Hamburg Commercial Bank

Interim Report

as at 30 June 2019

Group overview

INCOME STATEMENT (€ million)

Net income before restructuring and privatisation January - June 2019
(cf. January - June 2018[1]: 195)

↘ **104**

Net income before taxes
(cf. January - June 2018: 6)

↗ **96**

Group net result
(cf. January - June 2018: -70)

↗ **5**

BALANCE SHEET (€ billion)

Reported equity 30.06.2019
(cf. 31.12.2018: 4.4)

→ **4.4**

Total assets 30.06.2019
(cf. 31.12.2018: 55.1)

↘ **50.2**

Business volume 30.06.2019
(cf. 31.12.2018: 64.5)

↘ **59.1**

CAPITAL RATIO & RWA (%)[2]

CET1 ratio 30.06.2019
(cf. 31.12.2018: 18.4)

↘ **17.0**

Total capital ratio 30.06.2019
(cf. 31.12.2018: 23.3)

↘ **21.5**

Risk weighted assets (RWA) 30.06.2019
(€ billion) (cf. 31.12.2018: 22.1)

↗ **23.6**

EMPLOYEES
(computed on full-time equivalent basis)

Total 30.06.2019
(cf. 31.12.2018: 1,716)

↘ **1,630**

Germany 30.06.2019
(cf. 31.12.2018: 1,648)

↘ **1,564**

Abroad 30.06.2019
(cf. 31.12.2018: 68)

↘ **66**

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] The value as at 30 June 2018 was adjusted. Please refer to Note 2 for more details.
[2] Not in-period: regulatory disclosure pursuant to the CRR (balance sheet amounts as at the reporting date only included in part).

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Underlying economic and industry conditions

Trade conflict and geopolitical factors result in mounting risks in the global economy
As expected, the slowdown in global economic growth continued in the first half of 2019, following expansion of 3.6 % in 2018. The lower momentum is due to an economic cycle that is already very advanced in combination with the ongoing uncertainty caused by geopolitical hotspots, such as Iran or Brexit, as well as the continuing trade conflict between the US and China. In view of the increasing economic risks resulting from the trade dispute and the waning inflationary pressure, the two major central banks, the Fed and the ECB, have signalled that they are willing to take action. Compared with the prospect of more rate hikes by the Fed at the end of 2018, the outlook has been completely turned on its head in recent weeks, with market participants now expecting several rate cuts. The ECB has also announced that it will be easing its monetary policy again.

The prospect of extensive monetary easing by the central banks has boosted stock markets across the globe, while yields on the government bond markets on both sides of the Atlantic have fallen considerably. In addition, the yield curve in the US has become partly inverted. All in all, the euro has lost ground against the US dollar since the beginning of the year in view of the increased uncertainty, which traditionally supports the US dollar.

Economic slowdown emerging
The US expanded by 2.9 % in 2018, mainly as a result of the tax relief for the corporate sector passed by the US administration at the end of 2017. The main reason behind the expected economic slowdown is the advanced economic cycle, which – combined with the expiring effects of tax relief – makes it more difficult to expand production. The escalation of the trade conflict with China is another negative factor which, depending on how long the conflict lasts, could lead to even lower economic growth.

In China, where the economy expanded by 6.6 % in the previous year, the slowdown in growth is also likely to continue, especially against the backdrop of the ongoing trade conflict with the US. The government is taking expansionary measures to combat an economic downturn and should also have leeway available to compensate for the possibility of collapsing demand by launching (debt-financed) spending programmes or adopting an interventionist lending policy and/or loose monetary policy.

In the eurozone, the economy grew by only 1.8 % in 2018, with growth slowing significantly in the second half of the year in particular. While the growth figures delivered a positive surprise in the first quarter of 2019, coming in at 0.4 %, the expansion rate is likely to have slowed again thereafter. Developments in the manufacturing industry remain the main factor impeding growth. In addition, mounting geopolitical risks and the rising level of protectionism across the globe are putting pressure on the economy. Brexit is another factor that is still creating increasing uncertainty. Germany's economy only grew by a comparatively low rate of 1.5 % in 2018. In the first three months of the year, German economic output also increased by 0.4 % as against the previous quarter. This is due, in particular, to unusually robust private consumption. Investments – particularly construction investments – and net exports also contributed to growth.

