Hamburg Commercial Bank

Interim Report

as at 30 June 2022

Group overview

INCOME STATEMENT (€ million)

Net income before restructuring and privatisation January – June 2022
(cf. January – June 2021: 181)

↗ **195**

Net income before taxes
(cf. January – June 2021: 168)

↗ **178**

Group net result
(cf. January – June 2021: 194)

↗ **207**

BALANCE SHEET (€ billion)

Reported equity 30.06.2022
(cf. 31.12.2021: 5)

→ **5**

Total assets 30.06.2022
(cf. 31.12.2021: 30)

→ **30**

Business volume 30.06.2022
(cf. 31.12.2021: 35)

→ **35**

CAPITAL RATIO & RWA (%)[1)]

CET1 ratio 30.06.2022
(cf. 31.12.2021: 28.9)

↘ **24.2**

Total capital ratio 30.06.2022
(cf. 31.12.2021: 35.7)

↘ **30.3**

Risk weighted assets (RWA) 30.06.2022
(€ billion) (cf. 31.12.2021: 14.0)

↗ **16.1**

EMPLOYEES
(computed on full-time equivalent basis)

Total 30.06.2022
(cf. 31.12.2021: 919)

↘ **862**

Germany 30.06.2022
(cf. 31.12.2021: 877)

↘ **828**

Abroad 30.06.2022
(cf. 31.12.2021: 42)

↘ **34**

Due to rounding, numbers presented throughout this report may not add up to the totals disclosed and percentages may not precisely reflect the absolute figures.

[1)] Not in-period: regulatory disclosure pursuant to the CRR

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Economic report

Underlying economic and industry conditions

MACROECONOMIC CONDITIONS

Major geopolitical developments

The first half of 2022 was dominated by Russia's invasion of Ukraine, as well as the lockdown imposed in key parts of China that lasted several months. Both events are putting a strain on supply chains and have contributed to the acceleration in global inflation. While high inflation rates and geopolitical uncertainty are holding back consumption and investment, the reopening of the economy and the savings accumulated by private households in 2020 and 2021 are having a stabilising effect on the economy. A stop to Russian gas supplies could, however, trigger a recession in Germany.

The **invasion of Ukraine by Russian troops** on 24 February 2022 sent the prices of a wide range of commodities soaring initially. The price increases are directly related to the acts of war, as well as to the sanctions that the West has imposed on Russia and the counter-sanctions, and have exacerbated existing supply chain issues.

Russia had **cut** its **deliveries of natural gas** to Germany and other European countries through the Nord Stream 1 pipeline by 60 % in mid-June. At as early as the end of April, the Russian government announced that it would no longer be supplying natural gas to Poland and Bulgaria. Other countries are also affected by blanket shutdowns of the natural gas supply. This development has driven up natural gas prices, especially in Europe, but also in other parts of the world.

The combination of higher commodity prices, supply chain bottlenecks and labour shortages ensured that global annual inflation continued to accelerate unabated in the first half of 2022 to 10% in May, up from 7.1% at the start of the year. This **high inflation** is putting pressure on private consumption and leaves uncertainty hanging over the development of corporate profit margins.

Globally, the economic **growth slowed down** in the first half of 2022. The global PMI purchasing managers' index for the manufacturing sector, for example, continued on a downward trend that began as early as 2021 during this period, but was still in expansionary territory in June. The global PMI purchasing managers' index for the service industry also dipped recently. The **lockdown imposed in Chinese cities,** such as Shanghai, left a particular mark here, while fewer concerns about COVID-19 in other parts of the world helped contain the downturn.

Economic development by region

The three major economic areas, the US, the eurozone and China, were exposed to the changes in the global environment to varying degrees. The developments are also partly due to region-specific factors.

US GDP is expected to have barely grown in the second quarter after a 1.6% quarter-on-quarter decline (annualised rate) in the first three months of the year, a trend hinted at by falling construction investments and weaker retail sales. Unlike in previous periods of weakness, employment has increased consistently at a very robust rate.

The **eurozone** has been particularly hard hit by the energy crisis exacerbated by Russia, as well as supply chain bottlenecks, meaning that the economic output reported by the four biggest **eurozone** countries almost stagnated in the first quarter. The Bloomberg consensus suggests modest GDP growth in the second quarter.

In **China**, there are signs of a contraction in GDP in the months from April to June, as several lockdowns imposed significant restrictions on people's freedom of movement as part of the country's zero-COVID strategy during this period.

In **Germany**, GDP rose slightly in the first quarter after falling in the final quarter of the previous year. With the outbreak of the war in Ukraine and supply chain problems taking another turn for the worse, the ifo institute's GDP estimate for the second quarter indicates a drop in GDP. The ifo survey shows that the retail sector is not expected to grow at all, which matches the record low seen in the GfK consumer confidence index. In manufacturing as well as in the construction sector, the ifo index fell, while it rose in the services sector. The latter is related to the lifting of COVID-19 regulations and the moves to reopen the economy. Similar to developments in the rest of the eurozone and the US, inflation has also risen sharply in Germany. Prices in June were 8.2% higher than in the same month last year.

Monetary policy: monetary policy turnaround to combat inflation

Both the US Federal Reserve (Fed) and the European Central Bank (ECB) have initiated a turnaround in monetary policy against the backdrop of rising inflation rates. The ECB has done this by announcing that in July 2022, it will raise the main refinancing rate and the deposit rate for the first time since 2011, and that it will stop buying bonds in net terms from 1 July. The Fed has implemented three **rate** hikes since March 2022, putting the Fed Funds rate in the 1.5% to 1.75% range as at 30 June, up from 0.0% to 0.25% at the beginning of the year.

The rise in inflation, as well as the turnaround in monetary policy, have contributed to a significant rise in **government bond yields** across the entire yield curve. Ten-year Bund yields stood at 1.44% on 30 June 2022, up from -0.21% at the end of 2021. In the US, an increase from 0.73% (31 December 2021) to 2.98% at the end of June 2022 was observed. Short-term yields have also risen strongly during this period.

The **stock markets** closed the first half of the year deeply in the red in both the US and the eurozone. The S&P 500 lost 20.8% from 31 December 2021 to 30 June 2022, while the Dax fell by 19.5%. This downward trend came hand-in-hand with high levels of volatility. The lower share prices are, among other things, the result of higher interest rates as well as the slowdown in growth, which is putting a damper on companies' earnings prospects.

The **euro** lost 7.8% against the US dollar during the first half of 2022. This is likely explained by the faster tightening of monetary policy by the US Federal Reserve compared to the ECB, as well as the greater impact of the war in Ukraine on the eurozone.

DEVELOPMENT IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK

Real estate markets

The German real estate markets showed varied developments in the first six months of 2022 in the investment and letting markets, and also depending on types of use. While high transaction volumes were still being traded on the commercial property markets in the first quarter in view of the economic recovery following the coronavirus pandemic, activity slowed considerably in the spring. In addition to the increased economic uncertainty due to the war, this was due primarily to rising interest rates as a result of the sharp increase in inflation. For investors, the rise in interest rates reduced the relative appeal of real estate investments compared to opportunistic interest rate investments, and for credit-oriented market participants, it made financing more difficult. This reduced the prices that potential buyers were willing to pay. These moved further away from the prices that sellers were asking for, which actually increased for project developers in view of the parallel increase in construction costs. This resulted in significantly fewer transactions, especially in office and logistics properties, which had previously been in high demand.

The supply difficulties prompted by the war, the pandemic and the resulting price increases for construction materials weighed on construction activity and the development of future projects, resulting in a much gloomier outlook for project developers and construction companies alike. Quite a few projects were postponed or cancelled entirely. On the rental markets, on the other hand, the economic rebound after the restrictions caused by the pandemic, the sustained positive labour market trend and partial consumer catch-up effects had an impact.

Rents and prices continued to rise in the **housing markets** of the country's major cities in the first half of 2022. Demand was stimulated by the growth in employment, the associated influx of workers and the need for accommodation for war refugees. Residential construction activity is likely to have declined slightly, continuing the trend that had already emerged in 2021, due to disruptions on the supply side. In addition, the abrupt termination of government subsidies for new energy-efficient buildings and decreasing affordability due to higher interest rates fuelled reluctance among developers and builders.

In the **office property markets**, demand for space increased very considerably year-on-year in the first half of the year. This reflected the growing willingness of business service providers, in particular, to recruit staff since the beginning of the year. Demand was, however, still slightly exceeded by completions, meaning that the rise in vacancies continued, albeit at a much slower pace. Vacancies remained relatively low for the most parts, pushing prime rents in major cities up significantly thanks to the rise in demand. In terms of market values, on the other hand, the reluctance among investors left its mark, which translated into slight losses in value. Project developers also adopted an increasingly cautious approach. The number of approved new office construction and commercial construction contracts declined in the period leading up to May.

In the **retail property markets**, the negative impact of high inflation and consumer uncertainty regarding economic and income development was the dominant factor in the first six months of 2022. As a result, consumer sentiment deteriorated drastically and retail sales declined in those areas that did not benefit from catch-up effects after the virulence of the coronavirus pandemic, which had put a damper on consumption, subsided. Online retail reported hefty losses, with sales down slightly in food retail. By contrast, sales in some non-food retail segments increased considerably, but without making up for the sales shortfalls caused by the pandemic and the process of structural change. Sales in city centre shops were also down on the pre-pandemic level. This means that these properties remained under pressure. After the significant losses in the previous year, however, their prime rents stagnated in the first half of the year. Their market values, on the other hand, declined as investor risk aversion remained high. Meanwhile, retail parks remained in demand and their market values stable.

In the **European office property markets**, prime rents rose slightly in many locations in the first half of the year, but also stagnated in some places. Market values fell slightly in the cities with rising prime rental yields, but increased slightly in others.

Industry, trade and logistics, infrastructure and renewable energy

German economic output rose only very slightly by 0.2% (adjusted to reflect price, seasonal and calendar effects) in the

first quarter of 2022 compared to the fourth quarter of 2021. Compared to the fourth quarter of 2019, i.e. before the outbreak of the coronavirus crisis, economic output was 0.9% lower. The Russian invasion of Ukraine in February 2022 and its consequences, as well as the ongoing COVID-19 pandemic, which has led to lockdowns being imposed on key trade and economic centres in China as part of the government's zero-COVID policy, have resulted into a poorer business environment for the German economy. Even before these factors emerged, it was grappling with disrupted supply chains and rising prices. In the **manufacturing sector**, the production volume at the start of the year (January to April) was 1.3% below the level seen in the same period of the previous year; in the previous year, the production volume in this period – compared to 2020 – was still up by 5.5%. Trends varied considerably in the major industries: The food and pharmaceutical industries were able to expand their production by more than 10%. The mainstream construction industry also recorded a significant increase of around 5% despite material bottlenecks. By contrast, the energy-intensive chemicals industry, the metal industry and vehicle manufacturing reported declining production volumes, with production in the automotive sector falling by as much as almost 14% after having increased by just shy of 16% in the same period of the previous year.

After reporting revenue growth of 2.0% in 2021 as a whole, **wholesale** companies only reported real growth that was half as high, at 0.9%, in the first four months of 2022 compared to the same period of the previous year. The **retail** sector, on the other hand, grew by almost 4% in real terms in the first four months as the measures to contain the pandemic were eased further – albeit with dwindling momentum – after growth of only 1.7% in the same period of the previous year. While food sales, however, reported declining sales in the first four months, retail sales of textiles, clothing, footwear and leather goods, which had contracted by around 50% in the first four months of 2021, increased by almost 140% at the beginning of 2022, approaching the sort of sales levels seen before the COVID-19 crisis. Non-bricks-and-mortar retail, which had reaped particular benefits from the containment measures during the pandemic and the restrictions on bricks-and-mortar retail, recorded a drop in real sales of around 10% in the first four months in a year-on-year comparison. At the beginning of 2021, sales in this segment were still up by 28%.

Revenue in the **logistics sector** showed marked positive development (in real terms) at the start of 2022, increasing by 9.1% in the first quarter of the year compared to the same period of 2021, when revenue dropped by almost 6%. The measured business climate in the German logistics industry hasdeteriorated sharply in the course of the first half of 2022 and has fallen into negative territory. The decline is mainly due to the considerably more pessimistic business expectations for the remainder of the year and the business situation, which is less frequently assessed as favourable.

The global **project financing** volume rose very dramatically in the first quarter of 2022 and, according to the financial market data provider "Refinitiv", was 42% higher than the volume seen in the same period of the previous year, marking the strongest first quarter in terms of volume since "Refinitiv" started collecting data. Volumes showed a particularly marked increase in the Europe/Middle East/Africa region (+67%) – driven by the telecommunications sector. In Asia, the financing volume increased by 28%, with the transport sector showing the strongest growth (+182%). In North and South America, on the other hand, the project financing volume grew at a much less dynamic rate (+11%).

Investments in **transport infrastructure** grew very strongly year-on-year across the globe at the start of the year (up by 178%) and its growth rate was only outstripped by the growth rates for investment in the telecommunications sector (+274%) and in the mining sector (+244%).

The expansion of **renewable energies** made further progress in both Europe as a whole and Germany at the beginning of 2022. The significant slowdown seen in Germany since 2018 once again became particularly evident as we entered 2022 after a slightly better prior-year period: in terms of installed capacity, new construction in the first three months is 23% below the same period of 2021. Compared with the average for the first quarters of the years from 2014 to 2018, the level is a considerable 55% lower. The expansion in the solar segment continued dynamically in Europe: in Germany alone, new installations in the photovoltaics segment came to just under 3,900 megawatts in the first six months of 2022, up by 34.5% on the prior-year period. The need for alternative energy sources following Russia's attack on Ukraine, more ambitious political climate targets and a stronger awareness of climate protection among the population at large are also likely to have a positive effect here in the short and medium term.

Shipping markets

The **shipping markets** were influenced to a considerable degree by the effects of the Russia-Ukraine war in the first half of the year, with varying consequences in the individual market segments. On the one hand, blockades and sanctions restricted trading activities for many products and raw materials, while on the other, some trade routes were lengthened by the fact that affected imports of coal, steel, grain and oil had to be sourced from countries further away instead. In addition, congestion at major ports and logistics overloads continued to cause long waiting times for ships, which increased the need for shipping capacity.

Charter rates and prices for **container vessels** have risen relentlessly since mid-2020 and continued to reach new highs time and again into the second quarter of this year. The reason is that more ships were needed than were available. As a result, shipping lines were forced to offer astronomical rates for the few ships available or, alternatively, to acquire used tonnage at

exorbitant prices. Global container handling declined moderately compared to the previous year; however, in addition to the impact of the war in Ukraine and the lockdowns in key parts of China, this is likely to be attributable primarily to the lack of transport capacity and supply chain inefficiencies. For example, long waiting times before handling and sluggish hinterland container traffic have had a severe impact on ship productivity. In recent weeks, rates and prices for container vessels have stabilised at exceptionally high levels.

The earnings situation of **bulkers** remained much better than the long-term average in the first half of the year. This market segment benefited from the fact that a larger part of the fleet was still tied up waiting in the ports. In addition, the sanctions against Russia and the blockade of Ukrainian exports due to the war caused a shift and, as a result, a moderate lengthening of trade routes overall. Grain, iron ore and steel products from Ukraine, as well as coal and steel from Russia, are particularly affected. Large Capesize vessels, on the other hand, suffered from the ongoing weakness in Chinese iron ore imports in the first few months of the year. The dent in China's economic development was compounded by the impact that lockdowns had on steel production and demand. The very cautious orders placed for new ships in recent years ensured only moderate fleet growth, which stabilised the market.

As far as oil tankers are concerned, the situation has improved significantly since the beginning of March after a long period of weakness. Due to the EU sanctions against Russia, tanker trade routes are shifting to longer routes. Russian oil from ports in the Baltic Sea and the Black Sea is increasingly being shipped to India and the rest of Asia. EU imports are increasingly coming from the Gulf region, the US and also Asia. This increased transport demand, especially for smaller crude oil and product tankers. The latter also benefited from improved arbitrage opportunities due to price differences between different regions. On the other hand, large crude oil tankers were hit by weak oil demand from China, triggered by the lockdowns lasting several weeks. Ship prices on the secondary market rose considerably, driven by hopes of a recovery and rising costs for newly built vessels.

BANKING ENVIRONMENT: banking sector facing new challenges

After the banking sector demonstrated its ability to steer itself safely through the COVID-19 crisis so far, the war in Ukraine, the high inflation momentum and the associated uncertainty on the capital markets are creating new challenges for banks. The very uncertain environment overall was reflected not least in significantly lower share prices for banks on both sides of the Atlantic, with European institutions suffering significantly higher losses, not least due to their regional proximity to the conflict hotspots.

The departure from the long-standing low interest rate environment in conjunction with a steeper yield curve is, on the one hand, a thoroughly positive development for the banks in view of the pressure on interest income faced by most institutions. On the other hand, it can be assumed that significantly weaker economic momentum or a slide into recession will increase banks' risk costs considerably, and that rising inflation rates will drive up both operating and personnel expenses. The latter are likely to place a particular burden on upcoming modernisation projects for bank IT infrastructures. This could make the road to higher profitability even more protracted, especially for German banks.

Looking ahead, the question as to how individual banks will deal with these new challenges will play a decisive role with regard to their long-term market opportunities and ratings. A solid starting position in terms of capital, stringent cost management (taking into account the need to invest in IT and digitalisation), further business model development, as well as effective risk management are likely to be crucial factors in this respect.

As part of the SREP process, in addition to close monitoring with regard to COVID-19 and vulnerability to primary and secondary effects as a result of the war in Ukraine, the ECB once again devoted increased attention to reviewing risk management, with a focus on interest rate change risks. Other core topics addressed by the ECB as part of the SREP process were IT and cybersecurity, not least against the backdrop of the war in Ukraine, as well as sustainability. With regard to the ECB initiatives on the topic of sustainability, we refer to the explanatory information in the following chapter on "Business development" (section on "Sustainability").

Impact of the underlying conditions on the business of Hamburg Commercial Bank

The overall macroeconomic and industry-specific conditions described in the sections above have also had an impact on the business performance of Hamburg Commercial Bank AG in the first half of 2022.

In the Shipping segment, the Bank continued to benefit from the very positive economic situation in the container vessel and bulker market segments. Overall, the volume of new business concluded was in line with expectations. New business profitability was roughly on a par with the high level witnessed in the same period of the previous year.

The German real estate market remained fundamentally stable in the first half of 2022, although the outlook for the project development sector has clouded over considerably in view of the interest rate turnaround that has been initiated and significant price increases for construction materials and costs. The Bank has taken account of the increased risks in this area by once again tightening its credit standards in this sub-segment and moderately adjusting its new business targets downwards.

In the first half of 2022, the Bank's key risk indicators managed to escape the significantly gloomier macroeconomic outlook compared to the end of 2021 unscathed. In the first six months, there were significantly fewer negative rating migrations than assumed in the conservative planning assumptions. In view of the very low level of new defaults and the continued winding-down of risk positions, the NPE volume and the NPE ratio were reduced further.

Loan loss provisions made a positive contribution to the half-year result with a moderate net reversal, with the Bank addressing potential second-round effects associated with the implications of the war in Ukraine by recognising model overlays.

The interaction of the factors of increased geopolitical uncertainty, scarce raw materials, high inflation rates and the change of direction in central bank policy (interest rate turnaround) has clearly put a damper on the situation on the capital markets. In this environment, rising market interest rates, a significant widening of credit spreads, falling prices on the stock markets and the depreciation of the euro against the US dollar were observed, particularly in the second quarter of 2022. With regard to Hamburg Commercial Bank's earnings situation, the increased interest rate level is expected to have an increasingly positive effect on net interest income from the third quarter onwards. As a consequence the result from financial instruments categorised as FVPL/result from hedging (hedge accounting), the development in the above-mentioned parameters led to – partly contrary – negative and positive valuation effects in the half-year result, which were, however, moderate overall. There were clearly positive effects in equity (OCI): higher market interest rates as against 31 December 2021 have led to a reduction in the present value of pension liabilities, which has easily offset the drop in the fair values of plan assets.

On the refinancing side, the Bank was able to successfully implement a large part of the issuing activity it had planned for 2022 by already issuing mortgage bonds (Pfandbriefe) in a difficult market environment in the first half of the year.

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 2022

As explained in more detail in the previous chapter, the first half of 2022 has been politically and economically dominated, since 24 February, by Russia's devastating war of aggression in Ukraine and its consequences. The war in Ukraine has increased geopolitical uncertainty significantly. As a result, the markets are locked in a phase of considerable uncertainty and high volatility, in which the economic outlook has deteriorated increasingly. Economic development is marked by high inflation rates, rising interest rates and commodity prices, energy supply uncertainties and fears of recession/stagflation.

In this extremely challenging and dynamic environment, Hamburg Commercial Bank's main task in the first half of 2022 was to successfully implement its moderate growth course, initiated with the successful completion of its transformation, as an efficient and profitable specialist finance provider, while at the same time reacting adaptively and proactively to the changing market conditions.

Based on the financial ratios as at 30 June 2022, which were once again very positive, Hamburg Commercial Bank has succeeded in further consolidating its position in the German banking market. The continuation of the increase in operating profitability as well as the further improvement in asset quality are particularly encouraging. In detail, the following developments and events are worth highlighting in the first half of 2022:

Profitability: 20.5% RoE after taxes, also boosted by special effects – further increase in net operating interest margin – rising new business with good levels of new business profitability

Hamburg Commercial Bank can report a very good Group net result of € 207 million as at 30 June 2022, which corresponds to an RoE after taxes of 20.5%. Special effects relating to the Bank's other operating result and in income tax expense also contributed to the very good net result.

Business development also slightly exceeded expectations in operational terms. For example, operating net interest income was increased compared to the first six months of the previous year based on lower average total assets, with a corresponding further increase in the net operating interest margin.

In addition to the ongoing optimisation of asset allocation, this positive development in net interest income can also be traced back to good new business development. The gross new business volume, to which all market segments contributed in line with expectations, totalled € 2.9 billion in the first six months of 2022, significantly higher than the value for the same period of the previous year (€ 1.8 billion). New business profitability, measured in terms of RoE after taxes, improved further in almost all asset classes compared to the same period of the previous year. The volume of prolongations amounted to € 1.2 billion in the first half of 2022 (same period of the previous year: € 1.9 billion), with a focus on commercial real estate and further improved profitability.

Hamburg Commercial Bank also continued to diversify its portfolio, among other things to include special credit funds, which the Bank is using to strengthen its activities in the North American and western European regions. For further information, please refer to the explanatory information on the scope of consolidation in Note 3 of the notes to the Group financial statements.

Risk: further improvement in risk ratios with NPE ratio of 1.3% - no direct impact of war in Ukraine - risks from second-round effects are being monitored and addressed

Despite the gloomier outlook for the global economy, Hamburg Commercial Bank once again succeeded in improving its asset quality compared to 31 December 2021, which is reflected primarily in a further reduction in NPEs, a decrease in the NPE ratio to 1.3% and a moderate net reversal of loan loss provisions. There was only a very small volume of new defaults in the first six months of the financial year. To date, the adverse economic development has not been reflected in negative rating migrations to the extent assumed in the conservative planning assumptions made at the end of 2021.

Given that Hamburg Commercial Bank has no gross exposure in Russia and Ukraine, as well as a negligible exposure to the Central and Eastern European countries in the narrower sense of the term (see the explanations and information in the table in the Risk Report in the section entitled "Default risk"), the consequences of the war in Ukraine have not had any direct impact on the Bank.

With regard to the indirect impact, Hamburg Commercial Bank identified a limited number of borrowers in the first half of the year whose business models could potentially be negatively affected by the impact of the war in Ukraine. The development of these borrowers is being closely monitored using a credit watchlist. In view of the mounting risks in real estate project financing, the Bank has once again tightened up its credit standards in this asset class and lowered the volume targets for Real Estate by a good 20%, cautiously slowing the growth momentum in this area. In general, the Bank adopts a cautious approach and weighs up the opportunities and risks carefully in a manner that is specific to the situation every time it makes a credit decision. Nevertheless, it is sticking to its overall objective of a sustained growth path.

Funding: three benchmark mortgage bonds with a total volume of € 1.5 billion contribute to the further diversification of the funding structure

Hamburg Commercial Bank further strengthened its funding structure in the first half of 2022 and successfully placed three benchmark mortgage bonds issues with a volume of € 500 million each on the capital market.

The series of issues kicked off in January with the successful placement of a mortgage bonds in benchmark format (€ 500 million). The bond, rated "Aa1" by Moody's, has a maturity of five years.

In May, a ship mortgage covered bond was issued, Hamburg Commercial Bank's first benchmark ship mortgage covered bond since its privatisation. The debenture backed by ship mortgages with a nominal volume of € 500 million has a term of three years. Following the one-notch upgrade in June 2022, the bond is rated "A1" by Moody's. The ship mortgage covered bond complements and diversifies HCOB's funding structure and helps to refinance the Bank's international activities in its core business area in a cost-efficient manner.

Finally, the issue of a second mortgage bond, also with a five-year term, followed in June. As with the January issue, the nominal volume was € 500 million and the Moody's rating awarded was "Aa1".

With the three bond issues mentioned above, Hamburg Commercial Bank successfully continued its regular issuing activities on the capital market.

Costs/projects: achievement of key milestones in the IT transformation process

The achievement of two major milestones in the comprehensive IT transformation process was the focal point of the Bank's project activities in the first half of the year.

First, SAP S4/HANA Banking for Complex Loans went live in April. As the Bank's central lending system, Complex Loans maps financing structures and is also a system that connects to various bank applications. The implementation of Complex Loans is intended to contribute to an improvement in data quality and provides the basis for making banking processes more efficient, optimising handling and benefiting from further developments by the manufacturer.

In May, SEPA payments went live on the payment transaction system of the new payment transaction provider following the changeover in international payment transactions back in July 2021. The extensive and complex overall project was completed in less than two years, much more quickly than is usual for comparable projects. In addition to cost savings, the Bank also expects the changeover to improve its ability to implement its strategic growth targets in the area of payment services.

Sustainability

Given the considerable importance attached to the topic of sustainability in social, regulatory and strategic terms, Hamburg Commercial Bank continued to forge ahead with its environmental, social and governance (ESG) initiatives in the first half of the year. From a regulatory perspective, the focus was on successful participation in the ECB initiatives "Climate Risk Stress Test" and "C&E Thematic Review". In addition, Hamburg Commercial Bank, in its efforts to set standards for best practice in terms of sustainability in the German banking market, has further integrated the topic of ESG into its internal business processes and further developed it in terms of content and processes. The establishment of an independent organisational unit (ESG) within the Strategy & Transformation business unit emphasises the strategic importance of the topic of sustainability even more strongly. As set out in the 2021 CSR Report, the Bank also set itself new ambitious goals, both at portfolio and group level. At operational level, the comprehensive further development of the ESG scoring tool, as well as the implementation of ESG training sessions with a focus on employees from the front and back office, are particularly noteworthy. The latter also contributes to the Bank's objective of focusing the strategic dialogue with our clients even more strongly on the necessary transition of the economy and, as a result, their own business models. Objective sustainability criteria, such as transformation paths to achieve carbon-neutral status, provide the framework here. The Bank also made further progress in integrating ESG reporting requirements into the IT infrastructure.

