level 3	Transfer/recategorisation				
-	-13	-	-	-	-1	337	-29	
-	-7	-3	3	-	-	330	-12	
-	-	-	-	-	-	55	-	
-	-	-	-	-	-	36	-	
-	-	-	-	-	-	8	-	
-	-20	-3	3	-	-1	766	-41	

Quantitative change in balance			Transfers			Exchange rate changes	31 December 2019	Net income from assets held as at 31 December 2019
Issues	Settlements	From level 3	To level 3	Transfer/recategorisation				
-	-44	-	-	-	3	373	1	
-	-14	-9	1	-	1	345	-5	
-	-	-	-	-	-	20	1	
-	-44	-	-	-8	-	36	-2	
-	-	-	-	8	-	8	-	
-	-102	-9	1	-	4	782	-5	

RECONCILIATION, LIABILITIES

(€ m)	Change in balance affecting income			Quantitative change in balance	
30.06.2020	1 January 2020	Net income recognised in profit or loss	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	111	-3	-1	-	-
Liabilities to customers					
FVPL Designated	343	-11	-	-	-
Securitised liabilities					
FVPL Designated	354	-51	-4	-214	73
Trading liabilities (FVPL Trading)	87	-5	-	50	-
Total	895	-70¹⁾	-5	-164	73

¹⁾ Of the net income in the income statement, € -60 million relates to the result from financial instruments categorised as FVPL and € -10 million to net interest income.

RECONCILIATION, LIABILITIES

(€ m)	Change in balance affecting income			Quantitative change in balance	
31.12.2019	1 January 2019	Net income recognised in profit or loss	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	108	2	1	-	-
Liabilities to customers					
FVPL Designated	384	-13	4	-	-23
Securitised liabilities					
FVPL Designated	366	-8	-2	-2	2
Trading liabilities (FVPL Trading)	93	-6	-	-	-
Total	951	-25¹⁾	3	-2	-21

¹⁾ Of the net income in the income statement, € -21 million relates to the result from financial instruments categorised as FVPL and € -4 million to net interest income.

Quantitative change in balance		Transfers				Exchange rate changes	30 June 2020	Net income from assets held as at 30 June 2020
Newbusiness	Settlements	From level 3	To level 3	Transfer/recategorisation				
-	-	-	-	-	-	107	-	
-	-20	-	-	-	-	312	-	
-	-38	-	-	-	4	124	-2	
-	-	-	-	-	-	132	-5	
-	-58	-	-	-	4	675	-7	

Quantitative change in balance		Transfers				Exchange rate changes	31 December 2019	Net income from assets held as at 31 December 2019
Newbusiness	Settlements	From level 3	To level 3	Transfer/recategorisation				
-	-	-	-	-	-	111	2	
-	-9	-	-	-	-	343	-6	
-	-12	-	-	-	10	354	-9	
-	-	-	-	-	-	87	7	
-	-21	-	-	-	10	895	-6	

III. Information on significant unobservable inputs

QUANTITATIVE INFORMATION ON SIGNIFICANT UNOBSERVABLE INPUTS

The following overview contains quantitative information on significant unobservable inputs.

Fair value

(€ m)				Measurement procedures	Significant unobservable inputs (level 3)	Margin
30.06.2020		Assets	Liabilities			
Loans and advances to customers	FVPL Other	337		DCF method	Spread (bps)	36-1310
				Option pricing model	Interest rate FX correlation	-29%-7%
				Price	Price	2-94
Trading assets/trading liabilities	FVPL Held For Trading	330	132	DCF method	Spread	36-1310
				Option pricing model	Interest rate volatility	11%-46%
					Interest rate FX correlation	-29%-7%
					FX correlation	10%-79%
Financial investments	FVPL Other	36		Price	Price	1-11840
				DCF method	Capital costs	7%-9%
	Mandatory FVOCI	55		DCF method	Spread (bps)	36-1310
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Capital costs	7%-9%
Liabilities to banks	FVPL Designated		107	Option pricing model	Interest rate volatility	11%-46%
					Interest rate FX correlation	-29%-7%
Liabilities to customers	FVPL Designated		312	Option pricing model	Interest rate volatility	11%-46%
					Interest rate FX correlation	-29%-7%
				Price	Price	2-94
Securitised liabilities	FVPL Designated		124	Option pricing model	Interest rate volatility	11%-46%
					FX correlation	10%-79%
Total		766	675			