U-turn at the central banks, capital market interest rates on a downward trend, price gains on the stock markets
ECB President Mario Draghi recently sent out clear signals suggesting that the ECB would loosen its monetary policy if the economic and inflation outlook did not improve. Initially, the ECB is likely to favour the option of lowering the deposit rate, although further rate cuts (deposit rate and main refinancing rate) and the resumption of net bond purchases cannot be ruled out. Maturing bonds are still being reinvested on the capital market anyway. Draghi's appointed successor, Christine Lagarde, is likely to follow in the footsteps of an expansionary ECB. The increased uncertainty (trade conflict, Brexit, Iran) and the prospect of looser monetary policy have sent yields on German government bonds south, especially at the long end. Against this backdrop, ten-year Bund yields reached a record low of -0.41 %.

The Fed has moved away from its policy of interest rate hikes and has announced that it will react appropriately to the weaker inflation and economic outlook, prompting significantly higher market expectations of interest rate cuts for 2019. This is the Fed's way of reacting to the increasing risks, and the reactions to these risks, on the financial markets in the light of the trade conflict. We expect to see three rate cuts of 25 bps each this year. This would bring the range for the Fed funds rate to between 1.50 % and 1.75 % at the end of the year. The Fed has already been slowing down its balance sheet reduction measures since May and has announced that it will be discontinuing these measures entirely as of October 2019. The Fed's turnaround has put Treasury yields under downward pressure. The yield on ten-year T-notes recently fell to below the 2 % mark.

In recent weeks, the stock markets have been able to build further on the price gains they have achieved since the beginning of the year. Since the beginning of the year, the Dax, Euro Stoxx 50 and S&P 500 have gained just under 20 % each. The most recent price gains on the stock markets are heavily influenced by the change of course on the part of the Fed and the ECB. Both central banks are moving in the direction of monetary easing; the prospect of even more liquidity in the market and, as a result, further inflows into the stock markets has already boosted prices. This has overshadowed the uncertainty surrounding further developments in the trade negotiations between the US and China, previously one of the key drivers for the stock market. The euro has fluctuated at between 1.11 and just under 1.14 against the US dollar in recent months. The decisive factor for the exchange ratio at the moment would appear to be the extent to which the ECB and the Fed are willing to loosen their policy.

Very moderately encouraging development in the relevant markets overall

The German **real estate markets** showed positive development overall in the first half of the year, unmoved by the slower economic momentum. Rents and prices on the office and **residential markets** in the country's major cities have continued to rise, with the latter showing a more pronounced increase. This was thanks, not least, to the ongoing high level of investment pressure from investors. Housing construction activity remained brisk, although the growth rate barely increased. Although there was a marked increase in construction orders and costs, the number of building permits dipped slightly in the first few months of the year, only increasing in the rental housing construction segment.

On the **office real estate markets**, net demand for space was positive thanks to a labour market situation that remains positive. Take-up, however, has been down on the prior-year periods for more than a year now. As completions grew at a slower rate than demand, vacancies continued on a slight downward trajectory. As a result, rents in several major cities increased significantly.

On the **retail property markets**, top rents in prime inner-city locations in major cities stagnated in most cases. Take-up declined slightly in the first few months of the year, especially outside the major urban areas. The ongoing structural change in the stationary retail sector in favour of online retailing is still having a negative impact. The market values of retail properties nevertheless remain stable in most major cities.

On most **European office property markets**, growth in rents and market values slowed markedly in the first few months of 2019, with economic momentum that was on the wane, but remained robust. Vacancies declined only slightly in many markets. In rather a few markets, however, the ongoing high vacancy rates caused rents to stagnate. At the turn of the year, vacancy rates in London showed a marked increase, with rents and market values falling slightly. Since then, the market has been stagnating, adopting a wait-and-see attitude given the unforeseeable consequences of Brexit, which is now imminent.