Earnings, net assets and financial position

Key group management indicators

	30.06. 2022	31.12.2021 (30.06.2021)
RoE after taxes[1]	20.5%	18.4% (19.8%)
CIR	44%	50% (45%)
NPE ratio	1.3%	1.4% (1,9%)
CET1 capital ratio[2]	24.2%	28.9% (29,6%)
LCR	163%	164% (170%)

[1] The RoE after taxes shown is based on standardised regulatory capital backing (average RWA and CET1 ratio of 13%).

[2] The voluntary decision was made not to include profits for the first half of 2022/the 2021 financial year in Common Equity Tier 1 capital in anticipation of a potential dividend payment in 2023.

Group performance ahead of expectations overall

The following aspects, in particular, contributed to business development that was ahead of expectations overall in the first half of 2022:

- The Group net result (net income after taxes), in which the annual contributions for the bank levy and the deposit guarantee fund have already been recognised in full, amounted to a very good € 207 million as at 30 June 2022, up slightly again on the same period of the previous year (€ 194 million). Based on standardised regulatory capital backing, the return on equity after taxes (**RoE after taxes**) came to 20.5% (30 June 2021: 19.8%). Overall, the net result is characterised by a continuation of the positive trend in net operating interest income, good risk development and cost development that went according to plan overall. Based on the good risk development, there was a net reversal of loan loss provisions. This, combined with positive effects from other operating income and income tax expense, was the reason why the net result was significantly ahead of expectations for the first half of the year. In view of the slightly higher-than-expected total income (€ 304 million, same period of the previous year: € 338 million), the encouraging development in net interest income is particularly worthy of mention. At € 286 million, it was up by around 6% on the prior-year period (€ 269 million) as a result of a further increase in the net operating interest margin, with lower average total assets. The other items in total income amounted to € 18 million (same period of the previous year: € 69 million), putting them slightly below the planned values due to moderate losses in the FVPL result. Total income after loan loss provisions of € 334 million (same period of the previous year: € 360 million) was clearly above expectations. The fact that there were only very few new defaults and, as a result, very moderate stage 3 loan loss provisions had a positive effect here. Taking into account net reversals at Stage 1 and Stage 2, loan loss provisions of € 30 million made a positive contribution to the Group net result, as in the same period of the previous year (€ 22 million). While costs (administrative expenses, regulatory expenses and restructuring/transformation expenses) developed according to plan overall and, at a total of € 196 million, were on a par with the first six months of 2021 (€ 197million), the other operating result, benefiting from special effects, was significantly more positive than expected at € 40 million (€ 5 million). On this basis, Hamburg Commercial Bank reported net income before taxes of € 178 million at the end of the first half of the year, up slightly on the level reported in the same period of the previous year (€ 168 million). Due to income from the reversal of tax provisions and increased prospects regarding the extent to which tax loss carry-forwards can be used in Luxembourg, income tax expense of € 29 million (same period of the previous year: € 26 million) made a marked positive contribution to the Group net result. In the previous year's earnings forecast, a moderate tax expense was assumed. For information on the other individual drivers behind the development of the income statement items, we refer to the explanatory information in the next section of this chapter, the section on "Earnings situation".
- The cost-income ratio (**CIR**) came to 44% on 30 June 2022 (30 June 2021: 45%). The value, as a measure of cost efficiency, is lower at the half-year point than assumed in the forecast. This is mainly due to the earnings base benefiting from the good other operating result. Administrative expenses, however, were also slightly lower than expected at € 150 million. Compared to the same period of the previous year, both the cost and earnings base were roughly at the same level.
- Asset quality has developed more positively in the first half of 2022 than assumed in the 2021 year-end forecast. Despite the difficult macroeconomic environment and a moderately lower exposure at default of € 1.0 billion, the **NPE ratio** was reduced further from 1.4% (31 December 2021) to a good 1.3%. This was due to the ongoing reduction of NPEs in the Real Estate and Shipping segments, which further reduced the NPE volume to € 409 million as at 30 June 2022 (31 December 2021: € 467 million). This development underlines the resilience of Hamburg Commercial Bank's loan portfolio.
- The **CET1 ratio** has fallen from the exceptionally high level seen on 31 December 2021 (28.9%), as was to be expected. The ratio came to 24.2% as at 30 June 2022. The main reason behind the change was the increase in aggregate RWA, which was, however, significantly lower than expected with an increase of € 2.1 billion compared to 31 December 2021 to € 16.1 billion. The increase is based almost exclusively on increased risk assets for credit risks as a result of the switch in the rating model landscape completed in the reporting period (switch to Credit Risk Standardised Approach and Foundation IRB). A slight increase in RWA for operational risk was offset by a corresponding decrease

in RWA for market risk. Common Equity Tier 1 capital fell slightly to € 3,9 billion (31 December 2021: € 4.1 billion). It is important to note that both the annual profit for 2021 and the profit for the first half of 2022 (deviating from the forecast for the CET1 ratio) have not been included in the Common Equity Tier 1 capital on a voluntary basis.
- The liquidity position was managed prudently in the first half of 2022 in view of the highly uncertain market environment. The liquidity ratio **LCR** came to 163% as at 30 June 2022, which is the same as the level seen at the end of the previous year (164%). This means that it remains well above the ECB's minimum requirements.

Further details underlying the business performance are given below in the "Earnings situation" and "Net assets and financial position" sections. The development of results in the segments is presented in the chapter "Segment results".

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. Hamburg Commercial Bank 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 2022.

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 2022 as a whole, is set out in Hamburg Commercial Bank's Group Management Report for the 2021 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 2022	January–June 2021	Change in %
Interest income from financial assets categorised as AC and FVOCI	307	303	1
Interest income from other financial instruments	120	173	-31
Negative interest on investments categorised as AC and FVOCI	-11	-7	57
Negative interest on other cash investments and derivatives	-27	-39	-31
Interest expenses	-139	-211	-34
Positive interest on borrowings and derivatives	36	50	-28
Net interest income	**286**	**269**	**6**
Net commission income	18	22	-18
Result from hedging	7	-2	>100
Result from financial instruments categorised as FVPL	-9	28	>-100
Net income from financial investments	–	2	-100
Result from the disposal of financial assets classified as AC	2	19	-89
Total income	**304**	**338**	**-10**
Loan loss provisions	30	22	36
Total income after loan loss provisions	**334**	**360**	**-7**
Administrative expenses	-150	-153	-2
Other operating result	40	5	>100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-29	-31	-6
Net income before restructuring and transformation	**195**	**181**	**8**
Result from restructuring and transformation	-17	-13	-31
Net income before taxes	**178**	**168**	**6**
Income tax expense	29	26	-12
Group net result	**207**	**194**	**7**
Group net result attributable to Hamburg Commercial Bank shareholders	207	194	7

Strong net interest income drives total income
Hamburg Commercial Bank generated total income of € 304 million in the first half of 2022 (same period of the previous year: € 338 million), putting it on course to achieve its full-year earnings target of total income in excess of € 600 million. Total income is dominated by net interest income, which, at € 286 million, was 6% higher than in the same period of the previous year despite lower average total assets. Net commission income again made a solid contribution to total income, while the slightly negative FVPL result had a moderate negative impact. In line with the Bank's forecasts, the contributions to the total income made by the disposal of financial assets classified as AC were lower than in the first six months of the previous year. Developments in the individual items making up total income and their causes are presented below:

In the first half of 2022, **net interest income** amounted to € 286 million, up by € 17 million on the value for the same period of the previous year (€ 269 million). It is important to note that the share of operating, i.e. sustainable, net interest income increased after adjustments to reflect one-off effects. This was achieved with lower average total assets, as the net operating interest margin was increased again. This, in turn, again shows that the balance sheet of the Hamburg Commercial Bank Group has become more productive, helped along not least by the good level of conditions for new business and prolongations in the reporting period. The ongoing optimisation of asset allocation, in the context of which the proportion of interest-bearing receivables attributable to the high-margin international corporates business increased further, once again had a positive effect. Refinancing via the ECB's TLTRO programmes came to € 4 million in the reporting period (same period of the previous year: € 8 million), which had a positive impact on net interest income.

Net commission income, which was still in line with expectations, amounted to € 18 million as at 30 June 2022 and proved relatively stable in terms of its amount and composition compared to the same period of the previous year, in which this figure amounted to € 22 million. Commission expenses include, to a moderate extent, expenses for fees paid to portfolio managers of the fully consolidated funds (loan funds).

The **result from financial instruments categorised as FVPL,** which came to € -9 million (same period of the previous year: € 28 million), revealed moderate valuation losses in view of the deteriorating and challenging environment on the capital markets. The environment was characterised by an increase in interest rates (both in the US dollar and in the euro area), significantly widening credit spreads and a depreciating euro against the US dollar. The development of the aforementioned valuation parameters led to positive and negative valuation effects in relation to the Bank's assets and liabilities subject to the FVPL result. The predominantly negative effects overall were due, in particular, to wider credit spreads, also in the context of the valuation of the strategic investment portfolio. FX effects also had an impact on the FVPL result, although these burdens were causes by offsetting effects in net interest income. Positive effects on the FVPL result resulted from the increase in the market interest rate level, in particular due to the reduction of fair value adjustments on client derivatives.

The **result from the disposal of financial assets classified as AC** came to € 2 million, lower than in the prior-year period (€ 19 million) as was to be expected. The earnings position includes prepayment penalties for early principal repayments. The sales of receivables completed in the first half of 2022 had no effect on earnings.

Net reversal of loan loss provisions (net income statement result): No new defaults worth mentioning, net reversals at Stages 1 and 2 due to portfolio improvements

Loan loss provisions (income statement) once again made a positive contribution of € 30 million to the Group net result in the first half of 2022 (same period of the previous year: € 22 million). Overall, the net result shows, first of all, that the increasingly weaker economic outlook, with the event triggers of the Ukraine war and the ongoing pandemic, did not lead to any significant loan defaults/negative rating migrations in the Bank's loan book in the first half of the year. On the other hand, due to the further increase in portfolio quality and in line with a conservative risk policy, the Bank had to partially reverse the model overlays that it had recognised.

The positive net result in the first six months was supported by changes in loan loss provisions on loans and advances to customers totalling € 28 million. The other components of the loan loss provision result were slightly positive overall.

The change in loan loss provisions resulted from net reversals at Stages 1 and 2 totalling € 36 million, which exceeded the net additions at Stages 3 and 4 (POCI) totalling € 7 million.

The key drivers behind the positive development of loss provisions at Stages 1 and 2 were reversals in the Real Estate segment due to the migration of a few large individual exposures to Stage 1 as well as the reduction in model overlays, driven by the largely completed changeover to the new rating model in the area of national real estate and the reduction in the exposure for the real estate customers potentially affected by COVID-19 on the credit watchlist. In addition, the drop in the exposure of individual customers in the Corporates segment and the reduction in overlays for rating model adjustments contributed to the reversal of loan loss provisions.

In addition, the decrease in model overlays for borrowers with a medium to high exposure to the COVID-19 pandemic was largely offset by the model adjustments set up in the first half of 2022 to address credit risks for individual exposures that could potentially be indirectly affected by the impact of the war in Ukraine. For further details, particularly on the composition and development of the model overlays, we refer to Note 2 in the notes to the Group financial statements.

The net additions at Stages 3 and 4 were attributable primarily to the clients in the Corporates segment, with Real Estate and Shipping reporting slight net reversals overall.

Administrative expenses slightly lower than in the previous year

Administrative expenses as at 30 June 2022 amounted to € 150 million, around 2% below the level of the same period of the previous year (€ 153 million). The decrease is mainly due to declining operating expenses in ongoing operations.

Personnel expenses came to € 70 million (same period of the previous year: € 68 million). Overall, the development in personnel costs is in line with the Bank's expectations and – compared to the same period of the previous year – has been influenced by various individual factors. These relate, among other things, to the planned changes in the number of employees, as well as effects from salary increases and provisions. Information on the development of the number of employees in the Group, as well as other key employee figures can be found in the chapter "Employees of Hamburg Commercial Bank".

Operating expenses (including depreciation of property, plant and equipment and amortisation of intangible assets) amounted to € 80 million (same period of the previous year: € 85 million). The costs of ongoing operations ("run the bank" costs) decreased further from € 62 million to € 56 million, due in particular to lower IT provider costs, which account for about one-third of these costs. The forward-looking "change the bank" costs of € 24 million were roughly at the same level as in the first six months of 2021, when costs totalling € 23 million were incurred. Once again, they were largely attributable to the IT projects of Hamburg Commercial Bank.

Other operating result made a marked positive contribution to the Group net result due to special effects

At € 40 million, higher than planned, the other operating result made a much more positive contribution to the Group net result than in the same period of the previous year (€ 5 million). Income from the reversal of provisions (€ 34 million), mainly for legal risks, had a particular positive effect. The earnings item also includes further special effects in the form of interest income from taxes (€ 11 million) and claims from an earn-out agreement in connection with a subsidiary sold in the

2020 financial year (€ 4 million). In the first half of 2021, the other operating result of € -13 million was hit by residual value-related value adjustments on a legacy leasing receivable.

Annual contributions for bank levy and deposit guarantee fund already recognised in full
Expenses for regulatory affairs, deposit guarantee fund and banking associations amounted to € 29 million on the basis of the fixed (bank levy)/expected (deposit guarantee fund) annual contributions, putting them down slightly on the same period of the previous year, in which expenses of € 31 million were incurred, due to lower contributions for the bank levy.

Transformation expenses dominated by project expenses
As planned, the result from restructuring and transformation once again had a negative impact on earnings in the first half of 2022. While the result from restructuring had only a minor negative impact at € 14 million, transformation expenses of € 3 million (same period of the previous year: € 13 million) were incurred. These expenses were mainly related to project activities relating to the changeover in payment transactions.

Income taxes made a marked positive contribution to the Group net result due to special effects for previous years and income from deferred taxes
Given the above-mentioned developments in the individual items, net income before taxes as at 30 June 2022 amounted to € 178 million (same period of the previous year: € 168 million). Income taxes again made a marked positive contribution to the Group net result in the reporting period at € 29 million (same period of the previous year: € 26 million). They include income from current taxes (€ 19 million) and from deferred taxes (€ 10 million). Current taxes include income of € 27 million for past assessment periods. This was due to reversals of tax provisions for tax audits. Based on the updated tax planning for 2022, deferred tax income comprises an expense from the reversal of deferred tax assets on temporary differences (€ 39 million) and offsetting income from the recognition of deferred tax assets on loss carryforwards (€ 49 million).

Group net result as at 30 June 2022 considerably higher than expected
After income tax expense, Hamburg Commercial Bank reported a Group net result of € 207 million as at the reporting date (same period of the previous year: € 194 million). The earnings trend was characterised first of all by the continued positive trend in net operating interest income. Second, the combination of moderate development in loan loss provisions and income from the reversal of provisions and the recognition of deferred taxes meant that the net result for the first half of the year was well above expectations for the first six months.

Compared to the same period of the previous year, the earnings situation was very stable. On the income side, lower contributions to earnings made by the disposal result and the moderate valuation losses in the FVPL result were offset by higher net interest income, which accounts for an increasing share of total income, and higher other operating income. Costs were also on a par with the first six months of 2021. Both loan loss provisions and the income tax position had a positive impact on the Group net result, to a slightly higher extent than in the same period of the previous year.

Net assets and financial position

Material items on the statement of financial position

(€ m)	30.06.2022	31.12.2021	Change in %
Assets			
Cash reserve	3,804	3,261	17
Loans and advances to banks	1,020	1,236	-17
Loans and advances to customers	20,211	20,198	0
Loan loss provisions	-410	-446	-8
Trading assets	507	689	-26
Financial investments	4,434	4,524	-2
Non-current assets held for sale and disposal groups	-	10	-100
Other assets	781	799	-2
Total assets	**30,347**	**30,271**	**0**
Liabilities			
Liabilities to banks	4,441	5,504	-19
Liabilities to customers	12,341	11,141	11
Securitised liabilities	6,528	6,704	-3
Trading liabilities	436	289	51
Provisions	384	454	-15
Subordinated capital	935	921	2
Equity	5,007	4,717	6
Other liabilities	275	541	-49
Total liabilities	**30,347**	**30,271**	**0**

Constant total assets

The consolidated statement of financial position was stable in the first six months of the 2022 financial year. Consolidated total assets at the end of the first half of the year came to € 30,347 million, which is roughly the same level as on 31 December 2021 (€ 30,271 million). There were also no significant changes within the individual significant balance sheet items – apart from a decrease/increase in liabilities to banks/liabilities to customers that more or less cancelled the opposite effect out, and an increase in the cash reserve. In detail, the moderate developments were as follows:

The liquidity position was managed prudently and conservatively in the first half of 2022 in view of the uncertainty and highly volatile market environment. Accordingly, the cash reserve increased considerably compared to the end of the prior-year reporting period and amounted to € 3,804 million as at 30 June 2022 (31 December 2021: € 3,261 million).

Loans and advances to banks, on the other hand, declined compared to the end of the previous year, also in the context of lower cash collateral. As at 30 June 2022, they amounted to € 1,020 million (31 December 2021: € 1,236 million).

The loan book, reflected by the balance sheet item loans and advances to customers, was on a par with 31 December 2021. As at 30 June 2022, the carrying amount of loans and advances to customers was € 20,211 million (31 December 2021: € 20,198 million). In terms of portfolio composition, the share of loans in the high-margin International Corporates & Speciality Lending segment increased further, as planned.

Total loan loss provisions (for balance sheet items) were lower as at 30 June 2022 and amounted to € -410 million (31 December 2021: € -446 million). Within the loan loss provision stages, there was a reduction in loan loss provisions at Stages 1 and 2 and a increase at Stage 3. In conjunction with the further reduction in the NPE volume, the risk shielding of the NPE portfolio, expressed by the NPE Coverage Ratio AC, increased to a very comfortable 63.6% (31 December 2021: 55.8%).

Trading assets were down on the end of the prior-year reporting period, falling by 26% to € 507 million (31 December 2021: € 689 million). The decrease relates to the carrying amount of positive fair values from derivative financial instruments. The market values from interest-related and currency-related transactions developed in opposite directions. The market values of interest-related transactions decreased, also due to the increase in interest rates. This effect was exacerbated by the fact that the netting volume on the assets side increased significantly compared to 31 December 2021. Conversely, but to a lesser extent, the positive market values from

currency-related transactions increased, predominantly due to the appreciation of the USD against the euro.

There was a slight decrease in the portfolio of financial investments. As at 30 June 2022, they had a carrying amount of € 4,434 million (31 December 2021: € 4,524 million).

The decrease in the carrying amount of non-current assets held for sale and disposal groups (€ 0 million, 31 December 2021: € 10 million) results from the sale of a customer receivable in the Project Finance segment, which was completed in the first quarter of 2022.

The main component of other assets, which totalled € 781 million at the end of the first half of the year, putting them approximately at the same level as that seen on 31 December 2021 (€ 799 million), is deferred tax assets. Within other assets, there was a marked decline in the positive adjustment item from the portfolio fair value hedge, which showed a negative balance as at the half-year reporting date. By contrast, the balance sheet item other assets increased significantly. This was due to the increase in capitalised plan assets. This is because the decrease in the net present value of the pension liabilities induced by the interest rate was significantly more pronounced than the decrease in the fair value of the plan assets, which was also driven by the interest rate.

On the liabilities side, the decrease in liabilities to banks is offset by an increase in liabilities to customers on a comparable scale.

Liabilities to banks were down by 19% to € 4,441 million (31 December 2021: € 5,504 million). Borrowings from the ECB under the TLTRO III programmes are also reported within this item, with drawdowns still amounting to € 1.75 billion (nominal amount) on the half-year reporting date.

Liabilities to customers increased by 11%, falling from € 11,141 million to € 12,341 million. The increase is mainly due to the scheduled increase in deposits from € 7.7 billion to € 8.5 billion.

The development of securitised liabilities was characterised by the new mortgage bonds issues in benchmark format in the first half of the year to replace maturing bonds. Accordingly, the carrying amount of the position has changed only slightly with a decrease of 3% from € 6,704 million to € 6,528 million.

Trading liabilities amounted to € 436 million (31 December 2021: € 289 million). The increase is due primarily to the increase in negative market values of currency-related derivative financial instruments (in line with the development on the assets side).

As of 30 June 2022, provisions amounted to € 384 million (31 December 2021: € 454 million). The decrease in this balance sheet item affected all major categories. The trend was most pronounced in provisions for litigation risks (due to reversals) and provisions for restructuring (largely due to consumption).

The carrying amount of the subordinated capital increased slightly due to the appreciation of the US dollar and amounted to € 935 million as at 30 June 2022 (31 December 2021: € 921 million).

The Bank's reported equity increased relatively significantly as against the end of the previous year and amounted to € 5,007 million (31 December 2021: € 4,717 million). The increase is based on the Group net result for the first half of 2022 and the other comprehensive income for the period, which is also positive. The latter results in particular from positive effects from the revaluation of net liabilities from pension liabilities. Changes in the fair value of financial instruments to be recognised in OCI had a slight opposite effect.

Other liabilities were down as against 31 December 2021 from € 541 million to € 275 million. The main reason for this was that - in line with the development on the assets side - the negative adjustment item from the portfolio fair value hedge and the negative market values of the hedging derivatives (interest rate derivatives on the liabilities side) decreased.

Business volume also declines

The business volume (total assets plus off-balance sheet business) remained almost constant in line with total assets and amounted to € 34,930 million as at 30 June 2022 (31 December 2021: € 34,823 million). While sureties and guarantees increased by € 156 million to € 908 million (31 December 2021: € 752 million), irrevocable loan commitments fell by € 125 million to € 3,675 million (31 December 2021: € 3,800 million).

Structure of liabilities by financial instruments

(€ m)	30.06.2022		31.12. 2021	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Mortgage Bonds (Pfandbriefe) and asset-based funding	**6,664**	**5,514**	**7,398**	**5,010**
Mortgage bonds (Pfandbriefe)	4,335	3,217	4,144	2,510
Other secured funding	2,329	2,297	3,254	2,500
Unsecured liabilities (senior preferred)	**14,145**	**4,535**	**13,152**	**5,352**
Unsecured liabilities (senior non-preferred)	**2,500**	**2,185**	**2,799**	**2,436**
Profit participation certificates and other subordinated liabilities	**935**	**935**	**920**	**920**
Hybrid instruments	**–**	**–**	**–**	**–**
Total	**24,244**	**13,169**	**24,269**	**13,718**

The above table breaks down Hamburg Commercial Bank's liabilities by financial instrument and thereby takes into account the requirements of capital markets participants. Liabilities with a maturity of more than one year are separately shown. The financial instruments can be reconciled to the balance sheet line items liabilities to customers, liabilities to banks, securitised liabilities and subordinated capital. The carrying amounts of financial instruments excluding principal repayments and accrued interest are assigned to maturity bands in the above table.

One focal point within the context of long-term refinancing relates to securitised debt instruments (mortgage bonds, asset-based funding). These mainly include debt instruments issued under mortgage bond programmes (mortgage, public sector covered bonds and ship mortgage covered bonds 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 € 6,664 million as at 30 June 2022 (31 December 2021: € 7,398 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 € 16,645 million (31 December 2021: € 15,951 million). The call and time deposits are shown together with structured unsecured financial instruments in the "senior preferred" category and total € 14,145 million (31 December 2021: € 13,152 million). The "senior non-preferred" category consists primarily of bearer and registered bonds that do not have any structured elements and amounted to € 2,500 million as at 30 June 2022 (31 December 2021: € 2,799 million).

Profit participation certificates and other subordinated liabilities (€ 935 million, 31 December 2021: € 920 million) represent subordinated capital.

Capital and funding
RWA, regulatory capital and capital ratios[1)]

	30.06.2022	31.12.2021
Risk-weighted assets (RWA) (€ bn)	16.1	14.0
Regulatory capital (€ bn)	4.9	5.0
thereof: CET1 capital (€ bn)	3,9	4.1
Overall capital ratio (%)	30,3	35.7
Tier 1 capital ratio (%)	24,2	28.9
CET1 capital ratio (%)	24.2	28.9
Leverage ratio (%)	12.8	12.7

[1)] The voluntary decision was made not to include profits for the first half of 2022/the 2021 financial year in Common Equity Tier 1 capital in anticipation of a potential dividend payment in 2023.

Capital ratios show substantial surplus capital position
As expected, the CET1 ratio of 24,2% is down compared to 31 December 2021 (28.9%). The development is mainly the result of an increase in RWA for credit risks due to the implementation of the simplified model landscape, with the switch from the Advanced IRB to the Foundation IRB and the Credit Risk Standardised Approach, which was completed in full at

the end of the first quarter. Common Equity Tier 1 capital amounted to € 3,9 billion as at 30 June 2022, slightly below the level of the prior-year end (€ 4.1 billion) due to higher regulatory deductions. It is important to note that the capital ratios are shown before taking into account the annual profit achieved in 2021 and the half-year profit for 2022. The Tier 1 capital ratio and the overall capital ratio developed in line with the Common Equity Tier 1 ratio compared with 31 December 2021.

The capital ratios still exceed the regulatory requirements resulting from the SREP process very significantly. The regulatory requirements were adhered to at all times during the reporting period. Please refer to the Risk Report for information on the minimum banking supervisory requirements.

The leverage ratio increased slightly compared to 31 December 2021 (12.7%) to 12.8% due to a decrease in leverage exposure. This means that the leverage ratio is still significantly higher than the regulatory requirement of 3% and, together with the very high capital ratios, pays testimony to the Bank's exceptionally robust capital position.

Refinancing strengthened significantly with three further benchmarkmortgage bonds issues

The refinancing situation in the reporting period was characterised by very volatile and difficult capital markets. The ongoing burden of COVID and the geopolitical situation have led to a sharp increase in inflation rates and a significant increase in interest rates with rising credit spreads. The decision to issue low-risk refinancing funds in the first half of the year meant that the deterioration in the capital market environment had only a very moderate impact.