Fair value

(€ m)		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin
31.12.2019						
Loans and advances to customers	FVPL Other	373		DCF method	Spread (bps)	61-1327
				Option pricing model	Interest rate FX correlation	-31%-12%
				Price	Price	2-106
Trading assets/trading liabilities	FVPL Held For Trading	345	87	DCF method	Spread	61-1327
				Option pricing model	Interest rate volatility	8%-28%
					Interest rate FX correlation	-31%-12%
					FX correlation	22%-68%
Financial investments	FVPL Other	36		Option pricing model	Interest rate volatility	8%-28%
				Price	Price	2-11900
				DCF method	Capital costs	7%-9%
	Mandatory FVOCI	20		DCF method	Spread (bps)	61-1327
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Capital costs	7%-9%
Liabilities to banks	FVPL Designated		111	Option pricing model	Interest rate volatility	8%-28%
					Interest rate FX correlation	-31%-12%
Liabilities to customers	FVPL Designated		343	Option pricing model	Interest rate volatility	8%-28%
					Interest rate FX correlation	-31%-12%
Securitised liabilities	FVPL Designated		354	Option pricing model	Interest rate volatility	8%-28%
					Interest rate FX correlation	22%-68%
Total		782	895			

The correlation and volatility ranges shown for derivatives cover derivatives with different types of underlying, tenors and exercise prices.

The overview also includes financial instruments whose change in value resulting from inputs unobservable in the market does not give rise to any P&L effect due to economic hedging relationships (at the micro level).

Changes in value attributable to the respective relevant inputs are offset for these financial instruments by the changes in value of the hedging derivatives.

IV. Sensitivities of fair values in relation to unobservable inputs

The following describes how the fair values of financial instruments can change as a result of fluctuations in significant unobservable inputs.

CORRELATION

Correlation can represent an important unobservable input for the measurement of derivatives. It is a measure of the degree to which two reference values move in relation to each other. Correlation is an important input for the model-based determination of the fair value of derivatives with more than one underlying. Financial instruments of this type include, for example, derivatives with several currencies ("FX basket") or several shares as the underlyings ("equity basket" derivatives). Currency correlations describe the relationship between changes in value of several currencies. Share correlations express the relationship between yields on different shares. A high degree of correlation means that there is a close relationship between the changes in value of the respective underlyings.

Depending on the type of derivative changes in correlation can have a positive or negative effect on the fair value. For example, in the case of a "best of two" derivative, an increase in the correlation between two underlyings results in a decrease of the fair value of the derivative from the perspective of the purchaser.

VOLATILITY

Volatility can also represent an important unobservable input for the measurement of options. It expresses how strongly the value of the underlying fluctuates over time. The amount of volatility depends on the type of the underlying, its tenor and the exercise price agreed for the option.

The fair value of options typically increases if volatility increases. The sensitivity of the fair value of options to changes in volatility can vary considerably. For example, the sensitivity of the fair value to changes in volatility is comparatively high, if the price of the underlying is close to the agreed exercise price ("at-the-money"). By contrast, sensitivity to changes in volatility is lower, if the price of the underlying is far from the exercise price ("far out-of-the-money" or "far in-the-money").

PRICE

Prices can represent an important unobservable input for the measurement of financial instruments. These prices represent pricing information of third parties within the meaning of IFRS 13.93(d) sentence 4, whereby the Bank does not produce any quantitative, unobservable input factors for measuring the fair value of the respective financial instrument. More detailed quantitative information on these input factors is therefore not required. The fair value increases, if the price increases, and it falls, if the price declines.

V. Reciprocal effects between unobservable inputs

Reciprocal effects between unobservable inputs can exist in principle. If several unobservable inputs are used in determining fair value, the range of the possible characteristics for another unobservable input can be restricted or increased by the characteristic used for one of the relevant unobservable inputs.

EFFECTS OF UNOBSERVABLE INPUTS

If the measurement of a financial instrument is based partly on unobservable inputs, the fair value determined is the best estimated value in accordance with a discretionary decision made by the Bank. However, it remains subjective in that there may be alternative input selection options that cannot be refuted by observable market data. For many of the financial instruments included (such as derivatives) the unobservable inputs only represent a subset of the total inputs required for the measurement. The remaining inputs are observable inputs.