The German economy grew again at the start of 2019, after stagnating in the second half of 2018 and only just escaping a technical recession. Recently, however, the pace of economic growth slowed significantly again. In the **manufacturing sector**, the production volume was down at the start of the year on a year-on-year comparison. Trends varied considerably in the major industries: whereas the mainstream construction industry continued to record strong growth, production in the automotive sector was significantly weaker than in the prior-year period.

After a record year in 2017 and slightly weaker growth in 2018, **wholesalers** once again posted rising revenue in a year-on-year comparison at the beginning of 2019. The **retail sector** is still benefiting from consumer-driven economic growth in Germany and also recorded a positive revenue trend at the start of 2019, with growth momentum actually increasing slightly year-on-year in the first three months, but weakening since April.

The **health market**, including the hospital market, is growing constantly as a result of demographic trends and medical advances. The financial situation of many hospitals remains strained despite increasing revenues. The profitability of hospitals is, however, expected to increase in the medium term thanks to the entry into force of the Hospital Structure Act (*Krankenhausstrukturgesetz*) in 2016.

In the **logistics sector**, revenues continued to show strong development (in real terms) at the start of 2019 at a pace that was virtually unchanged as against the same period of the previous year. The measured economic climate, however, points towards a declining trend, and the assessment of the current business situation fell in May 2019 to the lowest level seen since December 2016.

The global **project financing volume** fell significantly in the first quarter of 2019 and was down by 328 % on the volume seen in the prior-year period according to the financial market data provider "Refinitiv". This makes the first quarter of 2018 the weakest first quarter since 2009. Within (western) Europe, only Belgium, Finland, Italy, Spain and the UK were able to buck the trend and report higher project financing volumes than in the same period of last year.

Investments in **transport infrastructure** showed relatively weak development across the globe at the beginning of the year, accounting for only 36.6 % of the project financing volume in the EMEA region in the first quarter of 2019 (Q1/2018: 45 %). The major institutional investors include pension funds and insurance companies, which consider infrastructure investments to be a supplementary investment alternative in the low interest rate environment.

The expansion of **renewable energies** made further progress in both Europe as a whole and Germany at the beginning of 2019. The conversion to bidding procedures passed in the amendment to the Renewable Energies Act (EEG) had resulted in an increase in demand for the transitional year of 2017 in Germany, in particular. The considerable slowdown observed since 2018 (in 2018 as a whole alone, there was a 55 % year-on-year decline) continued at the start of 2019: gross onshore capacity growth in the wind energy sector was down by almost 90 % on the level for the same quarter of the previous three years, and is likely to be by far the weakest quarter in this millennium.

The expansion in the solar segment continued in Europe. In Germany alone, new installations in the photovoltaics segment came to almost 1,270 megawatts in the first three months of the year, up by a good 27 % on the prior-year period. The political target corridor for 2019 is 1,900 megawatts of new photovoltaic output. After the strong start of the year, the Federal Network Agency is already forecasting a total increase to 3,600 megawatts, which means that the degression in feed-in tariffs will increase. As the year progresses, this is likely to put a damper on the brisk new installation activity observed at the beginning of the year.

On the **shipping markets**, the overall conditions started to look gloomier in the first half of 2019. The charter rates for container vessels and oil tankers continued to rise in spite of the trade conflicts and the slowdown in economic momentum. On the other hand, further negative effects led to a decline as far as bulkers are concerned, although a recovery emerged in the second quarter.

On the market for **container vessels**, charter rates have shown positive development in the course of 2019 to date, while ship values have remained stable. The demand for container transport, however, has lost momentum as the trade conflicts and the macroeconomic slowdown have affected the flow of goods. On the supply side, fleet growth has slowed as scrapping, in particular, has increased. The number of laid-up vessels remains at a low level, also because ships are already being chartered in as replacements whenever companies' own ships are being retrofitted in the dock with exhaust cleaning systems to meet the IMO 2020 regulations.