Fundraising is in line with the Bank’s budgeted figures. In total, the Bank raised a good € 2 billion in long-term funds in the first half of 2022. After the first mortgage bond in benchmark format was issued at the end of 2021, the Bank issued two more mortgage bonds with a volume of € 500 million each and its first ship mortgage covered bond with the same volume during the reporting period. The bonds will strengthen the Bank's funding base in the long run and refinance two of the Bank's core business areas in a cost-effective manner. For further details on these issues, please refer to the comments in the chapter entitled "Business development – significant developments and events in the 2022 reporting year". The Bank aims to establish itself as a regular issuer on the capital market and is planning further unsecured benchmark issues and mortgage bonds issues for the coming years.

In addition, the Bank continues to make use of the long-term funds provided by the European Central Bank (TLTRO). During the reporting period, the TLTRO holdings of € 1.75 billion were maintained.

In addition to long-term refinancing, the deposit position also contributed to the implementation of the funding strategy. Following the Bank’s successful transformation and the fact that the Bank is now planning slight balance sheet growth, deposits were slightly expanded accordingly.

Key liquidity ratios

	30.06.2022	31.06.2021
Total deposits (€ bn)	8.5	7.7
LCR (%)	163	164
NSFR (%)	122	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.

Rating

Rating overview as at 30.06.2022

	Moody's	S&P
Issuer rating (long-term)	Baa1, positive	BBB, stable
Current liabilities	P-2	A-2
Stand-alone rating (financial strength)	ba1	bbb
"Preferred" Senior Unsecured Debt	Baa1	-
"Non-Preferred" Senior Unsecured Debt	Baa2	-
Mortgage Pfandbrief	Aa1	-
Ship Pfandbrief	A1	-

The table above provides an overview of Hamburg Commercial Bank AG's ratings awarded by Moody's and S&P as at 30 June 2022. In the second half of March 2022, S&P raised Hamburg Commercial Bank's stand-alone rating from bbb- to bbb, and the rating outlook for the issuer rating changed from "developing" to "stable" in view of the successful transition from the institutional protection system of the German Savings Banks (Sicherungssystem der Sparkassen-Finanzgruppe)to the deposit guarantee fund of private banks (Einlagensicherungssystem der Privatbanken).

Moody's upgraded the Bank's ship mortgage covered bond rating from A2 to A1 in June 2022, giving greater consideration to the strong regulatory framework in the mortgage bonds market and taking into account HCOB's strengthened risk management, which has resulted in reduced concentration risk and improved maturity and amortisation profiles for loans in the Shipping segment, among other things.

Segment results

Segment overview January – June 2022

(€ m)		Real Estate	Shipping	Project Finance	Corporates	Lending Units	Treasury & Group Functions	Reconciliation	Group (income statement/ balance sheet)
Total income	**2022**	**89**	**82**	**30**	**53**	**254**	**173**	**-123**	**304**
	2021	97	71	36	53	257	111	-30	338
Loan loss provisions (expected loss)	**2022**	**-4**	**-3**	**-3**	**-11**	**-21**	**-**	**51**	**30**
	2021	-8	-7	-3	-11	-29	-1	52	22
Administrative expenses & regulatory costs	**2022**	**-39**	**-35**	**-15**	**-24**	**-113**	**-66**	**-**	**-179**
	2021	-47	-30	-19	-28	-124	-60	-	-184
Earnings after taxes	**2022**	**40**	**38**	**10**	**16**	**104**	**113**	**-10**	**207**
	2021	37	30	12	12	91	37	66	194
RoE after taxes (%)	**2022**	**12.4**	**19.4**	**6.9**	**6.5**	**11.4**	**-**		**20.5**
	2021	12.8	15.7	7.4	5.2	10.5	-		19.8
Segment assets (€ bn)	**30.06. 2022**	**7.9**	**3.8**	**3.6**	**4.0**	**19.3**	**11.0**	**-**	**30.3**
	31.12.2021	8.0	3.7	3.9	3.7	19.3	10.9	0.1	30.3
Loan loss provisions (income statement)	**2022**	**44**	**3**	**-15**	**-3**	**29**	**-**	**1**	**30**
	2021	-1	34	12	-25	20	2	-	22

[1] Loan loss provisions in accordance with IFRS at Group level.

Structure of segment reporting

The management of the Group comprises four market-related segments (“Real Estate”, “Shipping”, “Project Finance” and “Corporates”), which are also summarised as “Lending Units” and the segment "Treasury & Group Functions". The “Reconciliation” column is used to express all of the management indicators in line with the IFRS perspective. Compared to the segment reporting as at 30 June 2021, the segment "Project Finance & Corporates" was split into two new segments, "Project Finance" and "Corporates". In addition, the RWA for operational risks, for deferred taxes and for asset-liability management were also taken into account for the first time when allocating RWA to the segments. The prior-year figures have been adjusted for the purposes of comparability. For more detailed information on segment reporting, please refer to the note 36 "Segment reporting" in the notes to the Group financial statements.

Further information on the segments and their strategic orientation can be found in Hamburg Commercial Bank’s Group Management Report for the 2021 financial year in the "Strategic direction for the business areas” section of the chapter entitled "Basis of the Group".

Business development in the segments

Across all segments, profitability in the first half of 2022 is slightly above the level seen in the same period of last year. The increase in RoE after taxes of the Lending Units segments from 10.5% to 11.3% reflects the successful progress made in realigning the portfolio. A comprehensive de-risking and de-leveraging strategy, aimed at systematically removing exposures with a poor risk/return profile from the portfolio, a more selective approach to new business and an overall change in asset allocation, in which higher-margin business in new areas contributes to diversifying the Bank's portfolio, have made a key contribution in this regard.

The **Real Estate** segment generated net income after taxes of € 40 million in the first half of 2022 (same period of the previous year: € 37 million). The operating business remained characterised by the risk-conscious further development of the portfolio, the aim being to optimise earnings. In view of the decline in segment assets to € 7.9 million due to the de-risking strategy, net interest income and net commission income from the operating business decreased, with a corresponding reduction in risk costs and administrative expenses. Gross new business bounced back slightly after the

lower demand for credit due to the economic environment last year and increased to a total of € 0,7 billion in the first half of the year despite the risk-conscious business approach (same period of the previous year: € 0,4 billion). The positive trend in margins reflects both the more selective approach and the lower funding costs. The decline in the segment's RoE to 12.4% (same period of the previous year: 12.8%) is attributable to the higher allocation of equity compared to the previous year due to the change in the rating model landscape in the first half of 2022.

In the **Shipping segment**, net income after taxes amounted to € 38 million (previous year: € 30 million). This means that operating profitability, measured in terms of RoE, increased to 19.4% (same period of the previous year: 15.7%). The driver behind the encouraging development in earnings was the increase in total income, which also benefited from positive valuation effects on loans and advances to customers categorised at fair value in the context of strong operational development. Lower risk costs also contributed to the improved result. In view of the encouraging development on the shipping markets overall due to the sharp increase in demand for transport services, the Bank's focused gross new business with national and international shipping companies with good credit ratings stabilised at a good level of € 0.6 billion (same period of the previous year: € 0.7 billion).

The **Project Finance segment** reported net income after taxes of € 10 million (same period of the previous year: € 12 million). Total income in this segment fell slightly to € 30 million (same period of the previous year: € 36 million), with risk costs that remained constant at € -3 million (same period of the previous year: € -3 million). The main reason for the lower net result is the sale of legacy investments (primarily in the Energy portfolio), which was completed at the end of the year. Segment assets as at 30 June 2022 came to € 3.6 billion (31 December 2021: € 3.9 billion). Nevertheless, new business increased compared to the previous year. Overall, gross new business in the Project Finance segment came to € 0.5 billion (same period of the previous year: € 0.3 billion). At 6.9%, the segment's profitability was down slightly on the previous year (7.4%).

Net income after taxes in the **Corporates segment** came to € 16 million (same period of the previous year: € 12 million) and includes positive earnings development in the Germany and International core business. By contrast, earnings were down in the national legacy portfolio, which was reduced by € 0.2 billion in 2022 without putting any pressure on loan loss provisions. In the Bank's core business, the new business volume was expanded in the international segment, in particular, by focusing on business with a strong risk/return ratio. Overall, gross new business in the Corporates segment came to € 1.0 billion (same period of the previous year: € 0.4 billion). Segment assets as at 30 June 2022 came to € 4.0 billion (31 December 2021: € 3.7 billion). Margin development was positive in view of the realignment, not least also thanks to the new business in the Corporates International unit, which contributed to the further diversification of the Bank's portfolio, meaning that the segment's operating profitability, measured in terms of RoE, rose to 6.5% in total (same period of the previous year: 5.2%).

The **Treasury & Group Functions segment** generated net income after taxes of € 113 million (same period of the previous year: € 37 million). The operating income results primarily from positive valuation effects in the management of pension liabilities due to the changes in the interest rate environment. These effects more than compensated for the valuation losses from the increase in credit spreads in the strategic investment portfolio due to the crisis. The results of the bank-wide syndication activities also had an impact.

"**Reconciliation**" also comprises valuation and reporting differences that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. Differences in total income arise, among other things, due to the use of the Fund Transfer Pricing (FTP) method (internal) instead of gross interest in the lending business, as well as due to the reporting of effects within OCI in the total income of the segments. Further reconciliation effects result from different presentation of amortisation and hedge accounting effects in internal reporting and IFRS accounting. In addition, loan loss provisions reflect the difference between the expected loss on transactions in the segments and loan loss provisions based on the Group statement of income in accordance with the IFRS. The difference between the minimum taxation recognised in the segments and actual income taxes at Group level is also shown in the position Reconciliation .

Detailed information on the methodology and included effects can be found in note 36 "Segment reporting" in the notes to the Group financial statements.

Final assessment of the situation of Hamburg Commercial Bank

Hamburg Commercial Bank performed well in an extremely challenging and dynamic environment. As explained in the section on Group development, business development in the first six months of the 2022 financial year exceeded expectations overall. This was mainly due to the positive developments in operating profitability and credit quality. After the transformation process was successfully completed at the end of 2021, the Bank's main focus was on initiating a moderate growth trajectory as well as continuing the positive trend in operating business development. Given the extremely uncertain geopolitical and macroeconomic situation, the Bank's management has consistently assessed and considered the impact of the Ukraine war (as well as the ongoing coronavirus pandemic) on the Bank on an ongoing basis when implementing business strategies. The following is a summary assessment of the

Bank's situation as at the reporting date based on the key metrics of profitability, asset quality, capital resources and liquidity position.

In terms of profitability, the Bank was able to continue on the development path it has been on since the beginning of the transformation process and further increase its net operating interest margin, which was also reflected in the positive development in profitability in the market segments overall. New business profitability also continues to show positive development, and the diversification of the client portfolio is progressing, for example through the establishment of externally managed loan funds. Rising interest rates should provide tailwind for the development of the Bank's net interest income in general. The basis for this assessment is the asset/liability structure of the consolidated statement of financial position. It is characterised – with regard to the euro as the dominant currency for the Bank – by a surplus of variable-rate assets (compared to liabilities). Structural challenges, on the other hand, are arising on the cost side. The main factors putting pressure on costs include higher inflation and, temporarily, cost pressure, for example relating to those project activities that are still outstanding in the context of IT transformation. The Bank is using effective cost management to counter this cost pressure. With the successful completion of the changeover in the payment transaction system, the prerequisites for future cost efficiencies have been created in yet another area.

In terms of asset quality, the Bank - supported by the continuation of stringent risk management - sees itself as resilient and robust from today's perspective in the face of the current challenges and also for adverse scenarios, but will continue to take a very cautious approach. This assessment is based primarily on the structure and composition of the loan portfolio, the further reduction in NPEs and the comfortable balance sheet coverage ratios: for example, Hamburg Commercial Bank has no gross exposure to Russia, Ukraine or the Asian economic sectors that have been hit hard by the Chinese government's COVID-19 measures. Exposures to Central and Eastern European countries (in the narrower sense of the term) are of minor importance in terms of amount. With regard to the German Corporates portfolio, the Bank has a relatively low exposure to cyclical and export-oriented sectors. In the Real Estate segment, the Bank is maintaining its cautious business policy, which is reflected first and foremost in the further tightening of credit standards and the slowdown in new business momentum (especially when it comes to financing project developments). The NPE ratio and the NPE volume as at 30 June 2022 were reduced again compared to the 2021 year-end. In addition, the Bank still has very comfortable balance sheet coverage ratios for individual and portfolio risks compared to the industry as a whole, although the coverage ratio for the NPE volume (Stage 3 loan loss provisions) has increased again compared to the end of the previous year.

The capital ratios have fallen from the exceptionally high level seen at the end of 2021, as was to be expected. With the ratios reported at the end of the first half of the year, however, the Bank remains one of the banks with the strongest capital resources in the European banking market. The RWA uplift from the change in the rating model landscape has already been fully factored into the ratios, while the Basel IV regulations should provide relief in the future. With regard to its considerable surplus capital, the Bank has charted out a clear roadmap for the further development of the capital position with the successful definition of a dividend policy. Further information can be found in the "Forecast, opportunities and risks report".

In view of the developments outlined above, including the continued solid liquidity position, Hamburg Commercial Bank considers itself well positioned overall as at the reporting date to achieve its objectives, even in the current difficult environment. Details regarding 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

Recruitment initiative to strengthen the team, investment in our employees and implementation of new employer/works council agreement on mobile working
Human resources work in the first half of the year was characterised by increased recruitment activities, investments in our employees and the switch from the split mode of operation introduced in response to the pandemic to regular mobile working.

After three years of active support for the transformation process, the focus is now on strengthening resources along the entire value chain in terms of quantity and quality. The recruitment activities launched in the first half of the year are already clearly bearing fruit. All business units still face the challenge of achieving their cost targets by maintaining an appropriate cost base. As at 30 June 2022, the number of staff employed by the Hamburg Commercial Bank Group had fallen to 862 FTEs (31 December 2021: 919). Furthermore, the human resources strategy for the next three years was adopted in the first half of the year and a new Long-Term Incentive Programme (LTIP) was introduced for managers and selected senior experts.

Protecting the health of our employees in light of the ongoing pandemic remained a focal point during the reporting period. The Bank operated predominantly in split mode during the reporting period. With the lifting of almost all COVID-19-related restrictions within HCOB at the end of May, the central employer/works council agreement on "Mobile working" came into force. Making work organisation more flexible in terms of location provides a significant boost to the appeal of the working environment that the Bank offers.

Employees in the Group

	30.06.2022	31.12.2021
Full-time employees (FTE) in the Group[1)]	**862**	**919**
thereof: Women	298	325
thereof: Men	564	594
thereof: Employees in Germany	828	877
thereof: Employees abroad	34	42
Total number of employees in the Group ("headcount")	**982**	**1,052**
Key employee figures		
Part-time employees (%)[2)]	17.2	17.6
Average age in years[3)]	46.5	46.5
Average period of employment (years)	14.1	14.9

[1)] Total number of employees excluding trainees, temporary staff and interns.
[2)] Adjusted comparative figure.
[3)] Head offices only; does not include branches or subsidiaries

Dealing with COVID-19 and mobile working at Hamburg Commercial Bank

HCOB had already set up the "coronavirus working group", which addresses COVID-19-related developments on an ongoing basis and then defines corresponding measures for the Bank, back in February 2020 – also from a business continuity management perspective. The working group focuses on protecting the health of employees and continuing to closely monitor the development of the pandemic in order to ensure the maintenance of banking operations, in particular the processes relevant to emergencies. The working group consists of a member of the Management Board and representatives from Human Resources, Compliance, Business Operations and Communications.

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, for example on how to act in scenarios where employees are, or are suspected of being, infected.

On 30 May 2022, all restrictions associated with COVID-19 were lifted within HCOB in line with the statutory requirements. Cases of illness still have to be reported to the "coronavirus working group" to break chains of infection. As of 30 May 2022, the central employer/works council agreement on "Mobile working", which was concluded between the Bank and the general works council at the beginning of 2022, came into force. Mobile working plays an important role in attracting and retaining skilled employees. It has been shown that flexibility in work organisation with regard to location is an essential component of an attractive working environment. The Bank's premises remain employees' primary place of work and are seen as an important link between HCOB and employees. Maintaining a sense of workplace community is a top priority.

Corporate culture and further development

Continuous development of the corporate culture is a central factor for companies that want to be successful in this changing world of work. The Bank focused on diversity and unconscious bias in the first half of 2022. In the month of May in particular, the necessary awareness was raised with various campaigns and information on these topics, also against the backdrop of the positive effects on the business. In the future, all positions will be advertised with the option of "job sharing". The Bank also has a mentoring programme to specifically support high performers and high potentials. This programme has now been launched for the second time. Cross-business unit networking and increasing talent visibility is designed to foster further career development.

The Bank conducted an employee survey in June 2022, as in the previous year. In order to show how things have developed, this followed on from the last survey and expanded the focus to include further aspects following the successful completion of the transformation process.

With its internal seminar programme, the Bank continues to support employees in developing their personal and professional skills. In addition to this, staff can take advantage of external professional training measures if required.

Management Declaration pursuant to Section 289f (4) of the German Commercial Code (HGB) (information on the woman´s quota)

Hamburg Commercial Bank is continuing to actively address equal opportunities and the promotion of women with the assistance of its equal opportunities officer. These issues are a top priority at Hamburg Commercial Bank. The Bank currently provides a virtual diversity course that gives employees the opportunity to interactively explore their own thought patterns and the impact that these have on diversity within the Bank. This measure was intensified by the activities described in the previous section.

In order to further promote career advancement for women within the Bank, the women's network #networkingwomen organises regular lectures with internal and external experts providing food for thought, and offers the opportunity for the open exchange of knowledge and experience within the network.

This year, HCOB again actively organised Girls' and Boys' Day 2022 and offered pupils a hands-on insight into the working world of a commercial enterprise.

In November 2020, Hamburg Commercial Bank set itself an average target quota of 33% for the underrepresented gender (predominantly women) in management and/or senior expert functions. This is to be achieved by 31 December 2025. This also applies explicitly to the BU level.

Statistics on equal opportunities as at 30 June 2022[1)]

	Number			Ratio	
	Women	Men	Total	Women	Men
BU heads	3	14	17	18%	82%
Heads of department	12	35	47	26%	74%
Senior positions[2)]	88	237	325	27%	73%
Total	**103**	**286**	**389**	**26%**	**74%**

[1)] Only active employees, in Germany.
[2)] Not including department heads.

Pursuant to Section 111 (5) of the German Stock Corporation Act (AktG), the supervisory board of unlisted companies, if they are subject to co-determination, also has to set targets for the proportion of women on the supervisory board and the management board. In June 2022, the Supervisory Board of Hamburg Commercial Bank adopted/confirmed the following targets for the proportion of the underrepresented gender (currently women) on the Management Board and the Supervisory Board. The target figures describe the target share of women in the relevant overall board in its current size, with the percentage figures corresponding to full numbers of persons:

- a target quota of 25% (one out of currently four members) has been confirmed for the Management Board of Hamburg Commercial Bank
- for the Supervisory Board of Hamburg Commercial Bank, a target quota of 33% (six out of currently 18 members) has been adopted (previously: 30%).

Both target quotas are to be achieved by 30 June 2027 at the latest. There is currently no woman on the Management Board of Hamburg Commercial Bank. The proportion of women on the Supervisory Board of Hamburg Commercial Bank is currently around 17% (three women out of 18 members).

Regarding the proportion of women on the Management Board, the Supervisory Board had adopted a target of 25% in July 2017 on the basis of what was then the four-member Management Board. This target was to be achieved by 30 June 2022 if possible. Since the adoption of this target, there

have been changes within/new appointments to the Management Board. Recruitment to the Management Board was always in accordance with the Rules of Procedure for the Supervisory Board and the regulatory requirements. The Rules of Procedure for the Supervisory Board state that when filling a post on the Management Board, consideration should be given, when identifying candidates, to ensuring balanced and varied knowledge, skills and experience for all Management Board members. The composition of the Management Board is always in the best interests of Hamburg Commercial Bank. The Supervisory Board is still seeking to recruit a female member for the Management Board the next time a member is appointed for the first time, provided a suitable candidate is available for the vacant position.

In July 2017, the Supervisory Board confirmed the target quota of 30% for the proportion of women on the Supervisory Board, based on what was then a 16-member Supervisory Board with parity co-determination. The appointment of Supervisory Board members is a matter for the shareholders and the employees. While the Supervisory Board has the possibility to influence its composition through the election proposals made to the annual general meeting, it cannot guarantee such influence.

In its Rules of Procedure, which are in line with regulatory requirements, the Supervisory Board of Hamburg Commercial Bank has stipulated that in the context of proposals for the election of Supervisory Board members to represent the shareholders, the aim is to ensure the equal participation of women.

Forecast, opportunities and risks report

Forecast, opportunities and risks report

The following section should be read in conjunction with the other sections in this 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 statements on the overall conditions for relevant markets 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: Significant slowdown in growth
After the development in the first half of 2022, the Bank is adjusting its forecasts for the development of the economy as a whole and the financial markets set out in the combined management report for 2021 downwards, as these did not yet account for the war in Ukraine as a non-adjusting event for the 2021 financial year. Specifically, the Bank now assumes the following development with a high degree of probability (base case), based on the fundamental assumption that the war will not escalate further, but that the sanctions against Russia will remain in force:

Many of the factors that shaped the first half of 2022 – the war in Ukraine, high commodity prices, increased inflation, supply chain problems and the turnaround in central bank interest rates – are also likely to dominate the second half of the year. It is striking that the risk of a recession in the US and the eurozone has been increasingly discussed and priced into the financial markets in recent weeks. We expect economic growth to be relatively weak in the second half of 2022, but predict that a recession will be avoided.

In the US, the continued robust labour market and high levels of household savings should mean that domestic demand continues to grow, supporting economic growth. The interest rate hikes implemented by the US Federal Reserve can be absorbed by the economy without any major volatility. Looking at the year as a whole, economic growth of 1.7% is expected for 2022.

In China, economic growth will pick up in the second half of the year as the stringent COVID-19 restrictions are eased, and the recovery will continue in the coming year. As a result, economic growth of 4.1% should be possible this year.

In the **eurozone**, industry will gradually expand production in response to a substantial backlog of orders. The supply chain problems will persist, but will not get any worse. Instead, they are likely to become less severe. The GDP of the EMU region should increase by 2.8% in the current year.

As far as **Germany** is concerned, we expect to see economic growth of 1.9% and an average inflation rate of 7.1% for 2022 as a whole.

Downside risks to the forecast arise, with regard to the US, in particular if the interest rate turnaround initiated by the US Federal Reserve has more of an impact on investment activity and private consumption than expected. In China, there is a risk that the government will respond to rising COVID-19 infections with more radical lockdown measures, which could hit international supply chains again. In the eurozone and Germany, the primary risk is a Russian gas supply freeze, and for the eurozone also a potential widening of risk premiums for Italian government bonds. A natural gas supply freeze by Russia would specifically affect the natural gas-intensive sectors in Germany, including the chemicals sector, the food industry and the mechanical engineering sector. In the event of a supply freeze, government-imposed rationing of natural gas supplies for German industry cannot be ruled out. In any case, a marked increase in natural gas prices would have to be expected, calling the business models of some companies into question.

MONETARY POLICY: Only slight drop in inflation, higher interest rates
Inflation rates are expected to decline in both the US and the eurozone, especially in the coming year (2023), but will remain

well above the target of 2.0%, as many of the factors responsible for high inflation in the form of supply chain problems and labour shortages are expected to persist overall.

In this environment, the US Federal Reserve (Fed) and the European Central Bank (ECB) are expected to raise **interest rates** in the coming months. This sees the Fed continue with the course it has been pursuing since March 2022, and it is expected to tighten the monetary reins until into 2023. In July, the ECB raised the main refinancing rate and the deposit rate for the first time since 2011. With an increase of 50 basis points in each case, the interest rate step was stronger than expected, as an increase of 25 basis points had been envisaged at the June meeting. With its statement that a normalisation of monetary policy will be appropriate, with decisions being made from Governing Council meeting to Governing Council meeting in the future (departure from the policy of "forward guidance"), the ECB has at the same time signalled that further interest rate steps will follow. At its July meeting, the ECB also made a decision on the Transmission Protection Instrument (TPI), which is intended to prevent a fragmentation of the EMU area in the event of sharply rising risk premiums for individual countries. No upper limit has been explicitly defined for the asset purchases envisaged under the TPI. The ECB's net asset purchases were reduced to zero on 1 July. The bonds maturing under the PEPP programme will be reinvested until at least the end of 2024.

Long-term **yields on government bonds** have recently fallen again after a pronounced rise in the middle of the year, reflecting increased recession expectations. We expect moderately rising yields this year.

The marked depreciation of the **euro** against the US dollar this year is not expected to continue, but rather to reverse in the coming months. Measured against its long-term average, the euro currently appears undervalued.

The macroeconomic forecasts presented above, which have been included in the calculation of expected credit losses under IFRS 9 and in the forecast of key management indicators, are based on the June 2022 assessment. In the period leading up to the preparation of this report, the macroeconomic forecasts for 2022 developed moderately downwards in parts. For China and Germany in particular, growth expectations in the base case have fallen slightly to 3.5% and 1.2% respectively. In the financial markets, the euro is not expected to catch up with the USD until 2023.

OUTLOOK IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK

Following developments in the first half of 2022, the Bank is making downward adjustments to the forecast statements made in the combined management report for the 2021 financial year with regard to the development of the relevant markets/sectors for sub-sectors of the real estate market and industry. In detail, the Bank now expects to see the following development:

Real estate markets

The German real estate markets should continue to benefit from the positive economic development in the second half of 2022. Increasing challenges, on the other hand, are likely to include adjustments made by market participants to the higher interest rate environment and the sharp rise in construction costs. On the investment markets, the process that will ultimately see different price expectations converge is likely to take some time and result in a lower transaction volume than in the previous year. Ultimately, losses in value cannot be ruled out for properties that are then somewhat less sought-after. In the project development market, this price impetus, together with the sharp rise in construction costs, are likely to put pressure on margins and result in further postponements and project cancellations. Developments on the employment market should continue to have a positive effect. As the corporate sector plans to hire more staff, unemployment should continue to fall. The outstanding catch-up effects in consumption should also fuel demand for leisure travel and purchases thanks to the savings accumulated during the pandemic. The effect hoped for is, however, likely to be diminished by inflation-related real income losses and gloomy consumer sentiment.

On the **housing markets** in most major cities, the influx of people should increase further in the second half of the year due to the solid employment market situation and the need to accommodate refugees fleeing war. Construction activity should decline as expected given the supply-side disruption, meaning that completions will fail to meet demand. Home vacancy rates, which are already low, should then decline further and rent levels should continue to rise considerably. Given what are already high housing costs for tenants and the statutory limit on rent increases when re-letting, however, the increase for existing homes is likely to be more moderate than for first-time occupancy. In view of the slightly reduced relative appeal of homes due to the rise in interest rates, prices should now remain stable in general.