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had certain effects on the fair values of the financial instruments in question. Advantageous and disadvantageous changes to fair value have been determined by recalculating the fair values based on possible alternative values to the relevant unobservable inputs. The interest volatilities were changed by +/- 5 %, all correlations by +/- 20 % (capped at +/- 100 %), price parameters by +/- 2 % and spreads by +/- 50 bp. Overall, this would then have had a positive/negative effect on the fair values of the financial instruments in question in the amount of € 24 million (31 December 2019: € 26 million). Of this amount, € 21 million was recognised in the income statement as income/expense and € 1 million in the revaluation reserve (31 December 2019: € 25 million income statement; € 1 million revaluation reserve).

VI. Day one profit and loss

The day one profit and loss reserve is solely attributable to financial instruments classified as FVPL Trading.

The day one profit and loss reserve developed as follows:

(€ m)	30.06.2020	31.12.2019
Holdings as at 1 January	6	2
Additions not recognised in profit or loss	1	4
Reversals recognised in profit or loss	1	-
Holdings as at 30 June/31 December	6	6

40. Credit risk analysis of financial assets

I. Credit quality

The following table contains information on the credit quality of all financial instruments held by the Bank. It shows the credit risk exposures by classifying the gross carrying amounts of financial assets and the nominal amounts of off-balance sheet transactions by credit risk level and assigning them to

rating categories. This is based on the DSGVO master scale, which is used in all rating procedures.

The Bank does not apply the simplified approach under IFRS 9.5.5.15, meaning that the disclosure under IFRS 7.35 M(b)(iii) is not relevant.

Credit quality

(€ m) 30.06.2020	1(AAA) to 1(AA+)	1(AA) to 1(A-)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)				
Cash reserve				
thereof AC assets	2,206	-	-	-
Loans and advances to banks				
thereof AC assets	860	669	357	102
thereof FVOCI Mandatory	44	-	-	-
Loans and advances to customers				
thereof AC assets	609	5,295	8,868	7,788
thereof FVOCI Mandatory	1,532	121	-	-
Financial investments				
thereof AC assets	-	11	56	20
thereof FVOCI Mandatory	2,974	1,917	519	1
Other assets				
thereof AC assets	-	24	-	-
No holding category				
Receivables under finance lease transactions	-	54	-	-
Contingent liabilities	13	219	248	93
Irrevocable loan commitments	130	605	2,291	1,504
Financial instruments with a significant deterioration in credit quality (LECL level 2)				
Loans and advances to customers				
thereof AC assets	-	-	422	670
thereof FVOCI Mandatory	-	-	-	-
Financial investments				
thereof AC assets	-	-	-	-
thereof FVOCI Mandatory	-	-	-	-
No holding category				
Receivables under finance lease transactions	-	-	-	-
Contingent liabilities	-	-	14	14
Irrevocable loan commitments	-	-	120	94
Credit-impaired (LECL level 3)				
Loans and advances to customers				
thereof AC assets	-	-	-	-
thereof FVOCI Mandatory	-	-	-	-
Financial investments				
thereof AC assets	-	-	-	-
thereof FVOCI Mandatory	-	-	-	-
No holding category				
Contingent liabilities	-	-	-	-
Irrevocable loan commitments	-	-	-	-
Financial instruments that are purchased or originated credit-impaired (POCI)				
Loans and advances to customers				
thereof AC assets	-	-	-	-
Total	8,706	8,915	12,896	10,286