Charter rates for **bulkers** came under pressure at the beginning of this year, in particular due to outages in iron ore production in Brazil and Australia. Part of Brazil's production capacity is still at a standstill after a burst dam led to a catastrophe. In addition, the outbreak of African swine fever in China has led to a slump in demand for animal feed and a noticeable decline in grain imports as a result. After the rates for large ships, which mainly transport iron ore and coal, showed a particular drop, a recovery emerged in the second quarter. Bulker fleet growth was also moderate thanks to increasing scrapping. Ship values remained stable thanks to the solid market outlook in the medium term.

Despite the adverse environment, charter rates and second-hand prices for **oil tankers** remained at an elevated level and even showed a further increase in view of the positive outlook. In addition to the OPEC+ production cuts, the US sanctions imposed on Iran and Venezuela are putting pressure on transport demand. Increasing crude oil exports from the US and Brazil also helped to relieve the pressure due to the long distances to key customers in Asia and Europe. Fleet growth has also slowed significantly. Looking ahead to the future, the preparations for IMO 2020 are already likely to result in a positive demand effect for tankers through the distribution of low-sulphur bunker oil.

Banking market caught between weak profitability, consolidation pressure and strategic realignment

During the first half of the year, the macroeconomic and monetary uncertainties left their mark in the form of mounting risks in the banking environment, which were reflected not least in the share prices of banks on both sides of the Atlantic. American banks, however, once again outperformed their European and, in particular, their German counterparts considerably. In addition to structurally low levels of profitability at European banks, key issues included the risks resulting from Brexit and – as in previous years – the stability of Italian banks. Measured based on the respective indices, both European and German financial institutions showed much weaker performance than the market as a whole. Bank funding spreads, however, fell noticeably from spring onwards after the marked increase at the end of 2018.

In view of these developments, the well-known issues in the European banking market are becoming more urgent than ever before. It is now more pressing than ever that German banks in particular, which have long been at the bottom of the European league in terms of profitability, review their strategic orientation. This is because the intense pressure on margins, which also imposes narrow limits on the ability to reinvest, increasingly entails the risk of loan financing not being priced in a manner that is commensurate with the risk involved. What is more, the expansion of non-banks, mainly FinTechs, is creating additional competitive pressure. At the same time, expenses for the necessary investments in the future viability of institutions are leaving their mark on the cost side in the form of high project and IT costs. Against this backdrop many banks initiated comprehensive cost and efficiency programmes in order to be able to generate adequate returns on a sustained basis. Within this context, it is evident that conventional cost-cutting measures alone are not sufficient in order to achieve a sustained improvement in profitability. Rather, measures should aim to strike the best possible balance between the business model and client profiles, the exploitation of the potential offered by digital technologies and a forward-looking corporate culture.

As part of the SREP process, the ECB has once again made reviewing banks' internal risk models a priority. The results will be benchmarked at both national and European level. From the perspective of the banking supervisory authority, the aim is to make the results of internal models more transparent and comparable. Ultimately, this is likely to increase the risk-weighted assets of many banks even before the introduction of Basel IV from 2022 onwards.

The regulatory focus is also on developments on the real estate markets given the risks of overheating and the resulting possible implications for the banking market.

Overall conditions impacting Hamburg Commercial Bank's business

The highly competitive environment, which remains challenging for banks, was also reflected in Hamburg Commercial Bank's business performance. Trends in those markets that are relevant for the Bank were still moderately encouraging in the first half of the year, although the picture was a mixed one in some cases. The real estate environment in Germany, for example, remained largely positive. The situation on the shipping markets was volatile, but remained positive overall. In the Corporate Clients division, however, the solid liquidity base of clients and the low level of interest rates still had a tangible impact in an environment that remained competitive.

In view of these market developments and given Hamburg Commercial Bank's strict focus on profitability and earnings ("portfolio management"), the gross volume of new business concluded, which at the end of the first half of 2019 was only slightly below the previous year's figure, was stable, in particular thanks to a strong second quarter. At the same time, systematic portfolio management based on stringent risk requirements meant that the profitability of the Bank's new business once again improved noticeably compared with the first half of 2018, and that ambition levels were largely exceeded.