Increasing demand for space is expected on the **office property markets** as companies up their recruitment activity. This growth will not, however, be sufficient to absorb the supply resulting from stronger growth in office completions. Although vacancy rates are likely to continue to rise slightly, they will nevertheless remain relatively moderate in a long-term comparison. This means that office rents in very sought-after locations could still increase slightly. In less attractive locations with higher vacancy rates, on the other hand, rents are likely to fall. Investor risk aversion is increasing due to the interest rate turnaround. For some, this is compounded by uncertainty about the impact that working from home arrangements will have on space requirements. If interest rates remain elevated, slight declines in market values are to be expected. This applies less to preferred, and more to decentralised office locations, as well as to properties that do not meet the increasingly stringent sustainability requirements.

In the **retail real estate** segment, the second half of the year should still see rising sales in non-food retail segments due to catch-up effects, e.g. for clothing. Sales will not, however, return to the pre-pandemic level, also because the market shares attributable to online retail in this segment are now over 40%. Consequently, rents in shopping centres as well as department stores and commercial buildings in city centre locations remain under pressure and investors are maintaining their risk-averse stance, meaning that further losses in value are to be expected here. Sales growth is likely to remain weaker in the local supply sector, where many consumers are cutting back and/or avoiding consumption as inflation remains high. Rents for retail parks should nevertheless remain stable. Thanks to their higher resilience to online retail, they remain in demand among investors. Ifinterest rates remain elevated, especially specialist stores focusing on the non-food sector, will lose relative appeal in moderate terms, meaning that slight declines in market value are impossible to rule out.

Industry, trade and logistics, infrastructure and renewable energy

The underlying conditions for German growth have deteriorated significantly with the Russian invasion of Ukraine and the consequences for energy, commodity and food prices. These circumstances are likely – assuming that the conflict continues – to have a continued negative impact in the second half of 2022. In particular, a complete freeze of Russian natural gas supplies would come hand-in-hand with the risk of a recession for the German economy. The renewed increase in COVID-19 infection figures and the possibility of more stringent measures to contain the pandemic in the autumn and winter could put additional pressure on the economic and consumer climate. In addition, the high upward pressure on prices is likely to continue to put a damper on the demand side in particular: private consumption, which has so far been characterised by strong catch-up effects but already slumped considerably in April 2022, is likely to remain weak for the time being in view of price increase rates in excess of 7%, which are likely to weigh on the **retail sector**. Industry is likely to be hit by the mix of pandemic consequences and the Ukraine war: while supply shortages and sanctions are likely to dampen production and unit sales in the **manufacturing sector**, high costs are expected to weigh on corporate profits and, as a result, on investment. Interest-sensitive sectors, such as the construction sector or the automotive industry, could also be affected by the more restrictive monetary policy. Subdued economic development and a continuation of the supply chain problems also prompt us to expect mixed development for companies in the wholesale and foreign trade segment. The **logistics sector** is also unlikely to escape a global slowdown unscathed, even if supply chain problems have contributed to a boom in certain sectors (e.g. shipping, air freight). **Construction output** is likely to remain close to the capacity limit, meaning that no substantial expansion would appear to be on the cards, especially as bottlenecks affecting construction materials, rising prices and lending interest rates will have dampening effect.

In the case of **transport infrastructure**, the ongoing considerable need for maintenance should provide positive impetus for investments on the one hand, while on the other, both the impending global growth slowdown and the increase in the price of construction materials and other raw materials could have a negative effect, at least temporarily. The significance of institutional investors is likely to continue despite monetary policy measures to end the low interest rate environment.

The prospects for the expansion of **renewable energies** in 2022 remain rather mixed for the second half of the year as well, although the political pressure to act in order to achieve ambitious climate targets and the specific expansion targets set by the German government, as well as the development of alternative energy sources following the reassessment of Russia as an energy supplier, should have a greater impact and increasingly spur on expansion. In addition, sustainability elements at EU level and the European Commission's Climate Change Programme should provide additional growth impetus for renewable energies in Europe in the medium term.

Shipping markets

The shipping markets should continue to take advantage of the full spectrum of the market cycle in the second half of the year – from the weakening boom in container vessels to the recovery following the oil tanker slump. As restrictions imposed due to the pandemic are eased and the global economy stabilises, however, the situation should start to normalise in all segments. The biggest risk is an economic downturn triggered by energy shortages. With regard to the individual sub-markets, the expectations are as follows:

- There are some signs that the **container vessel** market has passed its zenith. The outlook for transport demand has deteriorated as goods consumption is hit by inflation and the increasing burden of high energy prices, stimulus effects start to wane and purchasing power, which is affected by inflation, is concentrated more on the service sector again. As a result, container trade is unlikely to grow much in the course of this calendar year. On the other hand, the market is being supported by the likelihood that port congestion problems will ease and by the fact that fleet growth will only be moderate for the time being. By the end of the year, we could therefore see the start of a return to normal, with charter rates and ship prices likely to weaken to levels that are still very high by historical standards.
- Rates and prices for **bulkers** could also decline as the year progresses. Although an expected Chinese economic stimulus programme would boost demand for raw materials and the global energy shortage would again fuel coal

transport, the weaker economic development, high commodity prices and the significant restrictions on grain trade due to the war should keep demand growth for cargo ships in check overall. A reduction in the level of port congestion would also tend to increase ship productivity, putting a further damper on the demand for tonnage. Despite low scrapping activity, fleet capacity will only increase at a moderate pace, meaning that the supply side will support the market.

- The fundamental situation for oil tankers is likely to gradually improve. As the cartel comprising numerous oil-producing countries (OPEC+) plans to further increase production in the coming months and oil trade shifts to longer distances, transport demand should increase in general. A return to stronger oil demand from China could compensate for the expected weaker consumption in the industrialised nations. Due to extensive scrapping, fleet growth should be only marginal in the current year, meaning that utilisation would improve moderately. Major risk factors for tankers would include a possible economic slump in the wake of high energy prices and the risk of further large-scale restrictions in China due to the country's zero-COVID policy. Both could have a marked impact on global oil consumption.

BANKING ENVIRONMENT

Against the backdrop of the COVID-19 pandemic, which has not yet been fully overcome, the new burdens on the horizon caused by the war in Ukraine and the volatile capital market, the banking environment will also remain challenging. Even if there is a trend towards an improvement in sector supply bottlenecks, it is apparent, from today's perspective, that the need for loan loss provisions will increase in view of the increased energy costs and the weakening of economic momentum, as the number of problem cases and insolvencies in the corporate sector is likely to increase overall. Consequently, banks will be tasked with holding their own in this complex environment and actively managing their loan portfolios in order to cushion the blow of primary and secondary effects as much as possible. In this context, those institutions whose portfolio composition is comparatively less vulnerable in geographical and sectoral terms should generally find themselves in a more favourable starting position.

In the face of inflationary pressures, banks need to keep an eye on cost discipline, with the scope for cost increases limited to the extent to which they manage to raise their income levels and maintain cost-income ratios in the environment of rising interest rates. On the funding side, capital market participants are likely to pay even greater attention than before to how banks' financial ratios will develop. Developments in the risk position, capital and liquidity resources and, in particular, sustained profitability will be of central importance.

Expected business development of Hamburg Commercial Bank and outlook

Client business

In the client business, the Bank will continue to focus on profitable and risk-commensurate deals in its core business areas, on further strengthening its good client relationships and on operationalising its strategic planning initiatives to diversify and expand its sources of income. All in all, the Bank expects to see moderate growth in the loan book and, on this basis, is aiming for consolidated total assets in the range of € 31 billion to € 32 billion at the end of 2022.

In view of the current market environment for real estate and the challenges and uncertainty arising from the inflation and interest rate environment, the Bank will adopt a particularly prudent approach in the **Real Estate** segment and keep a watchful eye on further developments, especially the momentum of inflation and interest rate trends. In view of the proactive slight slowdown in growth momentum, the focus here is currently on maintaining the high quality of business transactions.

In **Shipping**, the portfolio is to develop moderately. Although the container and bulker markets are currently booming - helped along by special effects - the Bank is maintaining its cautious business policy in this asset class, as it expects the cyclical markets to normalise in the medium term.

As far as the **Project Finance** segment is concerned, the Bank believes that there are good development opportunities for the rest of the financial year and in the medium term, particularly in the Infrastructure business area. Driven by political efforts to accelerate the process of reducing reliance on fossil energy imports and to achieve ambitious goals in the transformation to a climate-neutral economy, the need for investment and financing for forward-looking and sustainable infrastructure projects is increasing significantly. The Bank believes that it is well positioned in this growth market and is raising its expectations for new business volume, which should largely compensate for the deliberately reduced Real Estate volumes.

In the Corporates segment, the Bank will continue with its strategic direction. It will continue to focus on its core franchise in Germany and further reduce the lower-margin part of the portfolio. When it comes to its international activities, Hamburg Commercial Bank is aiming for dynamic growth as part of its diversification initiatives. The latter include growth in the Corporates & International Speciality Lending business area, as well as investments in asset-backed lending structures and investments via externally managed loan funds.

Funding

The uncertain and volatile situation on the capital markets has led to gradual adjustments being made to the Bank's funding plan. The majority of the issuing activity planned for 2022 was already implemented in the first half of the year (three benchmark bonds). In this respect, further funding activities on the

capital market are only planned for the second half of the year to a moderate extent and if the right opportunities arise. The planned early partial repayment of refinancing via the ECB's TLTRO programme, a move originally planned for 2022, is no longer on the agenda. Repayments will now be made on the relevant due dates in the period leading up to 2024. With regard to deposits, the initiatives launched in the financial year to expand the client-related deposit business will be continued in the second half of the year.

IT transformation

As part of the ground-breaking IT transformation process, the general ledger was already converted to the new SAP S/4HANA Finance platform at the beginning of the second half of the year (in July). Switching the general ledger over to S/4HANA Finance marks another milestone in the IT transformation process and is consistent with the decision to use SAP HANA within the Bank's system architecture. In addition to the general ledger, it also covers the sub-ledgers as well as the procurement process and controlling.

Another focal point in the second half of the year will be the first release of nCino at the end of September/beginning of October. The cloud-based software completes the Bank's future system landscape and is a good fit for the IT target setup. The new system ensures optimal process support in the lending business along the entire value chain (front-to-end). It offers more efficient data management and better data availability, especially through integration with the Bank's central data platform.

Sustainability

In the second half of the 2022 financial year, the Bank will continue to work at full tilt on addressing the topic of ESG. The focus will be, in particular, on the implementation of the PCAF (Partnership for Carbon Accounting Financials) standards and the associated first-time calculation of the volumes of financed emissions at portfolio level, as well as on the implementation of the reporting requirements resulting, among other things, from the EU taxonomy and the CRR Regulation. In the client business, the Bank aims to continue to develop strategic options to support our clients on the transformation path for their business models. This aspect is to be established as an even firmer component of the Bank's strategy process. Other focal points of the Bank’s sustainability work will include the further development of ESG management indicators, the mapping of Sustainable Development Goals (SDGs) in new business and the continued integration of ESG aspects into the Bank's processes and IT infrastructure.

Definition of a dividend policy

In 2023, the Bank intends to start making dividend payments for the 2022 financial year on the basis of the dividend policy adopted by the Management Board and the Supervisory Board, as explained below.

The Bank has deliberately maintained very high capital buffers in the course of its privatisation and the transformation of its business model in recent years and has proven itself in a difficult global economic environment. Going forward, the Bank aims to normalise its capital buffers, initially to a target of 17% CET1, while achieving business growth at the same time, as assumed in the current business plan.

Following the successful transformation process, Hamburg Commercial Bank has a sustainably profitable business model and is pursuing a strategy of positive business growth that generates shareholder value added (SVA) through sustainable value creation going forward. In its corporate planning, the Bank takes into account specific and measurable financial and non-financial objectives, always aiming to improve profitability as well as to maintain capital buffers so that the business model allows the company to continue as a going concern even under adverse circumstances and creates sustainable value for the Bank’s shareholders. All future distributions to the shareholders of Hamburg Commercial Bank should be sustainable and consistent with the preservation of the company's financial strength and capital resources (ICAAP).

The resolutions adopted by the shareholders at the Annual General Meeting and by the Management Board and Supervisory Board regarding the implementation of this dividend policy must always comply with the applicable statutory provisions and take into account the demands of stakeholders and the regulations governing the corporate governance and sustainability system.

The Management Board and the Supervisory Board are proposing to the Annual General Meeting, within the scope of their responsibilities, the distribution of the surplus capital in 2023, which they deem to be appropriate.

The distribution of dividends is a discretionary decision. As a result, the Management Board is free to propose deviations from the dividend policy described above. Given what is currently a very high level of capital and a strong, capital-generating business model, the Management Board will review the dividend policy annually.

Forecast for development in key performance indicators in the financial year 2022

With regard to total income in the 2022 financial year, Hamburg Commercial Bank confirms its forecast of a level above € 625 million, driven by good net interest income. Administrative expenses are expected to be up slightly on the level for the 2021 financial year, putting them above the year-end projections, in view of (partly temporary) burdens resulting from project investments (in particular in connection with IT transformation) and inflationary pressure. In terms of loan loss provisions, the outlook has improved in principle in view of the positive development in the first half of the year, but the Bank remains cautious in view of the considerable uncertainty and continues to expect moderate net expenses for the year as a whole. The Bank still expects to achieve net income before

taxes of more than € 300 million. The forecast for income taxes has been raised. The Bank now also expects to report tax income for 2022 as a whole. This is due to the tax income for previous periods in the first half of the year and the increased expectations regarding income from deferred taxes on loss carryforwards based on the updated tax planning. The improved outlook for the income tax position, in combination with the above-mentioned aspects, leads to the forecast for net income after taxes (originally: above € 250 million) being increased to a level around € 350 million. This would lead to **RoE after taxes** of 16 %, calculated on the basis of standardised regulatory capital backing (average RWA and CET1 ratio of 13%).

Due to the above-mentioned expected development in administrative expenses, the **cost- income ratio (CIR) will not show any significant change compared to the original forecast (46%) in 2022.** As announced in the combined management report for the 2021 financial year, the Bank has updated its forecast for the **CET1 ratio** for the first half of 2022 in light of the dividend policy it has adopted. Based on the planned dividend payment to reduce the surplus capital, the Bank expects to achieve a CET1 ratio of more than 17 % by 31 December 2022, based on RWA of around € 18 billion. This is subject to the assumption that the dividend payment expected for the first half of 2023 will be taken into account in the capital ratios at the end of the year, reducing the latter.

The original year-end forecast for the **NPE ratio** of 1.8% has been noticeably reduced. This is due to the good risk development in the first half of the year. Based on the ratio reported at the end of the first half of the year (1.3%), the Bank expects that it will be possible, in the second half of the year, to reduce risk-weighted assets that should slightly exceed the scope of the expected new defaults due to model-related factors. On this basis, the Bank expects to report an NPE ratio of 1.2% as at 31 December 2022.

The Bank confirms its forecasts published in the combined management report for the 2021 financial year with regard to the LCR (above 140% as at 31 December 2022) and its rating position (continued positive development).

In the context of the forecast, it is important to note that the war in Ukraine, the fact that the COVID-19 pandemic has not yet been overcome and the cumulative impact of these factors on the global economy could affect Hamburg Commercial Bank's ability to meet its financial targets, as its ultimate impact is difficult to predict.

2024 targets for key performance indicators

The Bank expects the positive influence of rising interest rates on net interest income (see also the comments in the section "Final assessment of the situation of Hamburg Commercial Bank" at the end of the Economic report) to be clearly reflected in the earnings situation, especially from the 2023 financial year onwards.

In its target vision, the Bank is now aiming for total income of around € 800 million in 2024 with total assets of around € 34 billion and a further increase in the net operating interest margin. As total income increases, so does the ability to absorb any adverse effects from unexpected credit losses. The Bank is aiming for net income before taxes above the € 400 million mark. Taking a standardised tax rate as a basis, this would translate into a Group net result of more than € 300 million, or **RoE after taxes** of around 12%.

In line with the vastly improved outlook for total income (with only a moderate increase in costs), a **CIR** in the range of 40%-42% is being targeted for the 2024 financial year.

As set out above, the Bank is aiming for a **CET1 ratio** above 17% for the time being as part of the normalisation of its currently high capital resources.

The strategic target for the **NPE ratio** at the end of 2024 is being adjusted downwards slightly to 1.4% in view of the positive development in 2022 so far.

The targets for the **LCR** (at around 140%, still comfortably above the regulatory requirements) and the **rating** (long-term issuer rating of A3/BBB+) remain unchanged.

Overall appraisal and net income forecast

Hamburg Commercial Bank has made a good start to the 2022 financial year, the first year after it successfully completed its transformation process. In recognition of its faster-than-expected transformation into a focused and profitable commercial bank, the Bank was awarded the "Euromoney Award for Excellence 2022" in the global category "World's Best Bank Transformation" by the industry magazine Euromoney in London in July 2022.

Supported by a profitable balance sheet structure (as a result of the extensive balance sheet reduction and restructuring measures over the last three years) and new business in line with the Bank's ambition level, the positive trend in operating profitability continued in the first half of 2022. In addition, the good asset quality has continued to improve in structural terms, which is also reflected in the corresponding key indicators.

For the second half of the year, the Bank is confident that the positive momentum in the development of operating profitability will continue, with the rising interest rates providing increasing tailwind overall.

On the risk side, Hamburg Commercial Bank currently sees itself as resilient and resistant to adverse economic developments thanks to its good asset quality and high balance sheet coverage ratios, as well as what remains a comfortable capital position. This is also reflected in its high risk-bearing capacity pursuant to the ICAAP.

Taking into account the aforementioned aspects (including the improved outlook for income taxes) and based on business development in the first six months, the Bank is moderately raising its earnings forecast despite the more difficult external environment. For 2022 as a whole, Hamburg Commercial Bank expects net income after taxes to around € 350 million.

This earnings forecast rests on the assumption that the economic effects of the current geopolitical and economic trouble spots do not turn out to be significantly more adverse than can reasonably be expected from today's perspective. The determining factors in this regard include further developments in the war in Ukraine and the ongoing COVID-19 pandemic, with their repercussions on energy prices and security of supply (especially in Germany), the momentum of inflation and interest rate increases, supply chain effectiveness and economic growth overall. For information on the Bank's forecasts in this regard, please also refer to the corresponding sections within this chapter on the expected development of the global economy/financial markets, as well as the industries relevant to Hamburg Commercial Bank.

The earnings forecast and future development of Hamburg Commercial Bank are associated with major challenges overall which are described in detail in the combined management report as at 31 December 2021.

Risk Report

Risk management system

Active risk management represents a core component of the Overall Bank management at Hamburg Commercial Bank. The methods, instruments and processes used to manage the risks are explained in detail in the risk report contained in the combined management report for the 2021 financial year.

Determination of risk appetite and risk guidelines

As the strategic guideline for the Overall Bank, the Strategic Risk Framework (SRF) serves as the foundation of the risk culture, sets out the focus of the Bank's risk management activities and defines the objectives of risk management based on the planned development of key business activities, as well as the measures taken to achieve these objectives. The focus is on securing and allocating the scarce resources of capital and liquidity and on optimising earnings in the long term, taking into account the risk appetite, business strategy objectives, the market environment and both the existing and planned portfolio. Through its guidelines, the SRF supports implementation of the business strategy objectives and ensures compliance with the regulatory requirements.

The SRF contains the risk strategy principles ("tone from the top") as the key guidelines for risk-conscious action and cornerstone of a sustainable risk culture. These provide the framework for the development of the Risk Appetite Statement (RAS) and the risk strategy. In addition, the SRF provides the framework for the business strategy and the Bank's planning.

The RAS is broken down into a financial and non-financial RAS on the basis of the risk inventory and is aimed at achieving efficient use of the scarce resources of economic capital and liquidity. The Financial RAS consists of a catalogue of key financial ratios, while the non-financial RAS includes qualitative requirements relating to risk culture. Operationalisation is achieved via the risk strategy and the limit system, with the risk strategy describing how risks are managed based on the risk inventory in accordance with the business strategy and the RAS. The risk strategy provides the framework for the individual sub-risk strategies.

The SRF is the subject of a resolution passed by the Management Board and is reviewed at least once a year. Where necessary, adjustments are made during the year. It is fully integrated into the Bank's processes, for example by being incorporated into the Bank's objectives, by way of the definition of requirements for the strategy and planning process, in risk reporting and in the Code of Conduct.

Key risk indicators of the Group

A functional limit system requires a strict derivation of the risk appetite. 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 identify adverse developments at an early stage, to avert them with appropriate countermeasures and to achieve the risk strategy objectives.

Key risk indicators of the Group

	30.06.2022		Limit		Guideline
ICAAP utilisation from an economic perspective/RBC (%)	37	<	95		–
Economic capital required (in € bn)	1.7	<	2.7		–
of which: for default risks	0.9	<	1.3		–
of which: for market risks	0.7	<	1.0		–
of which: for liquidity risks	0.03	<	0.3		–
NPE ratio (%)	1.3		–	<	3.0
CET1 ratio (in-period calculation) (%)[1]	24.2	>	13.2		–
T1 ratio (in-period calculation) (%)[1]	24.2	>	14.7		–
Overall capital ratio (in-period calculation) (%)[1]	30.3	>	16.7		–
MREL (%)[2]	53.0	>	12.0		–
Leverage ratio (%)	12.8	>	4.2		–
Liquidity coverage ratio (LCR) (%)	163	>	107		–
Net stable funding ratio (NSFR) (%)	122	>	102		–
Net liquidity position in stress case up to 1 month (in € bn)	2.4	>	0.5		–

[1] In-period calculation: calculation taking fully into account the balance sheet carrying amounts as at the reporting date, all else being equal; on a voluntary basis, there is no consideration of the profits for the first half of the 2022 financial year or the full 2021 financial year in Common Equity Tier 1 capital, in anticipation of a potential dividend payments 2023.

[2] In percent of the total risk exposure amount (TREA).

ICAAP/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) Guide. The Bank defines capital adequacy as the ongoing safeguarding of financial stability, in the sense that risks are adequately covered by capital in order to ensure the implementation of the objectives of the business model. By determining it on a regular basis, capital adequacy forms part of the internal reporting and is closely managed and reported to the Bank's supervisory authorities.

The economic perspective is used to check whether all material risks are backed by internal capital at a specific point in time. Compared with the regulatory view (CRR), it is based on a restricted concept of capital and a broader concept of risk. The measurement of risks is based on the Bank's internal economic methods and procedures. As part of the monitoring of the risk-bearing capacity, Hamburg Commercial Bank regularly compares the total economic capital required for all material risk types (overall risk) to the available economic risk coverage potential. Hamburg Commercial Bank analyses its risk-bearing capacity comprehensively on a quarterly basis as well as within the framework of its forecasting and planning process.

The overall risk takes into account default risk, market risk, split into interest rate risks in the banking book (IRRBB) and other market risks, operational risk as well as the liquidity maturity transformation risk as an element of liquidity risk. The economic capital requirements of the individual risk types are aggregated into the overall economic risk. No risk-reducing correlations are utilised in the process.

Utilisation of risk coverage potential decreased compared to the end of the previous year and amounted to 37 % as at the reporting date (31 December 2021: 41 %).

The overall economic risk was € 1.7 billion, which is slightly above the level as at 31 December 2021 (€ 1.6 billion). The main reason for this is the increase in market risk arising from the increase in market volatility due to macroeconomic developments. This was offset by the increase in risk coverage potential to € 4.6 billion during the reporting period (31 December 2021: € 4.0 billion), in particular by taking into account accrued income.

The risk-bearing capacity was ensured at all times during the reporting period.

ICAAP/risk-bearing capacity of the Group[1)]

(€ bn)	30.06.2022	31.12.2021
Economic risk coverage potential	**4.6**	**4.0**
Economic capital required	**1.7**	**1.6**
of which: for default risks	0.9	0.8
for market risks	0.7	0.6
Interest rate risks in the banking book (IRRBB)	0.3	0.3
Other market risks	0.3	0.3
for liquidity risks	0.03	0.1
for operational risks	0.1	0.1
Risk coverage potential buffer	**2.9**	**2.3**
Utilisation of risk coverage potential (%)	**37**	**41**

1) Total differences are rounding differences.

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 for the Internal Capital Adequacy Assessment Process (ICAAP). Adherence to the 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.

Further information on the Bank's scenario analyses is presented in detail in the combined management report for the 2021 financial year.

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.

The following table provides an overview of the minimum capital requirements applicable to Hamburg Commercial Bank. In addition, there is a Pillar 2 Guidance (P2G) for CET1 capital of 2.0 %.

Minimum capital requirements[1)]

(%)	30.06.2022	31.12.2021
Pillar 1		
Minimum capital requirement	8.0	8.0
thereof to be supported by CET1 capital	4.5	4.5
thereof to be supported by additional Tier 1 (AT1) capital	1.5	1.5
thereof to be supported by Tier 2 capital	2.0	2.0
Combined buffer requirement - to be supported by CET1 capital	2.6	2.6
Pillar 2		
Pillar 2 requirements (P2R)	2.1	2.8
thereof to be supported by CET1 capital	1.2	1.5
thereof to be supported by additional Tier 1 (AT1) capital	0.4	0.5
thereof to be supported by Tier 2 capital	0.5	0.7
Overall capital requirements		
CET1 capital	8.2	8.6
Tier 1 capital	10.1	10.6
Total capital	12.7	13.3

1) Total differences are rounding differences.

In addition to the existing capital buffer requirements, there are new requirements which must be met from 2023 onwards, including a countercyclical capital buffer (CCyB) of 0.75 % of risk-weighted assets (RWA) on domestic risk positions and a sectoral systemic risk buffer (SyRB) of 2.0 % of RWA on domestic loans collateralised by residential property.

Compliance with the minimum regulatory capital ratios is tested under the normative perspective in the ICAAP over a multi-year time horizon in the base scenarios and in stress scenarios. In 2023, the Bank intends to start paying dividends, initially related to the 2022 financial year. The basis for this is the substantial surplus capital position, which the Bank defines on the basis of a CET1 ratio above 17 % at Group level. In the future, Hamburg Commercial Bank aims to normalise its capital buffers, initially based on a target of 17 % of CET1, while at the same time achieving business growth, as set out in the current business plan. All future distributions to the shareholders of Hamburg Commercial Bank should be sustainable and consistent with the preservation of the company's financial strength and capital resources (ICAAP).