Credit quality

(€ m) 30.06.2020		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12M ECL)				
	Cash reserve			
	thereof AC assets	-	-	-
	Loans and advances to banks			
	thereof AC assets	-	-	-
	thereof FVOCI Mandatory	-	-	-
	Loans and advances to customers			
	thereof AC assets	167	-	-
	thereof FVOCI Mandatory	-	-	-
	Financial investments			
	thereof AC assets	-	-	-
	thereof FVOCI Mandatory	-	25	-
	Other assets	-	-	-
	thereof AC assets	-	-	-
	No holding category			
	Receivables under finance lease transactions	-	-	-
	Contingent liabilities	-	-	-
	Irrevocable loan commitments	-	-	-
Financial instruments with a significant deterioration in credit quality (LECL level 2)				
	Loans and advances to customers			
	thereof AC assets	593	569	3
	thereof FVOCI Mandatory	-	-	-
	Financial investments			
	thereof AC assets	-	-	-
	thereof FVOCI Mandatory	-	-	-
	No holding category			
	Receivables under finance lease transactions	-	-	-
	Contingent liabilities	-	1	-
	Irrevocable loan commitments	13	104	-
Credit-impaired (LECL level 3)				
	Loans and advances to customers			
	thereof AC assets	31	21	930
	thereof FVOCI Mandatory	-	-	-
	Financial investments			
	thereof AC assets	-	-	-
	thereof FVOCI Mandatory	-	-	-
	No holding category			
	Contingent liabilities	-	-	78
	Irrevocable loan commitments	-	-	13
Financial instruments that are purchased or originated credit-impaired (POCI)				
	Loans and advances to customers			
	thereof AC assets	-	-	6
Total		804	720	1,030

Credit quality

(€ m) 31.12.2019	1(AAA) to 1(AA+)	1(AA) to 1(A-)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)				
Cash reserve				
thereof AC assets	4,850	-	-	-
Loans and advances to banks				
thereof AC assets	1,020	950	392	103
thereof FVOCI Mandatory	55	-	-	-
Loans and advances to customers				
thereof AC assets	1,233	6,086	9,055	8,507
thereof FVOCI Mandatory	1,483	121	-	-
Financial investments				
thereof AC assets	-	56	56	-
thereof FVOCI Mandatory	3,185	1,808	338	-
Non-current assets held for sale and disposal groups				
thereof AC assets	245	-	-	-
Other assets				
thereof AC assets	-	32	-	-
No holding category				
Receivables under finance lease transactions	-	57	-	-
Contingent liabilities	32	207	269	195
Irrevocable loan commitments	145	693	3,071	2,291
Financial instruments with a significant deterioration in credit quality (LECL level 2)				
Loans and advances to customers				
thereof AC assets	-	-	580	711
Loans and advances to banks				
thereof AC assets	-	-	1	-
Financial investments				
thereof FVOCI Mandatory	-	-	-	51
No holding category				
Contingent liabilities	-	-	31	12
Irrevocable loan commitments	-	-	89	144
Credit-impaired (LECL level 3)				
Loans and advances to customers				
thereof AC assets	-	-	-	13
No holding category				
Contingent liabilities	-	-	-	-
Irrevocable loan commitments	-	-	-	7
Total	12,248	10,010	13,882	12,034

Credit quality

(€ m)		10 to 12	13 to 15	16 to 18
31.12.2019				
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve			
	thereof AC assets	-	-	-
	Loans and advances to banks			
	thereof AC assets	-	-	-
	thereof FVOCI Mandatory	-	-	-
	Loans and advances to customers			
	thereof AC assets	119	5	6
	thereof FVOCI Mandatory	-	-	-
	Financial investments			
	thereof AC assets	-	-	-
	thereof FVOCI Mandatory	-	-	-
	Non-current assets held for sale and disposal groups			
	thereof AC assets	-	-	-
	Other assets			
thereof AC assets	-	-	-	
No holding category	Receivables under finance lease transactions	-	-	-
	Contingent liabilities	-	-	-
	Irrevocable loan commitments	3	-	-
Financial instruments with a significant deterioration in credit quality (LECL level 2)	Loans and advances to customers			
	thereof AC assets	949	474	36
	Loans and advances to banks			
	thereof AC assets	-	-	-
	Financial investments			
	thereof FVOCI Mandatory	-	-	-
	No holding category			
Contingent liabilities	1	6	-	
Irrevocable loan commitments	5	23	-	
Credit-impaired (LECL level 3)	Loans and advances to customers			
	thereof AC assets	119	-	517
	No holding category			
	Contingent liabilities	8	-	66
Irrevocable loan commitments	5	-	7	
Total		1,209	508	632

II. Credit risk exposure

With the exception of loans and advances to banks and customers, the credit risk exposure as at the reporting date corresponds to the carrying amount of financial assets, as presented in Note 38, as well as the nominal value of off-balance sheet liabilities as presented in Note 42.