Despite the mounting macroeconomic and geopolitical risks, Hamburg Commercial Bank's loan loss provisions show a net reversal in the first half of 2019. This is due, on the one hand, to the good credit quality of the portfolio and successful restructuring measures and, on the other hand, to the forward-looking loan loss provisions policy. This policy means that the Bank anticipated risks and had already taken them into account in the balance sheet in the previous financial year by setting up appropriate loan loss provisions. In addition, Hamburg Commercial Bank has a relatively low exposure to very cyclically sensitive sectors and is invested in counterparties with strong credit ratings.

The interest rate trend had a negative impact on the Bank's net assets and earnings. The decline in interest rates since the beginning of the period had a negative impact on the measurement of pension obligations (reflected in a reduction in equity not recognised through profit or loss) and led to temporary negative measurement effects in the result from financial instruments categorised as FVPL.

The Bank is responding to the ongoing challenge of achieving a cost base that is commensurate with the market environment by continuing to rigorously implement cost-saving measures as part of the transformation project. Further progress was made in this regard during the reporting period.

The transformation process, the Bank's business performance and position are explained in detail in the following sections.

Business development – Significant developments and events in the first half of 2019

First half of the year as a privatised bank: transformation process running to plan in general

The successful completion of the privatisation of the former HSH Nordbank AG marked the first successful privatisation of a Landesbank in Germany. At the same time, it represents the turning point in the realignment of the Bank, which has been operating on the market under the new name Hamburg Commercial Bank AG since it was renamed on 4 February 2019.

The Bank's realignment, supported by the strong commitment of its international owners, is associated with a far-reaching and comprehensive transformation phase spanning a period of several years, the objective of which is to make the Bank's business model customer centric and competitive in the long run. Realignment that allows the Bank to be competitive in the long term is reflected first and foremost in solid financial figures. In this respect, Hamburg Commercial Bank has defined a strategic target vision. The Bank is aiming for a CET1 ratio of at least 16 %, an NPE ratio of no more than 2 %, a cost-income ratio of 40 % at the most and pre-tax profitability of more than 8 %.

In order to achieve its strategic objectives, which should enable the Bank to achieve a seamless transition to the deposit guarantee fund of private banks at the beginning of 2022, the Bank has implemented a comprehensive transformation programme as part of its realignment. All of the strategic measures that form part of the transformation project are geared towards achieving this target in full by 2022 at the latest. The packages of measures that make up the transformation programme can be allocated to the following five areas:

- Development of profitable and risk-oriented growth strategies ("**Go-To-Market**"),
- Strict focus on profitability and earnings ("**Portfolio Management**"),
- Diversification and optimisation of the funding structure ("**Liability Optimisation**"),
- Systematic cost management and efficiency improvements ("**Operating Efficiency**") and
- Optimisation of the organisational structure ("**Organisational Vitality**").

Overall, Hamburg Commercial Bank's performance in the first half of 2019 was marked by crucial progress made in the individual transformation areas and, as a result, by a transformation process that was running to plan overall, as well as by satisfactory operating business performance.

With regard to the course of business in the first half of 2019, the following topics are worthy of particular mention:

Satisfactory business development overall; systematic portfolio management leads to a noticeable increase in new business margins
Operating business performance in the first half of 2019 was satisfactory overall. Positive net income before taxes was achieved in the reporting period in line with the plan. On the earnings side, business developments were characterised, in particular, by the systematic implementation of portfolio management, i.e. focusing on the profitability of the existing and new business portfolios.

Despite the policy of concluding selective new business in line with the new level of ambition, the gross volume of new business in the reporting period was stable overall compared with the same period of the previous year. New business profitability, driven by the conclusion of business in the Real Estate and Shipping segments that exceeded the ambition levels, showed very encouraging development, with stable gross margins overall, and was up considerably on a year-on-year comparison. This development is due, not least, to the expected decline in funding costs following privatisation.

The key management indicators with regard to the Bank's capital, liquidity and risk position, as well as the relevant cost and income ratios, developed in line with the plan overall.

Progress in optimising organisational and cost structures
In 2019, a central focus of Hamburg Commercial Bank's transformation programme is on measures to optimise the Bank's organisational and cost structure. In the first half of 2019, the Bank made further progress in implementing the associated measures.