Regulatory capital ratios[1) 2)]

(%)	30.06.2022	31.12.2021
Overall capital ratio	30.3	35.7
Tier 1 capital ratio	24.2	28.9
CET1 capital ratio	24.2	28.9

1) Regulatory Group according to CRR.
2) On a voluntary basis, there is no consideration of the profits for the first half of the 2022 financial year and the full 2021 financial year in Common Equity Tier 1 capital, in anticipation of a potential dividend payments 2023.

Regulatory capital[1) 2) 3)]

(€ bn)	30.06.2022	31.12.2021
Regulatory capital	4.9	5.0
thereof: Tier 1 capital	3.9	4.1
thereof: CET1 capital	3.9	4.1
thereof: Additional Tier 1 capital	–	–
thereof: Tier 2 capital	1.0	1.0

1) Regulatory Group according to CRR.
2) On a voluntary basis, there is no consideration of the profits for the first half of the 2022 financial year and the full 2021 financial year in Common Equity Tier 1 capital, in anticipation of a potential dividend payments 2023.
3) Total differences are rounding differences.

Risk weighted assets (RWA)[1)2)]

(€ bn)	30.06.2022	31.12.2021
Credit risks	14.6	10.6
Market risks	0.4	0.6
Operational risks	1.1	0.9
Other RWA	0.7	1.9
Total RWA	**16.7**	**14.0**

[1)] Regulatory Group according to CRR.
[2)] Total differences are rounding differences.

As expected, the CET1 ratio decreased compared to 31 December 2021 (28.9 %), but it remains significantly above regulatory requirements at 24.2 %. The decrease is primarily the result of an increase in RWA for credit risks due to simplification of the rating model landscape from the Advanced IRB (A-IRB) approach to the Foundation IRB (F-IRB) approach along with the Credit Risk Standardised Approach (CRSA), which was fully implemented as of 31 March 2022. As of 30 June 2022, the CET1 capital amounted to € 3.9 billion, which is slightly below the previous year's level (€ 4.1 billion) due to higher regulatory deductions. It should be noted that capital ratios are shown before taking the annual profit generated in 2021 and the interim profit for 2022 into account.

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 22.5 % as at 30 June 2022 (31 December 2021: 25.2 %). The corresponding Tier 1 ratio reached 22.5 % (31 December 2021: 25.2 %), the corresponding overall capital ratio amounted to 28.7 % (31 December 2021: 32.1 %). The capital ratios for the single entity as at 30 June 2022 are also reported before taking the annual profit for 2021 into account. 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, institution-specific MREL (Minimum Requirement for Own Funds and Eligible Liabilities) requirements for Hamburg Commercial Bank have been defined by the European Single Resolution Board (SRB), the resolution authority responsible for the Bank. Hamburg Commercial Bank must comply with requirements of 8 % of the total risk exposure amount (TREA) for 2022. Taking into account the combined capital buffer requirement stipulated in Article 16a of the Bank Recovery and Resolution Directive (BRRD), this ratio amounts to 10.46 %. At the same time, the requirement of 3 % of the leverage ratio exposure (LRE) measure must be met. The Bank has complied with the requirements 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 the macroeconomic and industry-specific risks for the capital ratios.

It is possible, for example, that additional individual and increased capital requirements could arise from the regular SREP process carried out within the Banking Union. Additional discretionary decisions made by the supervisory authorities and industry-wide capital requirements (capital buffer for systemic and cyclical risks) could therefore result in higher capital requirements. Discretionary decisions made by the supervisory authorities with regard to model risks and validations may result in increases in RWA and thereby adversely impact the capital ratios for future PD estimates in the internal models.

Hamburg Commercial Bank successfully implemented the second and final step towards simplification of its model landscape in the first half of 2022. In doing so, the models for mapping counterparty risk were migrated from the Advanced IRB (A-IRB) approach to the Foundation IRB (F-IRB) approach along with the Credit Risk Standardised Approach (CRSA), particularly to eliminate internal loss given default (LGD) estimates. This incorporated transforming the core procedures, in the areas of project finance, shipping, corporates and national real estate as well as the country and transfer risk model, for F-IRB. The Bank has taken this simplification of its rating model landscape into account in the projections of RWA 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 due to the COVID-19 crisis. Under Basel IV, it is envisaged to significantly restrict the advantages of internal models. Through the simplification of its model landscape for the risk classification procedures, the Bank expects that the implementation of Basel IV will tend to reduce the RWA for credit risks.

In addition to the risks described regarding the capital ratio, it should be noted that the Bank intends to start paying dividends in the year 2023 for the 2022 financial year. Details are provided in this interim management report in the section "Expected business development of Hamburg Commercial Bank and outlook".

Default risk

In line with Hamburg Commercial Bank's business strategy focus as a commercial bank and specialist finance provider, default risk accounts for the largest proportion of the Bank's overall risk potential.

Hamburg Commercial Bank continuously and systematically monitors potential effects of the macroeconomic and political environment at the level of sub-portfolios and individual clients. During the reporting period, the focus of macroeconomic risks to the loan portfolio expanded beyond the pandemic and supply chain problems to also include the effects of the war in Ukraine, and it thus incorporates sectors and clients that are directly affected by the war as well as by the knock-on effects in the areas of energy and raw materials supply, inflation and the changing interest rate landscape, which are expected to have adverse effects on their business models. These clients are closely managed and the need for measures to manage credit risk is continuously reviewed.

The EAD of the total exposure amounted to € 32,100 million as at 30 June 2022 (31 December 2021: € 33,116 million). The EAD broken down by internal rating categories is presented in the following table. EAD with an investment grade rating (rating category 1 to 5) remains high at 72 % of the total exposure at the Group level (31 December 2021: 73 %).

Despite the challenging macroeconomic environment, the NPE ratio could once again be reduced slightly to 1.3 % compared to the level of 31 December 2021 (1.4 %). The decrease is mainly attributable to successful winding down of NPE and only minor new defaults during the reporting period.

Default risk structure by rating category[1) 2)]

(€ m)	30.06.2022	31.12.2021
1 (AAAA) to 1 (AA+)	6,607	6,647
1 (AA) to 1 (A–)	6,126	6,903
2 to 5	10,324	10,548
6 to 9	7,738	7,219
10 to 12	508	565
13 to 15	310	353
16 to 18 (default categories)	409	467
Other[3)]	78	414
Total	**32,100**	**33,116**

1) Mean default probabilities (%): 1 (AAAA) to 1 (AA+): 0.00–0.02; 1 (AA) to 1 (A–): 0.03–0.09; 2 to 5: 0.12–0.39; 6 to 9: 0.59–1.98; 10 to 12: 2.96–6.67; 13 to 15: 10.00–20.00; 16 to 18: 100.00.

2) No separate disclosure of the Reconciliation segment due to low materiality (< € 100 million).

3) Transactions for which there is no internal or external rating available are reflected in the “Other” line item, such as receivables from third parties of the Bank's consolidated equity holdings and G/L accounts.

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

Default risk structure by sector[1]

(€ m)	30.06.2022	31.12.2021
Industry	3,741	4,061
Shipping	3,575	3,355
Trade and transport	1,733	1,938
Credit institutions	3,560	4,706
Other financial institutions	3,238	2,403
Land and buildings	5,918	6,363
Other services	4,091	3,955
Public sector	6,088	6,179
Private households	156	155
Other	–	–
Total	**32,100**	**33,116**

[1] No separate disclosure of the Reconciliation segment due to low materiality (< € 100 million).

The following table shows EAD broken down by residual maturities:

Default risk structure by residual maturity[1]

(€ m)	30.06.2022	31.12.2021
Up to 3 months	1,277	2,498
> 3 months to 6 months	854	868
> 6 months to 1 year	2,959	2,161
> 1 year to 5 years	13,434	13,403
> 5 years to 10 years	9,908	9,379
> 10 years	3,669	4,807
Other	–	–
Total	**32,100**	**33,116**

[1] No separate disclosure of the Reconciliation segment due to low materiality (< € 100 million).

The following table provides an overview of the EAD by region:

Default risk structure by region[1)]

(€ m)	30.06.2022	31.12.2021
Eurozone	23,913	25,563
thereof: Germany	15,532	17,253
Western Europe	2,863	2,965
Eastern Europe	62	135
African countries	609	501
North America	2,073	1,230
Latin America	464	833
Middle East	54	56
Asia Pacific region	1,997	1,766
International organisations	64	66
International stock exchanges	–	–
Total	**32,100**	**33,116**

[1)] No separate disclosure of the Reconciliation segment due to low materiality (< € 100 million).

Exposure at default in selected countries

(€ m)	30.06.2022	31.12.2021
Belarus	–	–
Greece	–	–
Italy	146	160
Central and Eastern European countries (in the narrower sense)[1)]	116	123
Portugal	257	219
Russia	–	–
Spain	253	253
Turkey	5	76
Ukraine	–	–
Total	**776**	**831**

[1)] Hamburg Commercial Bank has gross exposure in the following Central and Eastern European countries: Bulgaria, Estonia, Croatia, Poland, Czech Republic and Hungary.

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

As a result of the war between Russia and Ukraine, new business with both countries was discontinued immediately upon the attack of 24 February 2022. Hamburg Commercial Bank has no gross exposure to Russia or Ukraine. In the internal risk perspective, which takes into account the net exposure subject to transfer risk (after the collateral relevant to country risk), there is only a single exposure that is largely hedged by ECA cover. After ECA cover, the Bank's remaining transfer risk related to Russia is in the low single-digit million euro range.

Similarly, new business with Turkey remains suspended in the current economic and geopolitical environment.

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

Loan loss provisions

The change in loan loss provisions in the lending business amounted to a net reversal of € 30 million as at the reporting date (same period of the previous year: a net reversal of € 22 million).

The change in loan loss provisions resulted from net reversals at Stages 1 and 2 totalling € 36 million, which exceeded the net additions at Stage 3 (including POCI) totalling € 7 million.

The key drivers behind the positive development of loss provisions at Stages 1 and 2 were reversals in the Real Estate segment due to the migration of a few large individual exposures to Stage 1 as well as the reduction in model overlays, driven by the largely completed changeover to the new rating model in the area of national real estate and the reduction in the exposure for the real estate customers potentially affected by COVID-19 on the credit watchlist. In addition, the drop in the exposure of individual customers in the Corporates segment and the reduction in overlays for rating model adjustments contributed to the reversal of loan loss provisions.

In addition, the decrease in model overlays for borrowers with a moderate to severe impact from the COVID-19 pandemic was largely offset by the model adjustments made in the first half of 2022 to address credit risks for individual exposures with potential indirect impact due to the effects of the war in Ukraine. For further details, particularly on the composition and development of the model overlays, we refer to Note 2 in the notes to the Group financial statements.

The net additions at Stage 3 (including POCI) were attributable primarily to the clients in the Corporates segment, with Real Estate and Shipping reporting slight net reversals overall.

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

Changes in loan loss provisions in the lending business

(€ m)	January–June 2022				
	Stage 3 loan loss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Currency translation income on loan loss provisions	Other[1]	Total
Corporates	– 11	7	–	1	– 3
Project Finance	–	– 15	–	–	– 15
Real Estate	1	43	–	–	44
Shipping	4	–	– 1	–	3
Treasury & Group Functions	–	–	–	–	–
Reconciliation	– 1	1	–	1	1
Group	**– 7**	**36**	**– 1**	**2**	**30**

[1] The Other item includes the result of other changes in loan loss provisions (direct write-downs, recoveries on loans and advances previously written off, result of non-substantial modifications).

Changes in loan loss provisions in the lending business

(€ m)	January–June 2021				
	Stage 3 loanloss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Currency translation income on loan loss provisions	Other[1]	Total
Corporates	– 10	– 15	–	–	– 25
Project Finance	3	11	–	– 2	12
Real Estate	– 17	17	– 1	–	– 1
Shipping	10	25	– 2	1	34
Treasury & Group Functions	–	–	–	2	2
Reconciliation	–	–	–	–	–
Group	**– 14**	**38**	**– 3**	**1**	**22**

[1] The Other item includes the result of other changes in loan loss provisions (direct write-downs, recoveries on loans and advances previously written off, result of non-substantial modifications).

Total loan loss provisions

(€ m)	30.06.2022	31.12.2021
Volume of receivables AC	**20,174**	**20,180**
thereof: Volume of impaired loans (gross carrying amount Stage 3)[1]	374	441
Gross carrying amount (Stage 2)	1,486	2,163
Gross carrying amount (Stage 1)	18,314	17,576
Total loan loss provisions for balance sheet items	**– 410**	**– 446**
thereof: Total loan loss provisions (Stage 3)[1]	– 213	– 209
Total loan loss provisions (Stage 2)	– 103	– 169
Total loan loss provisions (Stage 1)	– 94	– 68

[1] Stage 3 including POCI.

Hamburg Commercial Bank's conservative loan loss provisions policy is reflected in the Bank's continued solid total loan loss provisions, despite lower NPE and model overlays.

Total loan loss provisions for balance sheet items determined under IFRS 9 amounted to € -410 million as at 30 June 2022 (31 December 2021: € -446 million). In addition, provisions for off-balance sheet items amounted to € -43 million as at the reporting date (31 December 2021: € -44 million).

The high level of risk coverage of the NPE portfolio through the Stage 3 loan loss provisions is reflected in the NPE coverage ratio AC, which at 63.6 % as at the reporting date was significantly above the level of 31 December 2021 (55.8 %).

In addition, the substantial total loan loss provisions at Stages 1 and 2 provide a significant buffer for mitigating potential future negative influences.

The coverage ratio of the total volume of receivables AC was a solid 2.0 % as at 30 June 2022 (31 December 2021: 2.2 %).

Details regarding the total loan loss provisions are presented in Notes 10 and 19 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 (VaR approach per historical simulation). 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 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 2022, the daily market risk of the trading book positions was € 2.8 million and that of the banking book positions was € 23.6 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 € 23.2 million. The daily interest rate risk in the banking book (IRRBB) was € 16.3 million, the funds/equity risk was € 12.0 million, the credit spread risk was € 4.9 million and the foreign exchange risk was € 2.9 million.

In addition to the risk determined by the system, the VaR of Hamburg Commercial Bank as at 30 June 2022 includes a VaR add-on at Group level of € 0.1 million for residual risks for corporate bonds, Pfandbriefe and government bonds as well as collateralised loan obligations (CLO). For the less liquid assets of the CTA, in addition to the risk determined by the system, the VaR includes a VaR add-on of € 6.6 million as at 30 June 2022.

Developments with respect to the daily VaR for individual market risk types during the first six months of 2022 are presented in the table below.

Strict limits are set on the economic capital required for market risk positions and the daily VaR. In addition, the potential net present value losses that would result from a 200 bp interest rate shock (Basel interest rate shock) as well as the further interest rate shocks that are specified in the annex to the Basel Committee on Banking Supervision standards for interest rate risks in the banking book (BCBS 368) are also limited. The reference parameter here is the core capital of the Bank.

The cumulative economic daily profit and loss has a stop loss limit. The VaR perspective is expanded through monthly stress test calculations, in which the effects of various stress scenarios are analysed.

The present value IRRBB approach 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		Foreign exchange risk		Equity/ funds risk		Total[2]	
	Jan. – June 2022	Jan. – Dec. 2021	Jan. – June 2022	Jan. – Dec. 2021	Jan. – June 2022	Jan. – Dec. 2021	Jan. – June 2022	Jan. – Dec. 2021	Jan. – June 2022	Jan. – Dec. 2021
Average	12.1	13.5	5.2	5.9	1.3	1.1	10.2	7.7	20.5	21.5
Maximum	16.7	23.2	6.0	13.0	3.6	3.2	12.0	10.4	25.5	31.8
Minimum	9.3	9.2	3.7	3.4	0.3	0.3	8.0	4.0	18.3	14.3
Period end value	16.5	13.3	4.9	3.9	2.9	0.4	12.0	9.0	23.2	20.6

[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 Guide to the Internal Liquidity Adequacy Assessment Process (ILAAP). The normative perspective covers a multi-year assessment period, and thereby considers the ability to fulfil all regulatory, supervisory and in part internal liquidity requirements and guidelines at all times. The objective is the forward-looking assessment of liquidity adequacy. In addition to a baseline scenario, adverse scenarios are also taken into account in forecasting the parameters.

Conversely, the economic perspective ensures that all material risks that may negatively affect liquidity are identified, quantified and covered by internal liquidity potential, so that the business strategy can be pursued continuously and the continuity of the institution is maintained at all times. The objective of the economic perspective is to manage economic risks and also ensure liquidity adequacy through stress test programmes. For economic liquidity management, internal parameters (Pillar 2 ratios) are considered, which are calculated on the basis of the Bank's current portfolios.

For the liquidity risk, a distinction is made between risk of illiquidity and liquidity maturity transformation risk.

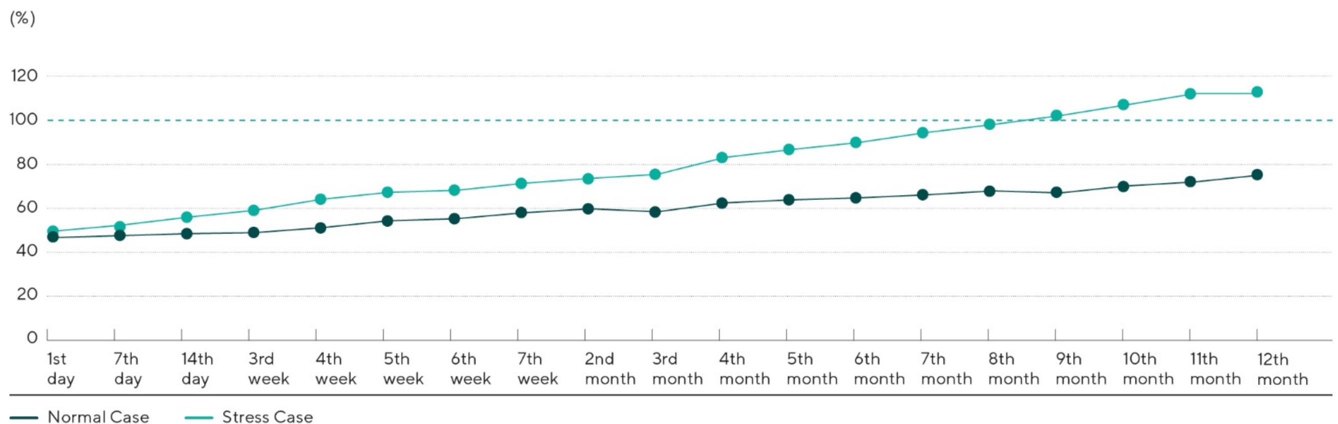
Liquidity maturity transformation risk refers to the risk that a pending loss will result from a mismatch in the contractual maturities of assets and liabilities, the so-called liquidity maturity transformation position, and from the change in the Bank's refinancing surcharge.

The risk of illiquidity refers to the risk that present or future payment obligations cannot be met in part or in full. The key driver of this liquidity risk is the cash flow structure in the liquidity maturity profile, which is determined by the assets (maturity/currency structure) and liabilities (funding structure by maturity/currency/investor).

For the multi-day risk of illiquidity, the gaps (balances arising from incoming and outgoing payments) are calculated from the first day up to the twelfth month – accumulated by maturity band – in order to quantify future liquidity requirements. The cumulative requirements are compared to the respective liquidity potentials that are available for liquidity coverage per maturity band. The net amount of cumulative requirements and liquidity potentials is referred to as the net liquidity position. In the maturity bands up to the third month, the minimum net liquidity position is prescribed by a limit or a risk guideline. The utilisation of these limits is monitored daily. The utilisation of these limits or risk guidelines therefore constitutes the measure of the risk of illiquidity.

The following chart shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case liquidity maturity profiles as at 30 June 2022.

Utilisation of Liquidity Potential as at 30 June 2022



Hamburg Commercial Bank's risk appetite with regard to liquidity risk is reflected, among other things, in the definition of a minimum survival period, which describes how long utilisation of a liquidity potential lower than 100 % is to be maintained under the stress cases for the risk of illiquidity.

The utilisation is 75 % in the twelfth month in the normal case assessment, which is based on the assumption of business development in a normal market environment. This means that all limits were complied with in the 12-month period under review. In the scenario that is relevant from a management perspective, the stress case liquidity maturity profile shows that the 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 2022 stood at over 8 months. Compared to the 2021 year end, utilisation levels have increased slightly in the normal case and stress case in virtually all maturity bands. Among other things, the changes result from the increase in the liquidity buffer in the first half of 2022. 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. The minimum threshold of 100 % pursuant to CRR was maintained at all times in the reporting period. As at 30 June 2022, it amounted to 163 % (31 December 2021: 164%).

The net stable funding ratio (NSFR), as a structural liquidity ratio, is calculated as the ratio of available stable funding resources across all maturities to the stable funding required. As at 30 June 2022, the NSFR amounted to 122 % under the CRR (31 December 2021: 114 %) and thus lies above the minimum ratio of 100% required by the supervisory authorities.

Hamburg Commercial Bank also calculates the additional liquidity monitoring metrics (AMM) including the preparation of the stipulated liquidity maturity profile. By means of the AMM, the LCP (liquidity capacity period) is determined by 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. This figure is determined by the Bank on a daily basis and was above twelve months as at 30 June 2022.

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

Hamburg Commercial Bank successfully implemented its funding strategy in the first half of the 2022 financial year. The refinancing situation in the reporting period was characterised by very volatile and difficult capital markets. The ongoing burden of COVID-19 and the geopolitical situation have led to sharply higher inflation rates and a significant increase in interest rates with rising credit spreads. Despite the deterioration in the capital market environment, Hamburg Commercial Bank has continued its successful issuing of benchmark bonds with three Pfandbrief issues, one of which is a ship Pfandbrief and the other two are mortgage Pfandbriefe. In addition to the refinancing via the capital market, deposits from corporates in particular contributed to the refinancing of the business. In order to further strengthen the deposit structure, the focus is on diversifying and expanding the deposits from corporates.

Execution of funding measures in the market could be made more difficult by a heightening of existing tensions in the financial markets. The less supportive monetary policy adopted by the central banks could also limit the refinancing options and potentially further increase funding costs.

As expected, the transition to the guarantee scheme of the Federal Association of German Banks (Bundesverband deutscher Banken, BdB) has only resulted in very minor outflows of funds. The BdB will implement a reform of the protection of the Deposit Protection Fund (ESF) from 2023 (including transitional periods), which will affect all members. Given the changed scope of protection provided in future by the guarantee scheme, there is a fundamental risk of increased liquidity outflows. The Bank analyses the proposed changes on an ongoing basis and considers the resulting impact in its funding strategy.

Hamburg Commercial Bank's liquidity and funding planning for short-term deposits is based on assumptions about client behaviour based on the deposit base and durations. This means that, in critical market-wide, or particularly in idiosyncratic, special situations, there is the risk that even conservative behavioural assumptions used to simulate stress scenarios will fail to materialise as assumed, and that considerable unplanned liquidity outflows could occur instead. Without deliberate management measures, this would lead to a deterioration in the regulatory liquidity ratios as well as the economic survival period.

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

Non-financial risk

In addition to operational risk, business strategy risk and reputation risk are included in the non-financial risks (NFR) of Hamburg Commercial Bank. 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 reporting period was characterised by the ongoing implementation of the comprehensive transformation of IT into a modern, cost-effective, cloud-based IT architecture. The IT risks that may arise during this IT transformation process are reduced through a step-by-step approach with parallel phases of the old and new system environment, as well as by sustainable partnerships, effective management and independent quality assurance.

As a result of the war of aggression by Russia against Ukraine, the sanctions situation tightened significantly in the first half of 2022. Hamburg Commercial Bank fully implements all sanctions and has stepped up the monitoring of current developments.

Moreover, the war in Ukraine has fundamentally increased the general threat of cyber attacks. There was no material increase in the current threat situation facing Hamburg Commercial Bank during the reporting period. The Bank is closely following developments regarding cyber attacks and continuously works to mitigate cyber security risks.

In addition, the first half of 2022 continued to be influenced by the COVID-19 crisis and the resulting uncertainties. Ensuring and maintaining the business operations is controlled by an interdisciplinary coronavirus working group within the framework of the business continuity management system. The impact of COVID-19 on loss events has so far been limited to additional costs, for example for increased hygiene measures, the provision of coronavirus tests, as well as IT measures for the increased use of digital services and teleworking.

As at the reporting date, Hamburg Commercial Bank recognised provisions for the legal risk category, which is a component of operational risk, in particular for litigation risks and costs, amounting to € 106 million (31 December 2021: € 124 million). In addition, there are also contingent liabilities arising from legal disputes. A significant portion of the provisions is due to complaints and litigation that investors and former borrowers are pursuing against the Bank.

The Cologne public prosecutor's office has been conducting an investigation into two former senior employees of HSH Nordbank since April 2018. As part of the investigation, the Bank was interviewed as a potential co-defendant in the case. In July 2021, the Cologne public prosecutor's office searched the premises of the Bank. In the course of thereof, the charges were extended to other (mostly former) employees. HSH Nordbank, as the predecessor institution of Hamburg Commercial Bank, had already proactively investigated the matter in 2013, long before the start of the investigation by the Cologne public prosecutor's office, disclosed all findings of its internal investigation at the time to the tax authorities responsible for large companies in Hamburg and the Hamburg public prosecutor's office, made provisions amounting to € 127 million in the 2013 financial statements, and repaid taxes totalling around € 112 million plus interest in January 2014. Hamburg Commercial Bank is cooperating with the Cologne public prosecutor's office. The case may potentially result in a fine for the Bank. The likelihood of this happening or the amount of the potential fine are currently not foreseeable.

As a component of legal risks, tax risks mainly result from the fact that the binding interpretation of rules that can be interpreted may sometimes only be known after several years. At

present, the assessment periods from 2011 onwards can still be changed under procedural law. In connection with the tax audits that are currently being conducted, the new and/or amended publications by the tax authorities, as well as the case law on tax matters that has meanwhile come into effect, appropriate provisions are recognised for the resulting tax risks where necessary. As at the reporting date, there is no need to establish any such provisions.

Further information on non-financial risks can be found in the combined management report for the 2021 financial year.