In the case of loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount

after loan loss provisions as presented in Note 20. The maximum default risk of the loans and advances recognised at fair value through profit or loss (FVPL) is not reduced by associated credit derivatives.

Collateral and other risk-reducing agreements are not reflected in these amounts.

III. Collateral received

A) COLLATERAL VALUES OF FINANCIAL ASSETS THAT MINIMISE THE DEFAULT RISK AND ARE NOT SUBJECT TO THE IMPAIRMENT PROCEDURE

The following information quantifies the extent to which the collateral retained and other loan collateralisation reduce the maximum default risk for financial instruments that are not subject to the impairment procedure pursuant to IFRS 9. The amount of risk reduction from the value of each form of collateral is indicated for each class of financial instruments.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio.

The following table shows the respective carrying amount for each class of financial instrument as well as the collateral value that reduces default risk.

Financial assets and associated collateral

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
30.06.2020				
FVPL Designated				
Loans and advances to customers	130	-	-	-
Financial investments	38	-	-	-
FVPL Other				
Loans and advances to customers	469	201	-	-
Financial investments	552	-	-	11
Non-current assets held for sale and disposal groups	8	-	-	-
FVPL Held For Trading				
Trading assets	2,477	373	29	481
No holding category				
Positive fair values of hedging derivatives	128	-	-	-
Value adjustments from the portfolio fair value hedge	145	-	-	-
Total assets	3,947	574	29	492

Financial assets and associated collateral

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
31.12.2019				
FVPL Designated				
Loans and advances to customers	131	-	-	-
Financial investments	87	-	-	-
FVPL Other				
Loans and advances to customers	506	204	-	-
Financial investments	521	-	-	11
Non-current assets held for sale and disposal groups	8	-	-	-
FVPL Held For Trading				
Trading assets	2,663	352	35	13
No holding category				
Positive fair values of hedging derivatives	134	-	-	-
Value adjustments from the portfolio fair value hedge	147	-	-	-
Total assets	4,197	556	35	24

B) IMPAIRED FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

The following overview shows the volume and concentration of collateral held by Hamburg Commercial Bank to reduce the default risk and other loan collateralisation for impaired financial assets.

Impaired financial assets and associated collateral

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
30.06.2020				
AC assets				
Loans and advances to customers	988	178	2	30
No holding category				
Contingent liabilities	78	4	2	9
Irrevocable loan commitments	13	-	-	-
Total assets	1,079	182	4	39

For loans and advances to customers amounting to € 9 million (31 December 2019: € 27 million) no impairment losses were recognised despite default due to the collateral available.

Collateral is a key instrument for managing default risks. They are included in the main procedures for managing and monitoring default risks to reduce risk. The methods and processes for the valuation and management of collateral are set out in Hamburg Commercial Bank's Collateral Guideline.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the collateral value

is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio. Only collateral listed in the collateral catalogue is included as valuable collateral. Upon initial recognition, the value of movable property and real estate recognised as collateral is determined by an appraiser who is independent of the market. Depending on the type of collateral, the recoverability and realisation options are reviewed regularly at set intervals, and more frequently in the event of considerable market fluctuations.

Significant collateral values are provided by domestic collateral providers. The creditworthiness of the collateral providers is mainly in the 1(AAA) to 1(A-) rating categories.

Information on the risk concentrations for the collateral provided can be found in the Risk Report in the Default risk section.

C) THEREOF COLLATERAL RECEIVED FOR WHICH THERE ARE NO RESTRICTIONS ON DISPOSAL OR REALISATION EVEN IF THERE IS NO DEFAULT IN PAYMENT

Hamburg Commercial Bank received collateral from counterparties with a total fair value of € 0 million (31 December 2019: € 402 million). The collateral received is split up as follows: € 397 million (31 December 2019: € 402 million) relates to OTC derivatives and structured transactions. As in the previous year, the Group did not receive any collateral from genuine repo transactions where it acted as the lender in the reporting period. Collateral received includes cash collateral in the amount of € 397 million (31 December 2019: € 402 million).

Collateral received was not resold or pledged. There are no restrictions on disposal or realisation. Hamburg Commercial Bank is obliged to return all collateral resold or pledged to the guarantor without exception.

Hamburg Commercial Bank carries out securities repurchase and lending transactions as well as tri-party repo transactions under standard master agreements with selected counterparties. The same conditions and collateralisation methods apply as for collateral transferred and received.