Hamburg, den 15. August 2022

Stefan Ermisch	Ulrik Lackschewitz
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Group statement of income

for the period from 1 January to 30 June 2022

(€ m)	Note	January–June 2022	January–June 2021	Change in %
Interest income from financial assets categorised as AC and FVOCI		307	303	1
Interest income from other financial instruments		120	173	-31
Negative interest on investments categorised as AC and FVOCI		-11	-7	57
Negative interest on other cash investments and derivatives		-27	-39	-31
Interest expenses		-139	-211	-34
Positive interest on borrowings and derivatives		36	50	-28
Net interest income	(4)	**286**	**269**	**6**
Net commission income	(5)	18	22	-18
Result from hedging	(6)	7	-2	> 100
Result from financial instruments categorised as FVPL	(7)	-9	28	> -100
Net income from financial investments	(8)	–	2	-100
Result from the disposal of financial assets classified as AC	(9)	2	19	-89
Total income		**304**	**338**	**-10**
Loan loss provisions	(10)	30	22	36
Total income after loan loss provisions		**334**	**360**	**-7**
Administrative expenses	(11)	-150	-153	-2
Other operating result	(12)	40	5	> 100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(13)	-29	-31	-6
Net income before restructuring and transformation		**195**	**181**	**8**
Result from restructuring and transformation	(14)	-17	-13	-31
Net income before taxes		**178**	**168**	**6**
Income tax expense		29	26	-12
Group net result		**207**	**194**	**7**
Group net result attributable to Hamburg Commercial Bank shareholders		207	194	7

Earnings per share

(€)	Note	January–June 2022	January–June 2021
Undiluted	(15)	0.69	0.64
Diluted	(15)	0.69	0.64
Number of shares (millions)		**302**	**302**

Group statement of comprehensive income

for the period from 1 January to 30 June 2022

Reconciliation with total comprehensive income/loss

(€ m)	January–June 2022	January–June 2021
Group net result	**207**	**194**
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 loss (before taxes)	-62	-43
Gains and losses (before taxes) reclassified to the statement of income	1	-1
Income taxes recognised	19	14
	-42	**-30**
Differences resulting from currency translation	-	18
	-	**18**
Subtotal	**-42**	**-12**
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)	4	-4
Income taxes recognised	-1	1
	3	**-3**
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	175	75
Income taxes recognised	-56	-25
	119	**50**
Subtotal	**122**	**47**
Other comprehensive income for the period	**80**	**35**
Total comprehensive income	**287**	**229**
Total comprehensive income attributable to Hamburg Commercial Bank shareholders	287	229

Group statement of financial position

as at 30 June 2022

Assets

(€ m)	Note	30.06.2022	31.12.2021	Change in %
Cash reserve	(16)	3,804	3,261	17
Loans and advances to banks	(17)	1,020	1,236	-17
Loans and advances to customers	(18)	20,211	20,198	0
Loan loss provisions	(19)	-410	-446	-8
Positive fair values of hedging derivatives	(20)	3	26	-88
Positive adjustment item from portfolio fair value hedges		-132	32	> -100
Trading assets	(21)	507	689	-26
Financial investments	(22)	4,434	4,524	-2
Intangible assets	(23)	43	34	26
Property, plant and equipment	(24)	17	19	-11
Investment property	(24)	1	1	-
Non-current assets held for sale and disposal groups	(25)	-	10	-100
Current tax assets		14	10	40
Deferred tax assets	(26)	587	616	-5
Other assets	(27)	248	61	> 100
Total assets		**30,347**	**30,271**	**0**

Liabilities

(€ m)	Note	30.06.2022	31.12.2021	Change in %
Liabilities to banks	(28)	4,441	5,504	-19
Liabilities to customers	(29)	12,341	11,141	11
Securitised liabilities	(30)	6,528	6,704	-3
Negative fair value of hedging derivatives		69	149	-54
Negative adjustment item from portfolio fair value hedges		51	181	-72
Trading liabilities	(31)	436	289	51
Provisions	(32)	384	454	-15
Current tax liabilities		20	39	-49
Other liabilities	(33)	135	172	-22
Subordinated capital	(34)	935	921	2
Equity	(35)	5,007	4,717	6
Share capital		302	302	-
Capital reserve		1,527	1,524	0
Retained earnings		2,907	2,437	19
Revaluation reserve		64	103	-38
Currency conversion reserve		-	-	-
Group net result		207	351	-41
Total liabilities		**30,347**	**30,271**	**0**

Group statement of changes in equity

(€ m)	Note	Share capital	Capital reserve
As at 1 January 2021		**3,018**	**82**
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		–	–
Other comprehensive income		–	–
Comprehensive income as at 30 June 2021		**–**	**–**
Dividend payments and distribution		–	–
Additions from the Group net result for the previous year		–	–
Share-based remuneration		–	2
As at 30 June 2021		**3,018**	**84**
As at 1 January 2022		**302**	**1,524**
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		–	–
Other comprehensive income		–	–
Comprehensive income as at 30 June 2022		**–**	**–**
Additions from the Group net result for the previous year		–	–
Share-based remuneration		–	3
As at 30 June 2022	(35)	**302**	**1,527**

Retained earnings	Currency conversion reserve	Revaluation reserve	Group net result	Total before non-controlling interests	Non-controlling interests	Total
1,010	**– 16**	**148**	**102**	**4,344**	**–**	**4,344**
–	–	–	194	194	–	194
50	–	–	–	50	–	50
–	–	– 2	–	– 2	–	– 2
–	–	– 30	–	– 30	–	– 30
–	18	–	–	18	–	18
50	18	– 32	–	36	–	36
50	**18**	**– 32**	**194**	**230**	**–**	**230**
– 2	–	–	–	– 2	–	– 2
102	–	–	– 102	–	–	–
–	–	–	–	2	–	2
1,162	**2**	**116**	**194**	**4,576**	**–**	**4,576**
2,437	**–**	**103**	**351**	**4,717**	**–**	**4,717**
–	–	–	207	207	–	207
119	–	–	–	119	–	119
–	–	3	–	3	–	3
–	–	– 42	–	– 42	–	– 42
119	–	– 39	–	80	–	80
119	**–**	**– 39**	**207**	**287**	**–**	**287**
351	–	–	– 351	–	–	–
–	–	–	–	3	–	3
2,907	**–**	**64**	**207**	**5,007**	**–**	**5,007**

Group cash flow statement

Condensed cash flow statement

(€ m)	January–June 2022	January–June 2021
Cash and cash equivalents as at 1 January	**3,261**	**1,741**
Cash flow from operating activities	495	678
Cash flow from investing activities	49	355
Cash flow from financing activities	-1	-4
Cash and cash equivalents as at 30 June	**3,804**	**2,770**

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 € 3,089 million were made (previous year: € 988 million). The volume of repayments/repurchases in this period amounted to € 632 million (previous year: € 244 million) and the volume of maturing issues came to € 2,611 million (previous year: € 646 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 the 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 2022 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). They take into account in particular the requirements set out in IAS 34 (Interim Financial Reporting).

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 2021.

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 2021 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 IFRS 3 Business Combinations

The amendments include an update of the reference in IFRS 3 to the Revised Framework for IFRS (2018) and an addition to IFRS 3 to specify that an acquirer shall apply the requirements of IAS 37 or IFRIC 21 instead of the Framework in identifying assumed obligations that fall within the scope of IAS 37 or IFRIC 21. An exception to this is contingent liabilities, for which the exception in IFRS 3.23 continues to apply.

Furthermore, the amendments relate to a supplement to IFRS 3 with an explicit prohibition on the recognition of acquired contingent assets.

The amendments to IFRS 3 are applicable for the first time to business combinations for which the acquisition date falls on or after 1 January 2022.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IAS 16 Property, Plant and Equipment

Among other things, the amendments clarify that in future no deduction from the cost of an item of property, plant and equipment of income earned during the period in which the item is brought to its location or into its working condition will be permitted. This includes, but is not limited to, income from the sale of products manufactured as part of test runs of the asset. In future, such income must be recognised directly in profit or loss.

In addition, the term "costs of tests to determine whether the asset is functioning properly" is clarified. Accordingly, these are costs incurred to determine whether the asset is technically and physically capable of performing its intended use. However, the achievement of a certain financial capacity is irrelevant.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

The amendments clarify that in future, when determining whether a contract is an onerous contract, in addition to the incremental costs arising from the contract, other costs directly attributable to the performance of the contract (e.g. pro rata depreciation of an item of property, plant and equipment used to perform the contract) must also be included in the determination of the cost of fulfilling a contract.

The amendments have no material impact on the consolidated financial statements of Hamburg Commercial Bank.

Annual Improvements to IFRS 2018- 2020

The Annual Improvements to IFRS 2018-2020 amended four IFRSs.

In accordance with the exemption in IFRS 1.D16(a), a subsidiary (except investment companies) that prepares IFRS consolidated financial statements for the first time after its parent company may recognise its assets and liabilities at the values previously recognised for this purpose in the consolidated financial statements of the parent company. The amendments extend this rule to include the cumulative currency translation differences of the subsidiary, so that in future these can also be carried forward unchanged with the values previously carried in the consolidated financial statements of the parent company. However, other equity items remain excluded from the exemption.

The amendments to IFRS 9 relate to the so-called 10% test to be performed as part of the disposal test for financial liabilities. In future, this may only include fees that have been incurred between the company and the creditor. If the derecognition test for modified or exchanged financial liabilities leads to repayment, any costs and fees must be recognised in profit or loss. If, however, the modification or exchange does not result in settlement, costs and fees should be amortised over the remaining life of the modified liability by adjusting the carrying amount and effective interest rate, unless they are compensation for modifying the cash flows of the liability (for example, a fee to offset a decrease in interest rates). The latter must be recognised in profit or loss as part of the modification posting.

In the illustrative example No. 13 of IFRS 16, the part on lease incentives was deleted in connection with reimbursements by the lessor for leasehold improvements made by the lessee.

Finally, IAS 41 is amended to remove the requirement not to recognise cash flows for taxes relating to the measurement of biological assets at fair value.

For Hamburg Commercial Bank, the above-mentioned regulations do not have any significant impact on the consolidated financial statements.

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 15 August 2022 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. Impact of COVID-19 and the war in Ukraine on the Group financial statements of Hamburg Commercial Bank

I. Estimates and discretionary decisions

Uncertainties with regard to future market developments have increased due to the COVID-19 pandemic and the war in Ukraine. This has an impact on the estimates required in line with impairment provisions according to IFRS 9.

This relates both to the integration of forward-looking macroeconomic scenarios and their weighting in determining expected losses in Stage 1 and Stage 2 credit exposures and to the estimation of future cash flows in Stage 3 credit exposures.

Determining the extent to which a significant deterioration in credit quality occurs and the associated movement between Stages 1 and 2 is per se a key discretionary decision.

In line with the Bank's conservative loan loss provisioning policy, the Bank retains its stage transfer concept as previously applied in this context. Additional information on the calculation of loan loss provisions is provided in Note 9 of the HCOB Annual Report 2021 (IFRS/Group) (Accounting and measurement principles, section D). In determining the overlays, credit exposures affected by the COVID-19 pandemic and the war in Ukraine in particular were already classified as Stage 2 even before this would have been required pursuant to the stage transfer concept. In addition, the risk parameter surcharges for the measurement of the model overlays are reviewed and adjusted on a regular basis.

II. Change in loan loss provisions as at 30 June 2022

The impact of forward-looking information on the credit risk parameters Probability of default (PD) and Loss given default (LGD) is generally determined using statistical procedures and is taken into account when calculating the expected credit losses. In this process, various macroeconomic forecasts (cf. table on "Macroeconomic forecasts for 2022") 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.

IFRS 9 loan loss provisions (for on- and off-balance-sheet transactions) amount to € 453 million as at 30 June 2022 (previous year: € 490 million). Of this amount, € 170 million (previous year: € 186 million) pertain to the adjustment of loan loss provisions because of model overlays. Here, € 79 million are allocated to Stage 1 loan loss provisions and € 91 million to Stage 2 loan loss provisions. No model overlays have been formed for Stage 3 loan loss provisions.

Composition of model overlays

(€ m)	30.06.2022	31.12.2021
Effect of macroeconomic forecasts	50	52
Address and portfolio related adjustments		
Individual cases related to COVID-19 (credit watch list)	27	84
Individual cases of borrowers potentially impacted by the war in Ukraine (credit watch list)	54	-
Hotels and retail sub-portfolio	7	4
Tankers sub-portfolio	20	19
Additions to ECL method	12	27
Total	**170**	**186**

A) EFFECT OF MACROECONOMIC FORECASTS

The effects of the ongoing COVID-19 pandemic and the war in Ukraine on Hamburg Commercial Bank's macroeconomic environment in the reporting period were calculated in separate scenarios. For this purpose, the Bank takes into account two weighted scenarios (basis and stress scenario). These scenarios are based on the following macroeconomic forecasts:

Macroeconomic forecasts for 2022 (as at 30 June 2022)

	Basis Scenario	Stress Scenario
GDP USA (%)	1.7	1.2
GDP eurozone (%)	2.8	1.3
Unemployment rate Germany (%)	1.9	0.5
Fed Funds rate (%)	3.625	3.375
ECB MRO rate (%)	1.50	1.00
3M EURIBOR (%)	1.61	1.20
10Y Bunds (%)	2.15	1.55
EUR/USD exchange rate	1.08	1.00
Unemployment rate Germany (%)	5.0	5.3
Inflation rate Germany (%)	7.1	7.6

Here, the Basis Scenario (60 % probability of occurrence) represents the expected development, while the Stress Scenario (40 % probability of occurrence) takes into account the additional uncertainties regarding the severity and length of the pandemic and the geopolitical crisis situation, in particular the possible effects of a potential halt to Russian energy shipments. Depending on the macroeconomic scenarios for determining the overlays, the risk parameters (PD and LGD) are adjusted for the entire portfolio. The overall assessment includes as an overlay the delta between the calculation with adjusted risk parameters and the original loan loss provisions.

The additional loan loss provisions resulting from the two scenarios amount to € 50 million (31 December 2021: € 52 million), reflecting the slowdown in economic recovery due to a dampened outlook in certain economic sectors, mainly as a result of the economic sanctions associated with the war in Ukraine.

B) ADDRESS AND PORTFOLIO RELATED FORECASTS

In addition to the general macroeconomic forecasts, possible effects on individual counterparties in the bank portfolio are also taken into account. These concern not only customers who are significantly affected by the consequences of the COVID-19 pandemic, but also customers who can expect their business model to be negatively affected by current economic policy developments. In addition to the sub-portfolios hotel and retail as well as tankers, this also comprises customers who have to tackle significant challenges because of supply chain, energy or price issues resulting from the war in Ukraine. It should be noted that Hamburg Commercial Bank had no significant direct or indirect exposure to Russia or Ukraine as at the reporting date.

The risk parameters (PD and LGD) for those customers identified are adjusted for the calculation of the overlays, while the exposures are moved to Stage 2 if they were not yet in this stage already or have not already been migrated due to macroeconomic assumptions. The delta between this calculation and the original loan loss provisions is included in the overall assessment as the overlay.

The Bank has analysed its loan portfolio at the level of sub-portfolios as well as at a case-by-case level with respect to the impact of macroeconomic effects of the COVID-19 pandemic. Based on close cooperation between the front and back office, the Bank has identified customers with a medium to strong negative exposure to the pandemic and geopolitical crisis situations; these are closely monitored for credit risks through the credit watch list. This pertains to a total exposure at default (EaD) of € 2,690 million (31 December 2021: € 3,609 million), of which € 2,038 million are attributable to Stages 1 and 2 as at 30 June 2022 and were taken into account for the calculation of the overlays in the individual cases. It should be noted that the credit watch list was expanded in the reporting period to include customers affected by the consequences of the ware in Ukraine.

The overlays for individual borrower risks amounted to € 81 million as at the reporting date (31 December 2021: 84 million). The increase in overlays of € 54 million resulting from the first-time assessment of individual exposures with a potentially negative impact from the war in Ukraine almost completely compensates for the recovery effect from a reduction in overlays of € 57 million for borrowers affected by the COVID-19 pandemic.

The reduction in overlays related to the COVID-19 pandemic corresponds with a substantial reduction in EaD volume on the credit watch list and the changes in risk parameters. As at 31 December 2021, the EaD volume for borrowers with exposure to the COVID-19 pandemic amounted to € 3,609 million. This has significantly decreased to € 2,250 million as at the end of the first half of 2022. The reduction in EaD was driven by the development that the ongoing effects of the COVID-19 pandemic were included in the risk parameters for many of the exposures in the first half of 2022 that had still been on the watch list at the end of 2021, which led to a reduction in the overlays for these cases. Overlays formed for exposures that may be affected by the war in the Ukraine amount to € 54 million and relate to an EaD of € 440 million. A significant portion of this exposure comprises customers who were still looked at on a case-by-case basis with regard to the COVID-19 impact and included when the credit watch list was put together at the end of the year, but who were transferred to the group of customers potentially affected by the war in Ukraine for the assessment of overlays on the reporting date due to their business model.

At the portfolio level, mainly the sub-portfolios hotels and retail (in particular department stores and shopping centres) were identified as being strongly affected by the COVID-19 pandemic. In total, this pertains to EAD of € 2,279 million (previous year: € 2,450 million). This is divided into the sub-portfolios hotels with EAD of € 845 million (previous year: € 979 million) and retail with EAD of € 1,434 million (previous year: € 1,471 million). Model overlays amount to € 7 million (previous year: € 4 million). The increase of € 3 million relates mainly to exposures that are no longer part of the credit watch list as at the reporting date, but for which the loan loss provisions are still adjusted by means of overlays in the sub-portfolio assessment as uncertainty related to the pandemic prevails.

Additional overlays were formed in the shipping portfolio. The tankers segment in particular continues to see a pandemic-related decline in demand with the corresponding negative effects on charter rates and ship prices. As a result, adjustments to loan loss provisions in the form of overlays of € 20 million (31 December 2021: € 19 million) were made for tanker financing with EAD of € 749 million (31 December 2021: € 764 million).

C) ADDITIONS TO ECL METHOD

Independently of adjustments to loan loss provisions that are related to either the pandemic or the war in Ukraine, the Bank determines mark-ups for pending adjustments to internal models. As at 30 June 2022, these amount to € 12 million (previous year: € 27 million). The reduction of € 15 million is mainly due to the conversion to the new rating model in the domestic real estate segment, which has largely been finalised.

D) SENSITIVITY ANALYSIS
If the duration and impact of the COVID-19 crisis as well as the war in Ukraine turn out to be either more or less significant than currently assumed in the ECL model, the macroeconomic assumptions taken into account will have to be adjusted. The sensitivity of Hamburg Commercial Bank's ECL model to future adjustments is shown by an upward and downward shift in the forecast assumptions.

Greater or lesser impacts of the crises would particularly influence the ratings of borrowers that are expected to be significantly affected by the COVID-19 pandemic or the war in Ukraine in the ECL model. To simulate the potential effects on the loan loss provisions, a rating shift of two notches and one notch respectively was simulated.

A rating downgrade for the portfolios affected by two notches would result in an increase in the total loan loss provisions of € 75 million, while a downgrade by one notch would result in an increase of € 34 million. A rating upgrade by two notches would reduce the loan loss provisions by € 51 million, while an upgrade by one notch would lead to a reduction of € 27 million.

E) OTHER EFFECTS
There were no other modification effects caused by forbearance measures in connection with COVID-19 or the war in Ukraine in the reporting period.

An increase or decrease in deferred tax assets has the corresponding offsetting effect on the Group net result.

3. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg, the scope of consolidation includes 14 fully consolidated subsidiaries (31 December 2021: 13).

As in the previous financial statements of 31 December 2021, 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 2022 relate to the subsidiaries listed below.

I. Disclosures on subsidiaries – Changes in the scope of consolidation

A) ADDITIONS
The following companies are fully consolidated and included for the first time in the Group financial statements as at 30 June 2022:

- Apollo Alster Lending Fund (Lux) SCSp, Luxembourg
- HI-Hafen Global-Fonds, Frankfurt am Main

Due to contractual regulations, the Bank exercises control over Apollo Alster Lending Fund (Lux) SCSp, Luxembourg, founded on 24 March 2022, as the regulations mean that the operating decision-makers of the company must be classified as agents of Hamburg Commercial Bank. The primary business purpose of this special fund (loan fund) is the acquisition of receivables from third parties. It was established for the purpose of the Bank diversifying its activities in the international corporates business through the loan fund, with the investment focus on North America and Western Europe.

For the same reason (operating decision-makers classified as agents due to contractual rights of Hamburg Commercial Bank), the Bank exercises control over the special fund HI-Hafen Global-Fonds, Frankfurt am Main. The primary business purpose of the fund is to invest in high-yield corporate bonds, again with a focus on the North American and European market. The Fund commenced operations with its first issue on 14 April 2022; all fund shares issued were acquired by Hamburg Commercial Bank.

B) DISPOSALS
RESPARCS Funding II Limited Partnership, St. Helier, was liquidised on 10 February 2022 and is therefore no longer included in the group of fully consolidated companies.

II. Information on consolidated structured entities

Hamburg Commercial Bank's scope of consolidation includes seven fully-consolidated structured entities. HCOB exercises control over these companies on the basis of contractual rights and/or principal-agent relationships. In two of these companies, HCOB also holds the majority of voting rights.

Notes on the Group statement of income

4. Net interest income

Net interest income

(€ m)	January–June 2022	January–June 2021
Interest income from		
lending and money market transactions categorised as AC and FVOCI	284	274
fixed-interest securities categorised as AC and FVOCI	17	23
impaired financial assets	3	6
discounting of provisions	3	-
Interest income from financial assets categorised as AC and FVOCI	**307**	**303**
thereof attributable to financial assets measured at AC	285	264
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	23	39
Interest income from		
other lending and money market transactions	4	6
other fixed-interest securities	8	10
other miscellaneous non-fixed-interest securities	7	2
trading transactions	1	2
derivative financial instruments	100	153
Interest income from other financial instruments	**120**	**173**
Negative interest on lending and money market transactions categorised as AC and FVOCI	-11	-7
Negative interest on investments categorised as AC and FVOCI	**-11**	**-7**
thereof attributable to financial assets measured at AC	-11	-7
Negative interest from derivative financial instruments	-27	-39
Negative interest on other cash investments and derivatives	**-27**	**-39**
Interest expenses for		
liabilities to banks	12	22
liabilities to customers	54	95
securitised liabilities	17	23
subordinated capital	4	4
other liabilities	–	1
derivative financial instruments	52	66
Interest expenses	**139**	**211**
thereof attributable to financial liabilities not measured at fair value through profit or loss	31	67
Positive interest on		
liabilities to banks	-5	-8
liabilities to customers	-8	-6
Derivative financial instruments	-23	-36
Positive interest on borrowings and derivatives	**-36**	**-50**
thereof attributable to financial liabilities not measured at fair value through profit or loss	-13	-14
Total	**286**	**269**

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 which 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.

5. Net commission income

Net commission income

(€ m)	January–June 2022	January–June 2021
Commission income from		
lending business	10	13
securities business	1	1
guarantee business	2	3
payments and account transactions as well as documentary business	9	9
Other commission income	1	1
Commission income	**23**	**27**
Commission expense from		
lending business	1	2
securities business	-	-
payments and account transactions as well as documentary business	1	1
Other commission expenses	3	2
Commission expenses	**5**	**5**
Total	**18**	**22**

Financial instruments that are not measured at fair value through profit or loss account for € 18 million of net commission income (previous year: € 20 million). Financial instruments that are measured at fair value through profit or loss account for € 0 million of net commission income (previous year: € 2 million).

6. 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 and currency risks.

Result from hedging

(€ m)	January–June 2022	January–June 2021
Fair value changes from hedging transactions	200	58
Micro fair value hedge	128	45
Portfolio fair value hedge	72	13
Fair value changes from heeding transactions	-193	-60
Micro fair value hedge	-126	-47
Portfolio fair value hedge	-67	-13
Total	**7**	**-2**

7. 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 and credit derivatives.

Result from financial instruments categorised as FVPL

(€ m)	January–June 2022	January–June 2021
Bonds and interest rate derivatives		
FVPL Held For Trading	63	13
FVPL Designated	12	13
FVPL Other	-71	-4
Total	**4**	**22**
Equities and equity derivatives		
FVPL Held For Trading	-3	-
FVPL Designated	-	1
FVPL Other	4	12
Total	**1**	**13**
Other products		
FVPL Held For Trading	-7	2
FVPL Other	-7	-9
Total	**-14**	**-7**
Total	**-9**	**28**

The Result from financial instruments categorised as FVPL includes net income from foreign currency of € -7 million (previous year: € -9 million).

During the reporting period, € -3 million (previous year: € 1 million) of the changes in fair value of the financial assets categorised as FVPL Designated relate to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € 0 million (previous year: € 3 million) is attributable to changes in the credit spread.

8. 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.

Net income from financial investments

(€ m)	January–June 2022	January–June 2021
Realised results from financial assets categorised as FVOCI	-	2
Total	**-**	**2**

9. 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.

In the reporting period, the “Result from the disposal of financial assets classified as AC” exclusively results from disposals of receivables in connection with early repayments/redemptions.

After the transformation process of Hamburg Commercial Bank (including the transition to the deposit protection fund of the BdB) had been completed in 2021, the disposals of receivables declined in the first half of 2022. The disposals of receivables in the first half of 2022 were each carried out at par; as a result, they had no effect on the “Result from the disposal of financial assets classified as AC”.

In accordance with IFRS 9.B4.1.3 A and B, the disposals were carried out in line with the exceptions applicable to the “Hold” business model.

Result from the disposal of financial assets classified as AC

(€ m)	January - June 2022	January - June 2021
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	2	18
Non-current assets held for sale and disposal groups	-	4
Total gains	**2**	**22**
Losses from the disposal of financial assets classified as AC		
Loans and advances to customers	-	1
Non-current assets held for sale and disposal groups	-	2
Total losses	**-**	**3**
Total	**2**	**19**

10. 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 2022	January–June 2021
Loans and advances to customers		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	13	32
thereof AC	13	32
Significant increase in the loan default risk (Stage 2/lifetime ECL)	27	4
thereof AC	27	4
Impaired credit rating (Stage 3/lifetime ECL)	-12	-8
thereof AC	-12	-8
Loans that are purchased or originated credit-impaired (POCI)	–	-4
thereof AC	–	-4
Result from the change in loan loss provisions on loans and advances to customers	**28**	**24**
Off-balance-sheet business		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	–	1
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-3	-
Impaired credit rating (Stage 3/lifetime ECL)	5	-2
Provisions in lending business in accordance with IAS 37	-1	1
Result from changes in provisions in the lending business	**1**	**-**
- Direct write-downs	–	2
+ Recoveries on loans and advances previously written off	2	3
Result from other changes to loan loss provisions	**2**	**1**
Result from changes in loan loss provisions before currency translation gains or losses and compensation	**31**	**25**
Currency translation gains or losses on loan loss provisions denominated in foreign currency	**-1**	**-3**
Total loan loss provisions	**30**	**22**

The positive changes in loan loss provisions in the first half of 2022 are due in particular to improved ratings in the Real Estate segment and a decline in the exposures of individual customers in the Corporates segment. This led to a reversal of loan loss provisions in the amount of € 36 million (net), especially for loan loss provisions classified in Stages 1 and 2 of the risk provisioning model.

On the other hand, there were some individual new defaults leading to net additions in Stage 3 of € 7 million. The other components of the loan loss provision result were slightly positive overall.

11. Administrative expenses

Administrative expenses

(€ m)	January–June 2022	January–June 2021
Personnel expenses	70	68
Operating expenses	78	82
Depreciation of property, plant and equipment, leased assets and investment properties and amortisation of intangible assets	2	3
Total	**150**	**153**

12. Other operating result

Other operating result

(€ m)	January–June 2022	January–June 2021
Other operating income	56	35
Other operating expenses	16	30
Total	**40**	**5**

The other operating result amounted to € 40 million (previous year: € 5 million).

Other operating income includes in particular income from the reversal of provisions in the amount of € 34 million (previous year: € 11 million), mainly related to legal risks.

Other special effects comprise interest income from taxes (€ 11 million) and claims from an earn-out agreement in connection with a subsidiary sold in the 2020 financial year (€ 4 million).

In the same period of the previous year, the other operating result had been burdened by an old lease receivable, the residual value of which had been adjusted downward by € 13 million.

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

Expenses for regulatory affairs, deposit guarantee fund and banking associations

(€ m)	January–June 2022	January–June 2021
Expenses for European bank levy	20	25
Expenses for deposit guarantee fund	7	3
Expenses for banking supervisory authority	2	2
Expenses for banking associations	–	1
Total	**29**	**31**

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.

14. Result from restructuring and transformation

Result from restructuring and transformation

(€ m)	January–June 2022	January–June 2021
Operating expenses due to restructuring	3	-
Result from restructuring	**3**	**-**
Expenses from transformation	14	13
Result from restructuring and transformation	**17**	**13**

Transformation expenses amounted to € 14 million (previous year: € 13 million). They mainly related to project activities with regard to changes in payment transactions and resulted from the measures introduced to achieve the Bank's strategic objectives, in particular the successful transition to the deposit guarantee fund of private banks, which was achieved on 1 January 2022.

The aforementioned project activities extended beyond 1 January 2022.

15. 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.

Hamburg Commercial Bank AG carried out a one-for-ten share split in May 2021, without increasing the share capital. This raised the number of ordinary shares from 302 million to 3,018 million shares.

In December 2021, the share capital was reduced through non-cash cancellation of shares. This transaction took the number of ordinary shares down to 302 million.

Accordingly, 302 million shares are included as the denominator in the calculation of earnings per share for both the reporting period and the previous year.

As no dilutive shares were issued, the basic/undiluted earnings per share are identical with the diluted earnings per share.

The calculation was based on non-rounded values.

Earnings per share

	January–June 2022	January–June 2021
Attributable Group net result (€ m) – undiluted/diluted	207	194
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.69	0.64
Diluted	0.69	0.64

Notes on the Group statement of financial position

16. Cash reserve

Cash reserve

(€ m)	30.06.2022	31.12.2021
Balances with central banks	3,804	3,261
thereof at the Deutsche Bundesbank	3,804	3,261
Total	**3,804**	**3,261**

17. Loans and advances to banks

Loans and advances to banks

(€ m)	30.06.2022	31.12.2021
Payable on demand	597	586
Other loans and advances	423	650
Total	**1,020**	**1,236**

The development of the carrying amounts of loans and advances to banks is shown in Note 37.

18. Loans and advances to customers

Loans and advances to customers

(€ m)	30.06.2022	31.12.2021
Retail customers	173	185
Corporate clients	19,260	19,030
Public authorities	778	983
Total	**20,211**	**20,198**

The development of the carrying amounts of loans and advances to customers is shown in Note 37.

19. Loan loss provisions

Loan loss provisions

(€ m)	30.06.2022	31.12.2021
Loan loss provisions for loans and advances to customers classified as AC, incl. leasing	410	446
Loan loss provisions in the lending business	**410**	**446**
Loan loss provisions for items in the statement of financial position	**410**	**446**
Provisions in the lending business	43	44
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	**453**	**490**

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 loans and advances to customers, please refer to Note 37.

In addition, the Bank forms loan loss provisions in accordance with IAS 37 for the off-balance sheet lending business, which totalled € 9 million as at the balance sheet date and is shown in the Note 32 Provisions.

20. 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.

In addition, Hamburg Commercial Bank manages its foreign exchange risk by hedging net investments in foreign operations in accordance with IFRS 9.6.5.13.

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 the 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 exclusively used to hedge interest and foreign exchange risks in connection with net investments in foreign operations at present.

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	
	2037	2038
Nominal value of hedging instruments	250	200
Average swap rate	3.752	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. At present, only interest rate swaps are taken into account as hedging instruments for interest rate risks. 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 Trading assets/Net trading income.

At present, various liabilities such as bearer debentures, promissory notes and time deposits, are taken into account as hedging instruments for the hedging of net investments in foreign operations in accordance with IFRS 9.6.5.13.

Hedging instruments

(€ m)		30.06.2022			31.12.2021		
Hedge type/type of risk	Balance sheet item	Nominal value	Carrying amount	Hedge adjustment (ytd)	Nominal value	Carrying amount	Hedge adjustment (ytd)
Fair value hedge/interest rate risk							
Interest rate derivatives (assets side)	Positive fair values of hedging derivatives	1,875	3	154	2,554	26	6
Interest rate derivatives (liabilities side)	Negative fair value of hedging derivatives	3,491	69	-56	2,016	149	-108
Hedging of net investments in foreign operations/foreign exchange risk							
Time deposits (liabilities side)	Liabilities due to customers	175	175	5	-	-	-
Debentures	Subordinated capital	201	202	17	181	181	3

[1] The designation of the portfolio is updated/redesignated (at least) once a month including the integration of new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

Asset-side transactions to hedge interest rate risks are reported in the balance sheet item Positive fair values of hedging derivatives, and derivatives on the liabilities side to hedge interest rate risks are shown in the balance sheet item Negative fair values of hedging derivatives. The overall changes in these items are mainly due to changes in the portfolio compositions and movements in interest rates in the euro and US dollar capital markets.

At present, foreign exchange risks from net investments in foreign operations are exclusively hedged with liability-side transactions in the balance sheet items Subordinated capital and Liabilities to customers.

UNDERLYING TRANSACTIONS

This section presents financial instruments on the assets and liabilities side used in hedge accounting. The following table shows the carrying amounts, accumulated changes in value (ltd) and since the beginning of the financial year (ytd). The underlying transactions currently include assets (receivables and securities) and liabilities. Hedge accounting is exclusively used to hedge interest and foreign exchange risks in connection with net investments in foreign operations at present.

Underlying transactions[1)]

(€ m)		30.06.2022			31.12.2021		
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	6,228	-132	-161	6,787	29	-75
Micro fair value hedge	Loans and advances to customers	544	-8	-67	661	59	-90
Portfolio fair value hedge: Fixed-interest issues	Negative adjustment item from portfolio fair value hedges	6,341	51	-130	6,803	181	-84
Portfolio fair value hedge (inactive)	Positive adjustment item from portfolio fair value hedges	60	-	-3	110	3	-1
Portfolio fair value hedge (inactive)	Negative adjustment item from portfolio fair value hedges	-	-	-	-	-	-4
Micro fair value hedge (inactive)	Loans and advances to customers	70	4	-	69	4	-2
Micro fair value hedge (inactive)	Liabilities due to customers, subordinated capital	25	6	-1	26	7	-
Hedging of net investments in foreign operations/foreign exchange risk							
USD hedging	Equity (currency conversion reserve)	376	-25	-22	181	-3	-3

[1)] The portfolios are newly designated/redesignated (at least) once a month including the integration of new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

21. 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 which 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)	30.06.2022	31.12.2021
Positive fair value of financial derivatives	408	577
Other, including promissory notes held for trading	95	107
Receivables from syndication transactions	4	5
Total	**507**	**689**

22. Financial investments

In particular, financial instruments not held for trading purposed 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)	30.06.2022	31.12.2021
Debentures and other fixed-interest securities	4,415	4,510
Shares and other non-fixed-interest securities	10	5
Long-term equity investments	9	9
Total	**4,434**	**4,524**

The development of the carrying amounts of financial investments for the current year is shown in Note 37 .

23. Intangible assets

Intangible assets

(€ m)	30.06.2022	31.12.2021
Software	11	4
developed in-house	2	2
acquired	9	2
Software in development	32	30
developed in-house	1	-
acquired	31	30
Total	**43**	**34**

The Software in development item mainly includes expenses in connection with the development of the target IT platform SAP S/4 HANA over several years.

Completed IT project components were reclassified to Software acquired in the reporting period.

24. Property, plant and equipment and investment property

Property, plant and equipment

(€ m)	30.06.2022	31.12.2021
Land and buildings	8	8
Plant and equipment	2	3
Right-of-use assets from leasing	7	8
Total	**17**	**19**

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)	30.06.2022	31.12.2021
Investment property	1	1
Total	**1**	**1**

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

Non-current assets held for sale and disposal groups

(€ m)	30.06.2022	31.12.2021
Loans and advances to customers	-	10
Total before loan loss provisions	-	10
Total	**-**	**10**

The receivable of € 10 million held for sale as at 31 December 2021 was disposed of at carrying amount in the first quarter of 2022.

26. Deferred tax assets

Of the deferred tax assets of € 587 million (31 December 2021: € 616 million), € 403 million (31 December 2021: € 355 million) relate to tax loss carry-forwards.

As at 30 June 2022, € 310 million of this amount is attributable to the head office (31 December 2021: € 282 million) and € 93 million attributable to the Luxembourg branch (31 December 2021: € 73 million).

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

27. Other assets

Other assets

(€ m)	30.06.2022	31.12.2021
Prepaid expenses	15	16
Receivables from other taxes	2	7
Capitalised plan assets	211	21
Other assets	20	17
Total	**248**	**61**

Out of the assets disclosed in the table, € 30 million relate to financial instruments (31 December 2021: € 25 million).

Due to the increase in plan assets for pension provisions, the fair value of the plan assets exceeds the covered pension liabilities and was capitalised at € 211 million

28. Liabilities to banks

Liabilities to banks

(€ m)	30.06.2022	31.12.2021
Payable on demand	78	113
Other term liabilities	4,363	5,391
Total	**4,441**	**5,504**

Liabilities to banks include liabilities from TLTRO III transactions ("Targeted Longer-Term Refinancing Operations") with the ECB in the amount of € 1,739 million.

Two transactions were concluded (in March 2020 and June 2020) with a maturity of three years; the interest rate is generally based on the average MRO rate of the ECB. For the previous interest rate period from June 2020 to June 2021 as well as for the current interest rate period from June 2021 to June 2022, the maximum interest rate for TLTRO operations was in each case reduced to 50 basis points below the average rate applied in main refinancing operations (MRO).

As at 30 June 2022, the TLTRO III liabilities therefore accounted for € 4 million of accrued interest, which is recognised in the net interest result (as positive interest under interest expense) and led to a corresponding reduction in the carrying amount of the TLTRO III liabilities.
In its books, Hamburg Commercial Bank has recognised the financing liability as a financial instrument within the meaning of IFRS 9. Hamburg Commercial Bank uses the "discrete approach" to determine the effective interest rate.

Banks that meet certain lending performance criteria in their lending business are furthermore granted a premium in the form of an additional interest rate reduction. Hamburg Commercial Bank has not met these criteria and has therefore not been granted a premium.
The above-stated special interest period with an interest rate of 50 basis points below the average rate applied in main refinancing operations plus a premium (if certain conditions are met) expired on 23 June 2022.

29. Liabilities to customers

Liabilities to customers

(€ m)	30.06.2022	31.12.2021
Retail customers	173	185
Corporate clients	19,260	19,030
Public authorities	778	983
Total	**20,211**	**20,198**

30. Securitised liabilities

Securitised liabilities

(€ m)	30.06.2022	31.12.2021
Debentures issued	6,528	6,704
Total	**6,528**	**6,704**

In the item Securitised liabilities repurchased own debentures in the amount of € 1,735 million (31 December 2021: € 2,093 million) were deducted.

31. 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 hedge derivative or are used as hedging instrument but do not meet the requirements of IFRS 9 for hedge accounting.

Trading liabilities

(€ m)	30.06.2022	31.12.2021
Negative fair value from derivative financial instruments		
Interest-related business	123	91
Currency-related business	219	84
Other business	50	63
Other	44	51
Total	**436**	**289**

32. Provisions

Provisions

(€ m)	30.06.2022	31.12.2021
Provisions for pension obligations and similar obligations	100	110
Other provisions		
Provisions for personnel expenses	33	42
Provisions in the lending business	51	53
Provisions for restructuring	51	69
Provisions for litigation risks and costs	106	124
Other provisions	43	56
Total	**384**	**454**

A contractual trust agreement has been arranged between HCOB AG and HCOB Trust e.V. to provide an independent legal structure for pension liabilities. 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 under IAS 19. As at 30 June 2022, plan assets amount to € 915 million (previous year: € 988 million), which is netted with the pension liabilities. The net change in pension provisions in the amount of € 10 million refers mainly to payments for pension liabilities in the amount of € 28 million and transfers of early retirement obligations from the restructuring provisions in the amount of € 5 million as well as service and interest expenses of € 6 million. Because of the increase in the discount rate, pension liabilities decrease by € 276 million. The fair value of plan assets has decreased by € 93 million in the reporting period and is netted against the defined benefit liabilities as at 30 June 2022. Plan assets exceed the defined benefit liabilities covered by € 211 million (previous year: € 21 million). This is reported as capitalised plan assets under other assets.

Provisions for restructuring decreased compared to 31 December 2020 due to transfers to liabilities and the utilisation of the current restructuring programme.

Further information on the Bank’s legal risks is provided in the risk report under "Non-Financial Risk".

33. Other liabilities

Other liabilities

(€ m)	30.06.2022	31.12.2021
Security deposits for assumption of debts	49	48
Liabilities for outstanding invoices	31	56
Other tax liabilities	2	5
Personnel liabilities	11	8
Deferred income	2	2
Liabilities from leases (lessee)	17	19
Liabilities for restructuring	9	19
Other	14	15
Total	**135**	**172**

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

€ 107 million of the liabilities reported here relate to financial instruments (31 December 2021: € 123 million).

34. Subordinated capital

Subordinated capital

(€ m)	30.06.2022	31.12.2021
Subordinated debt	935	921
Silent participations	-	-
Total	**935**	**921**

35. Equity

Equity

(€ m)	30.06.2022	31.12.2021
Share capital	302	302
Capital reserve	1,527	1,524
Retained earnings	2,907	2,437
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-16	-191
thereof: deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	5	61
Revaluation reserve	64	103
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	1	-2
thereof: valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	63	105
Currency conversion reserve	-	-
Group net result	207	351
Total	**5,007**	**4,717**

Changes in ordinary shares

(Number of shares)	30.06.2022	31.12.2021
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

36. Segment report

(€ m/%)	Real Estate		Shipping		Project Finance		Corporates		Lending Units	
	30.06. 2022	30.06. 2021	30.06. 2022	30.06. 2021	30.06. 2022	30.06. 2021	30.06. 2022	30.06. 2021	30.06. 2022	30.06. 2021
Net interest income	88	89	67	44	29	30	60	41	244	204
Net commission income	3	4	6	6	4	4	5	9	18	23
Other income[1]	-2	4	9	21	-3	2	-12	3	-8	30
Total income	**89**	**97**	**82**	**71**	**30**	**36**	**53**	**53**	**254**	**257**
Loan loss provisions (expected loss)	-4	-8	-3	-7	-3	-3	-11	-11	-21	-29
Administrative expenses & regulatory costs	-39	-47	-35	-30	-15	-19	-24	-28	-113	-124
Other operating result	-	-	-	-	-	-	-	-	-	-
Result from restructuring and transformation	-	-	-	-	-	-	-	-	-	-
Net income before taxes	**46**	**42**	**44**	**34**	**12**	**14**	**18**	**14**	**120**	**104**
Income tax	-6	-5	-6	-4	-2	-2	-2	-2	-16	-13
Earnings after taxes	**40**	**37**	**38**	**30**	**10**	**12**	**16**	**12**	**104**	**91**
NIM – Net interest margin (%)	2.22	1.89	3.49	2.72	1.60	1.24	3.12	2.22	2.53	1.93
Cost/income ratio (CIR - %)	39	42	39	39	42	47	41	49	40	43
RoE after taxes (%)	**12.4**	**12.8**	**19.4**	**15.7**	**6.9**	**7.4**	**6.5**	**5.2**	**11.3**	**10.5**
Loan loss provisions (expected loss - %)	0.10	0.17	0.16	0.44	0.17	0.11	0.56	0.58	0.22	0.27
Average segment assets (€ bn)	7.9	9.4	3.8	3.3	3.7	4.8	3.8	3.7	19.2	21.2
Average risk weighted assets (€ bn)	4.9	4.4	3.1	2.9	2.4	2.5	3.7	3.5	14.0	13.3
Loan loss provisions (income statement)	44	-1	3	34	-15	12	-3	-25	29	20

(€ bn)	30.06. 2022	31.12. 2021	30.06. 2022	31.12. 2021	30.06. 2022	31.12. 2021	30.06. 2022	31.12. 2021	30.06. 2022	31.12. 2021
Segment assets	**7.9**	**8.0**	**3.8**	**3.7**	**3.6**	**3.9**	**4.0**	**3.7**	**19.3**	**19.3**
Risk Weighted Assets (RWA)	5.1	3.9	3.4	2.3	2.3	2.4	3.8	3.7	14.6	12.3
Loan loss provisions (balance sheet)	0.2	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.4	0.4
NPE ratio (%)	1.9	2.2	1.5	2.2	0.9	0.8	2.8	3.5	1.9	2.2

1) Other income includes the other results items within the total income (IFRS).

(€ m/%)	Lending Units		Treasury & Group Functions		Reconciliation		Group	
	30.06. 2022	30.06. 2021	30.06. 2022	30.06. 2021	30.06. 2022	30.06. 2021	30.06. 2022	30.06. 2021
Net interest income	244	204	18	15	24	50	286	269
Net commission income	18	23	–	1	–	-2	18	22
Other income[1]	-8	30	155	95	-147	-78	–	47
Total income	**254**	**257**	**173**	**111**	**-123**	**-30**	**304**	**338**
Loan loss provisions (expected loss)	-21	-29	–	-1	51	52	30	22
Administrative expenses & regulatory costs	-113	-124	-66	-60	–	–	-179	-184
Other operating result	–	–	40	5	–	–	40	5
Result from restructuring and transformation	–	–	-17	-13	–	–	-17	-13
Net income before taxes	**120**	**104**	**130**	**42**	**-72**	**22**	**178**	**168**
Income tax	-16	-13	-17	-5	62	44	29	26
Earnings after taxes	**104**	**91**	**113**	**37**	**-10**	**66**	**207**	**194**
NIM – Net interest margin (%)	2.53	1.93	0.14	0.30			1.64	1.36
Cost/income ratio (CIR – %)	40	43	23	36			44	45
RoE after taxes (%)	**11.3**	**10.5**	**112.9**	**31.8**			**20.5**	**19.8**
Loan loss provisions (expected loss – %)	0.22	0.27	–	0.03			-0.20	-0.14
Average segment assets (€ bn)	19.2	21.2	11.4	11.3	–	–	30.6	32.5
Average risk weighted assets (€ bn)	14.1	13.3	1.5	1.8	-0.1	–	15.5	15.1
Loan loss provisions (income statement)	29	20	–	2	1	–	30	22

(€ bn)	30.06. 2022	31.12. 2021	30.06. 2022	31.12. 2021	30.06. 2022	31.12. 2021	30.06. 2022	31.12. 2021
Segment assets	**19.3**	**19.3**	**11.0**	**10.9**	**–**	**0.1**	**30.3**	**30.3**
Risk Weighted Assets (RWA)	14.6	12.3	1.5	1.7	–	–	16.1	14.0
Loan loss provisions (balance sheet)	0.4	0.4	–	–	–	–	0.4	0.4
NPE ratio (%)	1.9	2.2	–	–			1.3	1.4

[1] Other income includes the other results items within the total income (IFRS).
[2] Loan loss provisions in accordance with IFRS at Group level.

General information

Segment reporting is prepared 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.

Total income reported for the segments was exclusively generated with customer transactions.

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.

Segment structure

In line with the responsibilities in the Management Board (CIO), the new segment structure bundles all market-related units in the four segments “Real Estate”, “Shipping”, “Project Finance” and “Corporates”, whereby in the previous year project and corporate finance were still shown together under “Project Finance & Corporates”. The four market-related segments are additional presented together as “lending units”. Main focus of the market-related segments' business activities is on offering financing solutions in the lending business. The remaining segment “Treasury & Group Functions” comprises

the capital market activities, which have been newly established during the transformation process and focus on the management of strategic investments, and the Treasury function (CFO) as well as the remaining staff and service functions (formerly "Others"). The capital market activities comprise the management of the portfolios in the bank book (liquidity buffer, cover pools, strategic investment portfolio and management of pension liabilities) as well as the bank-wide asset liability management (ALM) and the management of the cash position.

The financing business with institutional clients as well as the bank-wide syndication activities (formerly in the "Project Finance & Corporates" segment) is reported in the "Treasury & Group Functions" segment. The contributions to operating earnings from the positions of the ALM book in the Treasury & Group Functions segment are allocated to the market-related segments. 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.

For reasons of comparability, the changes in segment reporting were also applied to the previous year. The relevant previous year's figures have been adjusted accordingly.

Segment reporting methodology

In order to increase the level of transparency, the segment results in the areas of total income, loan loss provisions, administrative costs and capital utilisation (average equity utilisation) are reported in line with the internal performance measurement structure. The corresponding reconciliation effects on the individual items of the Group statement of income (IFRS) are shown separately in the "Reconciliation" column and explained in greater detail below.

Reconciliation effects in accordance with IFRS 8.28

The reconciliation effects in total income mainly consist of interest income and other income. Other income comprises the other income items in total income (IFRS).

Net interest income for the purpose of internal reporting to management is calculated in accordance with Fund Transfer Pricing (FTP). Reconciliation effects relating to Net interest income of the Group also include effects from different calculation and amortisation methods used for internal reporting purposes. The net interest income of the segments also includes OCI results, which under IFRS are reported in other comprehensive income not recognised through profit or loss.

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 net interest margin (NIM) is shown as a measure for the interest result. The NIM is the ratio of NII (net interest income), adjusted for all extraordinary income effects, to average segment assets.

The reconciliation effects of the Result from financial instruments categorised as FVPL item 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.

The risk costs (expected loss) at segment level posted in the segment report in accordance with the internal performance measurement structure are based on the expected loss of the transactions (through-the-cycle view). The reconciliation to loan loss provisions in accordance with the consolidated income statement under IFRS is provided in the reconciliation column.

In the market-related segments, administrative expenses and regulatory costs are reported based on the regulatory costs allocated in the internal performance measurement (expenses for regulation, deposit guarantee fund and banking associations) and the standard processing costs applied (for administrative expenses).

The result from restructuring and transformation is reported in full in the Treasury & Group Functions segment.

The income taxes of the segments are calculated using a minimum tax rate of 12.8% on the respective net income before taxes due to the high existing loss carryforwards. The difference to actual income taxes at Group level is shown in the Reconciliation item.

The return on equity (RoE after taxes) is based on a normalised equity utilisation (average risk weighted assets (RWA) and normalised CET1 ratio of 13 percent). The allocation of RWA to the individual segments also took into account, for the first time, the RWA for operational risks, the RWA for deferred taxes and the RWA for the asset liability management (ALM) holdings. The previous year's figures have been adjusted accordingly.

Definitions

For the definition of the KPIs CIR and NPE ratio, please refer to the explanations provided in the Group management report (Chapter "Basis of the Group", Section "Management system").

The loan loss provisions (income statement) shown (as additional information) in the tables above represent the loan loss provisions of the segments according to the consolidated income statement under IFRS. The risk costs (expected loss – %) are calculated based on the quotient of risk costs (expected loss) and the average segment assets.

Disclosures on financial instruments

37. 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.