D) OTHER COLLATERAL RECEIVED

As in the previous year, no assets from the realisation of collateral were capitalised in the reporting period.

IV. Assets that have been written off and are still subject to an enforcement measure

In the current reporting period, financial assets that are still subject to an enforcement measure were written off in the amount outstanding under contract law of € 0 million (31 December 2019: € 30 million).

41. Restructured or modified loans

The following table shows the carrying amounts of loans and loan commitments that have been restructured or whose contractual terms and conditions have been modified in order to

place the debtor in a position to continue to service or resume servicing its capital debt despite financial difficulties.

Forbearance exposure

(€ m) 30.06.2020	Rating class 1-15	Rating class 16-18	Total
Loans and advances to customers	597	713	1,310
Irrevocable and revocable loan commitments	9	9	18
Total	606	722	1,328

Forbearance exposure

(€ m) 31.12.2019	Rating class 1-15	Rating class 16-18	Total
Loans and advances to customers	721	643	1,364
Irrevocable and revocable loan commitments	15	3	18
Total	736	646	1,382

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 423 million

have already been set up for the portfolios measured at amortised cost (31.12. 2019: € 448 million).

42. Contingent liabilities and irrevocable loan commitments

Contingent liabilities

(€ m)	30.06.2020	31.12.2019
Contingent liabilities	1,336	1,438
Loan commitments	4,876	6,485
Total	6,212	7,923

In addition to the values shown in the table, there are other contingent liabilities arising from litigation. These mainly relate to litigation risks explained under provisions in the Group financial statements as at 31 December 2019. The legal disputes giving rise to these litigation risks comprise several claims. Provisions have been set up for litigation risks for some of these disputes, while contingent liabilities are in place for others. The Bank does not present the information required under IAS 37 as this could adversely affect the Bank's position in the underlying legal disputes.

The litigation risks have not changed significantly compared with the figures reported at the end of the previous year.

Other disclosures

43. Related parties

Hamburg Commercial Bank does business with related parties and companies.

These include the funds and accounts managed by Cerberus Capital Management, L.P. and J.C. Flowers IV L.P., which exert a significant influence over the Bank.

Furthermore, business relations exist with subsidiaries which are controlled but not included in the Group financial statements for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals.

Key positions are held exclusively by individuals who are members of the Management and Supervisory Boards of Hamburg Commercial Bank AG.

The Bank maintains pension plans for employees that are utilised after employment has ended.

In the course of normal business operations, transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, call and fixed-term deposits, derivatives and securities transactions.

I. Entities with a significant influence over the Bank

The following table shows transactions with companies with a significant influence over the Bank:

Companies with a significant influence – Assets

(€ m)	30.06.2020	31.12.2019
Loans and advances to customers	85	84
Financial investments	21	-
Total	106	84

Companies with a significant influence – Statement of income

(€ m)	January–June 2020	January–June 2019
Net interest income	1	-
Total	1	-

In addition to the transactions listed in the table, the Bank is still providing services for some of the transactions sold as part of the portfolio transaction in 2018. In relation to some transactions of the portfolio transaction for which the legal transfer has not yet been completed, the Bank still has cash participations and back-to-back deals in place.

Moreover, the Bank maintains insignificant business relations with a business partner in the context of payment services on a nostro account basis.

II. Subsidiaries

As in the prior-year period, transactions with non-consolidated subsidiaries were insignificant as at the reporting date.

III. Associates

The transactions with unconsolidated subsidiaries are shown below:

Associates – Liabilities

(€ m)	30.06.2020	31.12.2019
Liabilities to customers	31	-
Total	31	-

IV. Joint ventures

The following tables show the transactions with joint ventures:

Joint ventures – Assets

(€ m)	30.06.2020	31.12.2019
Loans and advances to customers	13	15
Total	13	15

Joint ventures – Liabilities

(€ m)	30.06.2020	31.12.2019
Liabilities to customers	2	3
Total	2	3

Joint ventures – Statement of income

(€ m)	January–June 2020	January–June 2019
Result from financial instruments categorised as FVPL	-1	2
Total	-1	2

V. Other related parties and companies

No transactions were entered into with individuals in key positions at Hamburg Commercial Bank AG and their close relatives or companies controlled by these individuals as at the balance sheet date (31 December 2019: € 1 million loans and advances to customers).