Development in gross carrying amounts for loans and advances to banks

(€ m)	30.06.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2022	**1,236**	**–**	**–**	**–**	**1,236**
thereof AC	1,218	–	–	–	1,218
thereof FVOCI	18	–	–	–	18
Other changes	– 221	5	–	–	– 216
thereof AC	– 223	–	–	–	– 214
thereof FVOCI	– 2	–	–	–	– 2
Carrying amount as at 30 June 2022	**1,015**	**5**	**–**	**–**	**1,020**
thereof AC	999	5	–	–	1,004
thereof FVOCI	16	–	–	–	16

Development in gross carrying amounts for loans and advances to banks

(€ m)	31.12.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2021	**1,557**	**-**	**-**	**-**	**1,557**
thereof AC	1,535	-	-	-	1,535
thereof FVOCI	22	-	-	-	22
Other changes	-321	-	-	-	-321
thereof AC	-317	-	-	-	-317
thereof FVOCI	-4	-	-	-	-4
Carrying amount as at 31 December 2021	**1,236**	**-**	**-**	**-**	**1,236**
thereof AC	1,218	-	-	-	1,218
thereof FVOCI	18	-	-	-	18

Development in loan loss provisions for loans and advances to banks

As in the same period of the previous year, no significant loan loss provisions for loans and advances to banks were formed in the reporting period,

Development in gross carrying amounts for loans and advances to customers

(€ m)	30.06.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2022	**17,300**	**2,169**	**425**	**15**	**19,909**
thereof AC	16,354	2,164	425	15	18,958
thereof FVOCI	910	5	-	-	915
thereof receivables under finance leases	36	-	-	-	36
Transfer to LECL Stage 2	-136	140	-4	-	-
thereof AC	-136	140	-4	-	-
Transfer to LECL Stage 3	-	-6	6	-	-
thereof AC	-	-6	6	-	-
Transfer to 12M ECL	579	-579	-	-	-
thereof AC	579	-579	-	-	-
Other changes	334	-238	-61	-7	28
thereof AC	505	-238	-61	-	199
thereof FVOCI	-170	-	-	-	-170
thereof leasing	-1	-	-	-	-1
Carrying amount as at 30 June 2022	**18,090**	**1,486**	**366**	**8**	**19,950**
thereof AC	17,315	1,481	366	8	19,170
thereof FVOCI	740	5	-	-	745
thereof receivables under finance leases	35	-	-	-	35

Development of gross carrying amounts for loans and advances to customers

(€ m)	31.12.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans pur-chased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2021	**18,819**	**2,723**	**544**	**16**	**22,102**
thereof AC	17,721	2,717	544	16	20,998
thereof FVOCI	1,049	6	–	–	1,055
thereof receivables under finance leases	49	–	–	–	49
Transfer to LECL Stage 2	– 994	994	–	–	–
thereof AC	– 994	994	–		–
Transfer to LECL Stage 3	– 142	– 37	179	–	–
thereof AC	– 142	– 37	179		–
Transfer to 12M ECL	554	– 554	–	–	–
thereof AC	554	– 554	–		–
Other changes	– 937	– 957	– 298	– 1	– 2,193
thereof AC	– 785	– 956	– 298	–	– 2,040
thereof FVOCI	– 139	– 1	–	–	– 140
thereof receivables under finance leases	– 13	–	–	–	– 13
Carrying amount as at 31 December 2021	**17,300**	**2,169**	**425**	**15**	**19,909**
thereof AC	16,354	2,164	425	15	18,958
thereof FVOCI	910	5	–	–	915
thereof receivables under finance leases	36	–	–	–	36

Development in loan loss provisions for loans and advances to customers

(€ m)	30.06.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans pur-chased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2022	**68**	**169**	**204**	**5**	**446**
Transfer to LECL Stage 2	-1	1	–	–	–
Transfer to LECL Stage 3	–	-1	1	–	–
Transfer to 12M ECL	38	-38	–	–	–
Reversals due to disposals, repayments and other reductions	58	51	15	1	125
Additions due to new additions and other increases	45	23	27	1	96
Utilisation	–	–	11	–	11
Change in line with effective interest rate	–	–	1	–	1
Exchange rate changes	2	–	1	–	3
Loan loss provisions as at 30 June 2022	**94**	**103**	**208**	**5**	**410**

Development of loan loss provisions for loans and advances to customers

(€ m)	31.12.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2021	**91**	**216**	**261**	**1**	**569**
Transfer to LECL Stage 2	-5	5	-	-	-
Transfer to LECL Stage 3	-1	-6	7	-	-
Transfer to 12M ECL	49	-49	-	-	-
Reversals due to disposals, repayments and other reductions	118	127	59	-	304
Additions due to new additions and other increases	49	126	103	5	283
Utilisation	-	-	118	-	118
Change in line with effective interest rate	-	-	7	- 1	6
Exchange rate changes	3	4	3	-	10
Loan loss provisions as at 31 December 2021	**68**	**169**	**204**	**5**	**446**

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)	30.06.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2022	**4,049**	**16**	**-**	**-**	**4,065**
thereof AC	91	-	-	-	91
thereof FVOCI	3,958	16	-	-	3,974
Transfer to 12-month ECL	5	- 5	-	-	-
thereof FVOCI	5	- 5	-	-	-
Transfer to LECL Stage 2	- 31	31	-	-	-
thereof FVOCI	- 31	31	-	-	-
Other changes	- 20	- 10	-	-	- 30
thereof AC	- 16	-	-	-	- 16
thereof FVOCI	- 4	- 10	-	-	- 14
Carrying amount as at 30 June 2022	**4,003**	**32**	**-**	**-**	**4,035**
thereof AC	75	-	-	-	75
thereof FVOCI	3,928	32	-	-	3,960

Development of gross carrying amounts for financial investments

(€ m)	31.12.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2021	**4,890**	**-**	**-**	**-**	**4,890**
thereof AC	86	-	-	-	86
thereof FVOCI	4,804	-	-	-	4,804
Transfer to LECL Stage 2	- 16	16	-	-	-
thereof FVOCI	- 16	16	-	-	-
Other changes	- 825	-	-	-	- 825
thereof AC	5	-	-	-	5
thereof FVOCI	- 830	-	-	-	- 830
Carrying amount as at 31 December 2021	**4,049**	**16**	**-**	**-**	**4,065**
thereof AC	91	-	-	-	91
thereof FVOCI	3,958	16	-	-	3,974

Development in loan loss provisions for financial investments

Like in the previous year, there were no significant loan loss provisions for financial investments in the period under review.

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

(€ m)	30.06.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2022	**10**	**-**	**-**	**-**	**10**
Other changes	-10	-	-	-	-10
Carrying amount as at 30 June 2022	**-**	**-**	**-**	**-**	**-**

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

(€ m)	31.12.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2021	**609**	**17**	**–**	**–**	**626**
Other changes	– 599	–	–	–	– 599
Carrying amount as at 31 December 2021	**10**	**–**	**–**	**–**	**10**

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 off-balance-sheet business

(€ m)	30.06.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2022	**3,860**	**222**	**64**	**-**	**4,146**
Other changes	119	-73	-5	-	41
Carrying amount as at 30 June 2022	**3,979**	**149**	**59**	**-**	**4,187**

Carrying amounts off-balance-sheet business

(€ m)	31.12.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 1 January 2021	**4,257**	**259**	**76**	**-**	**4,592**
Other changes	-397	-37	-12	-	-446
Carrying amount as at 31 December 2021	**3,860**	**222**	**64**	**-**	**4,146**

Development in loan loss provisions for off-balance sheet business

(€ m)	30.06.2022				
	Insignificant increase in the loan default risk (12-month - ECL)	Significant in-crease in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or originated credit-im-paired (POCI)	Total
Loan loss provisions as at 1 January 2022	**2**	**1**	**41**	**-**	**44**
Reversals due to disposals and other reductions	-1	-	-7	-	-8
Additions due to new additions and other increases	2	3	2	-	7
Loan loss provisions as at 30 June 2022	**3**	**4**	**36**	**-**	**43**

Development in loan loss provisions for off-balance sheet business

(€ m)	31.12.2021				
	Insignificant increase in loan default risk (12M ECL)	Significant in-crease in loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or originated credit-im-paired (POCI)	Total
Loan loss provisions as at 1 January 2021	**3**	**1**	**35**	**-**	**39**
Reversals due to disposals and other reductions	-4	-1	-6	-	-11
Additions due to new additions and other increases	3	1	12	-	16
Loan loss provisions as at 31 December 2021	**2**	**1**	**41**	**-**	**66**

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 an identical financial instrument as at the measurement date.

This is generally the case for exchange-traded shares that are 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 ad 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 used make partial use of parameters that are not observable on the market 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.

In determining value adjustments for model risks and parameter uncertainties, hedging relationships (back-to-back hedges) and corresponding risk-compensating effects have been taken into account.

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 IFRS 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 procedures. 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 Risk Control 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. An internal price validation process draws on market data such as transaction prices or specific valuation parameters. 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

Below please find the fair values of the financial assets and liabilities including the relevant class of financial instrument and a comparison with the carrying amounts.

Fair values of financial instruments

Assets

(€ m) 30.06.2022	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVOCI Mandatory	**4,719**	**4,719**	**1,377**	**3,120**	**222**
Loans and advances to banks	16	16	–	16	–
Loans and advances to customers	744	744	–	744	–
Financial investments	3,959	3,959	1,377	2,360	222
FVPL Designated	**56**	**56**	**11**	**45**	**–**
Financial investments	56	56	11	45	–
FVPL Held For Trading	**507**	**507**	**–**	**404**	**103**
Trading assets	507	507	–	404	103
FVPL Other	**605**	**605**	**5**	**330**	**270**
Loans and advances to customers	261	261	–	–	261
Financial investments	344	344	5	330	9
AC assets	**23,673**	**23,940**	**n.r.**	**n.r.**	**n.r.**
Cash reserve	3,804	3,804	n.r.	n.r.	n.r.
Loans and advances to banks	1,004	1,004	n.r.	n.r.	n.r.
Loans and advances to customers	18,760	19,031	n.r.	n.r.	n.r.
Financial investments	75	71	n.r.	n.r.	n.r.
Other assets	30	30	n.r.	n.r.	n.r.
No IFRS 9 category	**-93**	**-93**	**–**	**3**	**–**
Positive fair values of hedging derivatives	3	3	–	3	–
Receivables under finance leases	36	36	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	-132	-132	n.r.	n.r.	n.r.
Total assets	**29,467**	**29,734**	**1,393**	**3,902**	**595**

[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.

Fair values of financial instruments

Assets

(€ m) 31.12.2021	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVOCI Mandatory	**4,905**	**4,905**	**1,943**	**2,720**	**242**
Loans and advances to banks	18	18	-	18	-
Loans and advances to customers	914	914	-	914	-
Financial investments	3,973	3,973	1,943	1,788	242
FVPL Designated	**41**	**41**	**-**	**41**	**-**
Financial investments	41	41	-	41	-
FVPL Held For Trading	**689**	**689**	**-**	**569**	**120**
Trading assets	689	689	-	569	120
FVPL Other	**710**	**710**	**-**	**360**	**350**
Loans and advances to customers	291	291	-	-	291
Financial investments	419	419	-	360	59
AC assets	**23,116**	**23,842**	**-**	**6,800**	**17,042**
Cash reserve	3,261	3,261	-	3,261	-
Loans and advances to banks	1,218	1,222	-	1,222	-
Loans and advances to customers	18,511	19,233	-	2,191	17,042
Financial investments	91	92	-	92	-
Non-current assets held for sale and disposal groups	10	10	-	10	-
Other assets	25	24	-	24	-
No IFRS 9 category	**94**	**90**	**-**	**26**	**-**
Positive fair values of hedging derivatives	26	26	-	26	-
Receivables under finance leases	36	36	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	32	28	n.r.	n.r.	n.r.
Total assets	**29,555**	**30,277**	**1,943**	**10,516**	**17,754**

[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 € 4 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) 30.06.2022	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	**351**	**351**	**-**	**244**	**106**
Liabilities to banks	4	4	-	-	4
Liabilities to customers	174	174	-	81	92
Securitised liabilities	173	173	-	163	10
FVPL Held For Trading	**437**	**437**	**-**	**388**	**49**
Trading liabilities	437	437	-	388	49
AC liabilities	**24,000**	**23,730**	**n.r.**	**n.r.**	**n.r.**
Liabilities to banks	4,437	4,231	n.r.	n.r.	n.r.
Liabilities to customers	12,167	12,232	n.r.	n.r.	n.r.
Securitised liabilities	6,354	6,145	n.r.	n.r.	n.r.
Other liabilities	107	107	n.r.	n.r.	n.r.
Subordinated capital	935	1,015	n.r.	n.r.	n.r.
No IFRS 9 category	**120**	**69**	**-**	**69**	**-**
Negative fair value of hedging derivatives	69	69	-	69	-
Value adjustments from the portfolio fair value hedge	51	-	n.r.	n.r.	n.r.
Total liabilities	**24,908**	**24,587**	**-**	**701**	**155**

Fair values of financial instruments

Liabilities

(€ m) 31.12.2021	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	**440**	**440**	**-**	**287**	**153**
Liabilities to banks	16	16	-	1	15
Liabilities to customers	223	223	-	97	126
Securitised liabilities	201	201	-	189	12
FVPL Held For Trading	**289**	**289**	**-**	**233**	**56**
Trading liabilities	289	289	-	233	56
AC liabilities	**23,953**	**24,375**	**-**	**23,513**	**862**
Liabilities to banks	5,488	5,472	-	5,467	5
Liabilities to customers	10,918	11,212	-	11,179	33
Securitised liabilities	6,503	6,538	-	5,714	824
Other liabilities	123	122	-	122	-
Subordinated capital	921	1,031	-	1,031	-
No IFRS 9 category	**330**	**149**	**-**	**149**	**-**
Negative fair value of hedging derivatives	149	149	-	149	-
Value adjustments from the portfolio fair value hedge	181	-	n.r.	n.r.	n.r.
Total liabilities	**25,012**	**25,253**	**-**	**24,182**	**1,071**

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) 30.06.2022	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Financial investments						
thereof FVOCI Mandatory	630	-1,096	1,096	-630	–	–
thereof FVPL Other	–	–	48	–	–	-48
Total	**630**	**-1,096**	**1,144**	**-630**	**-**	**-48**

Transfer, assets

(€ m) 31.12.2021	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Financial investments	-	-	-	-	-	-
thereof FVOCI Mandatory	1,287	-829	829	-1,287	-	-
thereof FVPL Other	-	-25	25	-	-	-
Total	**1,287**	**-854**	**854**	**-1,287**	**-**	**-**

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		Changes in volume	
30.06.2022	1 January 2022	Realised net income (income statement)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	291	-17	-	-	-1
Trading assets (FVPL Trading)	120	-11	-	-	-
Financial investments					
thereof FVOCI Mandatory	242	-	-7	-	-
thereof FVPL Other	59	-2	-	-	-
Total	**712**	**-30[1)]**	**-7**	**-**	**-1**

[1)] Of the net income in the income statement recognised in profit or loss, € -30 million relate to the result from financial instruments categorised as FVPL

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Changes in volume	
31 December 2021	1 January 2021	Realised net income (income statement)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	314	17	-	-	-32
Trading assets (FVPL Trading)	230	-50	-	-	-
Financial investments					
thereof FVOCI Mandatory	136	-1	-1	210	-19
thereof FVPL Other	9	2	-	49	-1
Non-current assets held for sale and disposal groups					
thereof FVPL Other	8	-	-	-	-8
Total	**697**	**-32[1)]**	**-1**	**259**	**-60**

[1)] Of the net income in the income statement recognised in profit or loss, € -21 million relate to the result from financial instruments categorised as FVPL and € -10 million to the net interest result.

Changes in volume		Transfers					
Issues	Settlements	From Level 3	To Level 3	Transfer/ recategorisa- tion	Exchange rate changes	30 June 2022	Net income from assets held as at 30 June 2022
–	–24	–	–	–	12	261	–15
–	–7	–	–	–	1	103	–11
–	–23	–	–	–	10	222	–
–	–	–48	–	–	–	9	–
-	**-54**	**-48**	**-**	**-**	**23**	**595**	**-26**

Changes in volume		Transfers					
Issues	Settlements	From Level 3	To Level 3	Transfer/ recategorisa- tion	Exchange rate changes	31 December 2021	Net income from assets held as at 31 December 2021
–	–19	–	–	–	11	291	-3
–	-62	–	–	–	2	120	–
–	-85	–	–	–	2	242	–
–	–	–	–	–	–	59	1
–	–	–	–	–	–	–	–
-	**-166**	**-**	**-**	**-**	**15**	**712**	**-2**

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Changes in volume	
	1 January 2022	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	15	-1	-	-	-
Liabilities to customers					
FVPL Designated	126	-10	-1	-	-1
Securitised liabilities					
FVPL Designated	12	-2	-	-	-
Trading assets (FVPL Trading)	56	-6	-	-	-
Total	**209**	**-19[1]**	**-1**	**-**	**-1**

[1] Of the net income in the income statement, € -17 million relates to the result from financial instruments categorised as FVPL and € -2 million to the net interest result.

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Changes in volume	
31.12.2021	1 January 2021	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	101	-5	1	-	-82
Liabilities to customers					
FVPL Designated	266	-14	1	-	-115
Securitised liabilities					
FVPL Designated	117	-26	1	-	-
Trading assets (FVPL Trading)	61	-5	-	-	-
Total	**545**	**-50[1]**	**3**	**-**	**-197**

[1] Of the net income in the income statement, € -42 million relate to the result from financial instruments categorised as FVPL and € -8 million to the net interest result.

Changes in volume		Transfers					
New business	Settlements	From Level 3	To Level 3	Transfer/ recategorisa-tion	Exchange rate changes	30 June 2022	Net income from assets held as at 30 June 2022
–	–10	–	–	–	–	4	–1
–	–22	–	–	–	–	92	–8
–	–	–	–	–	–	10	–2
–	–	–1	–	–	–	49	–2
–	**–32**	**–1**	**–**	**–**	**–**	**155**	**–13**

Changes in volume		Transfers					
New business	Settlements	From Level 3	To Level 3	Transfer/ recategorisa-tion	Exchange rate changes	31 December 2021	Net income from assets held as at 31 December 2021
–	–	–	–	–	–	15	–
–	–11	–	–	–	–1	126	4
–	–77	–	–	–	–3	12	–
–	–	–	–	–	–	56	5
–	**–88**	**–**	**–**	**–**	**–4**	**209**	**9**

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) 30.06.2022		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	261		DCF method	Spread (bps)	72-1451
				Option pricing model	Interest rate FX correlation	-29 %-14 %
Trading assets/ trading liabilities	FVPL Held For Trading	103	49	DCF method	Spread	72-1451
				Option pricing model	Interest rate volatility	9 %-38 %
					Interest rate FX correlation	-29 %-14 %
					FX correlation	16 %-76 %
Financial investments	FVPL Other	9		Price	Price	1-11,941
				DCF method	Capital costs	6 %-8 %
	FVOCI Mandatory	222		DCF method	Spread (bps)	3-187
Liabilities to banks	FVPL Designated		4	Option pricing model	Interest rate FX correlation	-29 %-14 %
Liabilities to customers	FVPL Designated		92	Option pricing model	Interest rate FX correlation	-29 %-14 %
				Price	Price	1
Securitised liabilities	FVPL Designated		10	Option pricing model	Interest rate FX correlation	-29 %-14 %
					FX correlation	-17 %-78 %
Total		**595**	**155**			

Fair Value

(€ m) 31.12.2021		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	291		DCF method	Spread (bps)	24-1748
Trading assets/ trading liabilities	FVPL Held For Trading	120	56	DCF method	Spread	24- 1748
					Longevity	10%-33%
				Option pricing model	Interest rate volatility	11%-42%
					Spread (bps)	9- 256
Financial investments	FVPL Other	59		DCF method	Spread	101- 295
				DCF method	Capital costs	7%-8%
	FVOCI Mandatory	242		DCF method	Spread (bps)	101- 295
Liabilities to banks	FVPL Designated		15	Option pricing model	Interest rate FX correlation	-29%-12%
Liabilities to customers	FVPL Designated		126	Option pricing model	Interest rate volatility	11%-42%
				Price	Price	1
Securitised liabilities	FVPL Designated		12	Option pricing model	Interest rate FX correlation	-29%-12%
Total		**712**	**209**			

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 value in relation to unobservable input

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

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 exit 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 € 16 million (31 December 2021: € 18 million). Of this amount, € 11 million was recognised in the income statement as income/expense and € 5 million in the revaluation reserve (31 December 2021: € 13 million income statement; € 5 million revaluation reserve).

VI. Day one profit and loss

The day one profit and loss reserve developed as follows:

(€ m)	30.06.2022	31.12.2021
Holdings as at 1 January	4	6
Additions not recognised in profit or loss	-	-
Reversals recognised in profit or loss	-	2
Holdings as at 30 June/31 December	**4**	**4**

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

40. Credit risk analysis of impaired 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 DSGV 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) 30.06.2022		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	3,804	–	–	–
	Loans and advances to banks				
	thereof AC assets	547	447	1	9
	thereof FVOCI Mandatory	5	11	–	–
	Loans and advances to customers				
	thereof AC assets	413	4,813	7,064	4,950
	thereof FVOCI Mandatory	544	114	82	–
	Financial investments				
	thereof AC assets	–	–	75	–
	thereof FVOCI Mandatory	1,353	2,144	419	14
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	–	–
	Other assets				
	thereof AC assets	–	30	–	–
	No holding category				
	Receivables under finance lease transactions	–	36	–	–
	Contingent liabilities	9	217	227	17
	Irrevocable loan commit-ments	48	1,125	1,282	1,037
Financial instruments with a significant deteri-oration in credit quality (LECL Stage 2)	Loans and advances to customers				
	thereof AC assets	–	–	368	766
	thereof FVOCI Mandatory	4	–	–	–
	Financial assets				
	thereof FVOCI Mandatory	–	–	–	31
	No holding category				
	Contingent liabilities	–	–	3	7
	Irrevocable loan commit-ments	–	–	1	106
Credit-impaired (LECL Stage 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
	No holding category				
	Contingent liabilities	–	–	–	–
	Irrevocable loan commit-ments	–	–	–	–
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
Total		**6,727**	**8,937**	**9,522**	**6,937**

Credit quality

(€ m) 30.06.2022		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	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to customers			
	thereof AC assets	73	–	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Other assets			
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	–	–
	Irrevocable loan commitments	15	–	–
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers			
	thereof AC assets	275	74	–
	thereof FVOCI Mandatory	–	–	–
	Financial assets			
	thereof FVOCI Mandatory			
	No holding category			
	Contingent liabilities	1	6	–
	Irrevocable loan commitments	18	9	–
Credit-impaired (LECL Stage 3)	Loans and advances to customers			
	thereof AC assets	–	–	367
	No holding category			
	Contingent liabilities	–	–	25
	Irrevocable loan commitments	–	–	35
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	7
Total		**382**	**89**	**434**

Credit quality

(€ m) 31.12.2021		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	3,261	–	–	–
	Loans and advances to banks				
	thereof AC assets	755	448	7	7
	thereof FVOCI Mandatory	–	18	–	–
	Loans and advances to customers				
	thereof AC assets	441	3,890	7,011	4,960
	thereof FVOCI Mandatory	714	114	82	–
	Financial investments				
	thereof AC assets	–	–	43	48
	thereof FVOCI Mandatory	1,629	1,944	381	4
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	10	–
	Other assets				
	thereof AC assets	–	25	–	–
	No holding category				
	Receivables under finance lease transactions	–	36	–	–
	Contingent liabilities	10	146	128	19
	Irrevocable loan commitments	52	790	1,668	982
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers				
	thereof AC assets	–	54	536	957
	thereof FVOCI Mandatory	4	–	–	–
	Financial investments				
	thereof FVOCI Mandatory	–	–	–	16
	No holding category				
	Contingent liabilities	–	–	7	3
	Irrevocable loan commitments	–	–	105	65
Credit-impaired (LECL Stage 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
	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	–	–	8	–
Total		**6,866**	**7,465**	**9,986**	**7,061**

Credit quality

(€ m) 31.12.2021		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	28	23	–
	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	54	2	9
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers			
	thereof AC assets	384	232	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	No holding category			
	Contingent liabilities	3	6	–
	Irrevocable loan commitments	18	15	–
Credit-impaired (LECL Stage 3)	Loans and advances to customers			
	thereof AC assets	–	–	426
	No holding category			
	Contingent liabilities	–	–	24
	Irrevocable loan commitments	–	–	40
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	7
Total		**487**	**278**	**506**

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 41.

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		
30.06.2022	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	–	–	–	–
Financial investments	56	–	–	–
FVPL Other				
Loans and advances to customers	261	38	–	–
Financial investments	344	–	–	–
Non-current assets held for sale and disposal groups	–	–	–	–
FVPL Held For Trading				
Trading assets	507	113	–	46
No holding category				
Positive fair values of hedging derivatives	3	–	–	–
Value adjustments from the portfolio fair value hedge	-132	–	–	–
Total assets	**1,039**	**151**	**-**	**46**

Financial assets and associated collateral

(€ m)		Value of collateral received		
31.12.2021	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	–	–	–	–
Financial investments	41	–	–	–
FVPL Other				
Loans and advances to customers	291	42	–	–
Financial investments	419	–	–	–
Non-current assets held for sale and disposal groups	–	–	–	–
FVPL Held For Trading				
Trading assets	689	79	18	64
No holding category				
Positive fair values of hedging derivatives	26	–	–	–
Value adjustments from the portfolio fair value hedge	32	–	–	–
Total assets	**1,498**	**121**	**18**	**64**

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		
30.06.2022	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	374	109	4	57
No holding category				
Contingent liabilities	25	6	2	9
Irrevocable loan commitments	35	–	–	–
Total assets	**434**	**115**	**6**	**66**

For loans and advances to customers amounting to € 21 million (31 December 2021: € 23 million), no loan loss provisions 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 risks. 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.

A substantial portion of the collateral provided is from domestic guarantors. 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 € 165 million (31 December2021: € 160 million). The collateral received is broken down as follows: € 165 million (31 December2021: € 160 million) relates to OTC derivatives and structured transactions. Neither as at the reporting date nor as at 31 December 2021 did the Group receive any collateral from genuine repo transactions where it acted as the lender. Collateral received includes cash collateral in the amount of € 45 million (31 December2021: € 50 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 2021: € 0 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) 30.06.2022	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	601	367	969
Irrevocable and revocable loan commitments	77	35	112
Total	**679**	**402**	**1,081**

Forbearance exposure

(€ m) 31.12.2021	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	640	404	1,044
Irrevocable and revocable loan commitments	31	40	71
Total	671	444	1,115

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 246 million have already been set up for the portfolios measured at amortised cost (31.12.2021: € 262 million).

42. Contingent liabilities and irrevocable loan commitments

Contingent liabilities

(€ m)	30.06.2022	31.12.2021
Contingent liabilities	908	752
Loan commitments	3,675	3,800
Total	**4,583**	**4,552**

In addition to the values shown in the table, there are other contingent liabilities arising from legal disputes. 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.

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 relationships 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. Individuals in key positions comprise exclusively the 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 the 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. Companies with a significant influence over the Bank

There were no significant transactions with companies with a significant influence over the Bank in the reporting period.

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

Subsidiaries – Liabilities

(€ m)	30.06.2022	31.12.2021
Liabilities to customers	3	7
Total	**3**	**7**

III. Associates

The transactions with unconsolidated associates are shown below:

Associates – Liabilities

(€ m)	30.06.2022	31.12.2021
Liabilities to customers	3	3
Total	**3**	**3**

IV. Joint ventures

The transactions with unconsolidated joint ventures are shown below:

Joint ventures – Assets

(€ m)	30.06.2022	31.12.2021
Loans and advances to customers	4	11
Total	**4**	**11**

Joint ventures – Liabilities

(€ m)	30.06.2022	31.12.2021
Liabilities to customers	2	2
Total	**2**	**2**

Joint ventures – Income statement

(€ m)	January–June 2022	January–June 2021
Result from financial instruments categorised as FVPL	-	-1
Total	**-**	**-1**

V. Other related parties and companies

As in the previous year's period, no significant transactions have been 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 reporting date (< € 1 million).

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 32.

Members of the Management Board

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 Financial Officer (CFO)

CHRISTOPHER BRODY
Born in 1968
Chief Investment Officer (CIO)

Hamburg, 15 August 2022

Stefan Ermisch Ulrik Lackschewitz

Ian Banwell Christopher Brody

Review report

Hamburg Commercial Bank AG, Hamburg
We have reviewed the condensed consolidated financial statements of Hamburg Commercial Bank AG, comprising 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 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 2022, which are part of the half-year financial report pursuant to Article 115 German Securities Trading Act (WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to 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 applicable to interim group management reports is the responsibility of the Company's Management Board. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim 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 so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to 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 applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to 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 applicable to interim group management reports.

Hamburg, 16 August 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber	ppa. Maximilian Hockenberger
German Public Auditor	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, 15 August 2022

Stefan Ermisch Ulrik Lackschewitz

Ian Banwell Christopher Brody

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Imprint

Concept and design
Marketing, Hamburg Commercial Bank

Production
Produced in-house with AMANA Consulting GmbH

Printed by
Mediadruckwerk Hamburg

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 18 August 2022 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

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