VI. Pension plans

To cover its pension benefit obligations independently, Hamburg Commercial Bank has transferred assets to HCOB Trust e.V. (Hamburg) under a contractual trust agreement as at the balance sheet date. For further details and the amount of plan assets, please refer to Note 33.

Management Board members**STEFAN ERMISCH**

Born in 1966

Chief Executive Officer (CEO)

ULRIK LACKSCHEWITZ

Born in 1968

Chief Risk Officer (CRO)

Deputy CEO

IAN BANWELL

Born in 1963

Chief Operating Officer (COO)

DR NICOLAS BLANCHARD

Born in 1968

Chief Clients and Products Officer (CCO)

CHRISTOPHER BRODY

Born in 1968

Chief Investment Officer (CIO)

OLIVER GATZKE

Born in 1968

Chief Financial Officer (CFO) and

Chief Technical Officer (CTO)

Hamburg, 18 August 2020

Stefan Ermisch

Ulrik Lackschewitz

Ian Banwell

Dr Nicolas Blanchard

Christopher Brody

Oliver Gatzke

Review Report

Hamburg Commercial Bank AG, Hamburg

We have audited the condensed Group financial statements of Hamburg Commercial Bank AG, which comprise the Group statement of financial position, the Group statement of income, the Group statement of comprehensive income, the Group statement of changes in equity, the condensed Group cash flow statement as well as selected Group explanatory notes and the interim Group management report of Hamburg Commercial Bank AG, Hamburg for the time period 1 January to 30 June 2020, all of which are elements of the half-yearly financial report in accordance with section 115 German Securities Trading Act (WpHG). The preparation of the condensed interim Group financial statements in accordance with IFRS for interim financial reporting, as adopted by the EU, and of the interim Group management report in accordance with the requirements of the German Securities Trading Act that apply to interim Group management reports is the responsibility of the Company's Management Board. Our responsibility is to issue a report on the condensed interim Group financial statements and the interim Group management report based on our review.

We conducted our review of the condensed interim Group financial statements and the interim Group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institute of Public Auditors in Germany, Incorporated Association - IDW. Those standards require that we plan and perform the review in such a way that we can rule out the possibility, by performing a critical evaluation, with a certain level of assurance, that the condensed interim Group financial statements

have not been prepared, in all material respects, in accordance with the IFRS for interim financial reporting, as adopted by the EU, and that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act that apply to interim Group management reports. A review is limited primarily to interviews involving company employees and analytical assessments, meaning that it does not provide the assurance that can be obtained in an audit of financial statements. Since, in accordance with our engagement, we have not performed an audit of the financial statements, we cannot issue an auditors' report.

Based on our review, no facts came to light that would lead to the assumption that the condensed interim Group financial statements have not been prepared, in all material respects, in accordance with the IFRS for interim financial reporting, as adopted by the EU, or that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act that apply to interim Group management reports.

Hamburg, 18 August 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber
German Public Auditor

ppa. Tim Brücken
German Public Auditor

Responsibility statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the interim Group financial statements give a true and fair view of the earnings, net assets and financial position of Hamburg Commercial Bank. Furthermore, the interim management report of the Group provides a true and fair view of the business development and performance of Hamburg Commercial Bank, including the business results and situation of Hamburg Commercial Bank, together with a description of the principal opportunities and risks associated with the expected development of Hamburg Commercial Bank for the rest of the financial year.

Hamburg, 18 August 2020

Stefan Ermisch

Ulrik Lackschewitz

Ian Banwell

Dr Nicolas Blanchard

Christopher Brody

Oliver Gatzke

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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 gender-specific manner, but occurs exclusively for the sake of better readability.

This Financial Report was published on 27 August 2020 and is available for download from www.hcob-bank.com.

This is an English translation of the original German version of the Annual Report.

Forward-looking Statements

This Financial Report includes certain forward-looking 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 forward-looking statement involves information that does not simply reflect historical facts, information relating to possible or anticipated future growth and future economic development.

Such forward-looking 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 forward-looking statements. In view of this, you are advised never to rely to an inappropriate degree on forward-looking 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 forward-looking 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.

Hamburg Commercial Bank AG

Hamburg

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