Given the scale and complexity of the staff cuts required to achieve the Bank's cost targets, the reconciliation of interests and social compensation plan agreed with the Bank's social partners towards the end of the first quarter of 2019 - i.e. without any significant delay - is to be regarded as a key success. It was only possible to reach this agreement, on the basis of which the personnel reduction is to be achieved in a socially responsible manner, within the very ambitious time frame thanks to intensive cooperation with the works council members in a relationship based on trust. Based on the results of the voluntary leavers programme included in this agreement to date, the Bank is confident, as things stand at the moment, that the job cuts can be implemented according to plan. From the management's point of view, the challenging operational implementation of the staff reductions and the associated organisational restructuring of the Bank will also be one of the key issues in the second half of the financial year.

The Bank made the planned progress towards achieving its operating expense targets in the reporting period. Based on stringent operating expense management and supported by process optimisation measures in line with the business model, the operating expenses in the reporting period were down by just under 16 % compared to the reference period of the previous year.

Start of IT transformation
With regard to the plans for a sustainable reduction in operating expenses, but also to allow the Bank to tap into new earnings potential (keyword: client benefit), successful IT transformation is of central importance for Hamburg Commercial Bank. The IT transformation of Hamburg Commercial Bank essentially consists of two components: the outsourcing of the IT application landscape to a capable strategic partner and moves to revamp the existing IT landscape. The latter mainly involves renewing the Bank's IT applications (platform solution) and IT infrastructure (mobility and cloud use), as well as digitalisation initiatives.

In the period under review, decisive progress was made in the relevant areas:

For example, the Bank signed an agreement with an internationally oriented, capable strategic partner on the operation of the IT application landscape. This will give the Bank access to state-of-the-art technological expertise at internationally competitive prices during the transformation period and beyond.

With regard to the introduction of a state-of-the-art, integrated and standardised IT application landscape, the Bank has laid the foundation for the successful implementation of the project by concluding the corresponding agreements with the IT service provider that is supporting the project. The bank-wide BIT (Business IT Transformation) project, which is characterised by an agile project approach involving constant interaction between the specialist departments, IT and the provider, is scheduled to run until 2021 and was launched at the beginning of the second half of 2019.

The digitalisation of the "know your customer" process (KYC process) has allowed the Bank to achieve a key success in the implementation of its digitalisation strategy, which at the same time demonstrates the client-centric nature of the Bank's business model. Another focal point of the Bank's digitalisation initiatives is the use of robotics software, laying the technological foundation for the automation data input and output processes, which will, in turn, make the Bank's internal processes more efficient.

Successful issue of a senior preferred bond on the capital market as an important step in the implementation of the funding strategy
The issue of a senior preferred bond rated "Baa2/stable" by Moody's with a nominal volume of € 500 million and a term of three years was successfully placed on the bond market. Due to the high demand from institutional investors in Germany and abroad, the bond was more than twice oversubscribed.

Hamburg Commercial Bank is using this transaction to diversify its solid funding base. At the same time, it serves as a reference for future bond projects and demonstrates that the Bank is approaching the level of its relevant competitors in terms of funding costs.

The optimisation of funding costs is an important lever for boosting profitability and is being implemented systematically by the Bank. As funding via the capital market is an important component of the funding strategy, this benchmark bond represents a key success story for Hamburg Commercial Bank in the reporting period. The Bank's active liquidity management, which is geared towards reducing excess liquidity as part of an effective liquidity management strategy, is also helping to optimise funding costs.

Adjustments to segment reporting
Following the completion of the portfolio transaction in November 2018, the segment reporting was split into the Core Bank (as the sum of its four operating segments) and the Non-Core Bank for the last time as at 31 December 2018. As at 30 June 2019, the segment structure was changed in accordance with the requirements set out in IFRS 8 (Management Approach) to the effect that the Non-Core Bank has been dissolved and, as a logical consequence, the four operating segments, which have been maintained unchanged, no longer operate under the term "Core Bank". The small number of remaining transactions, which are immaterial in terms of amount, and the prior-year results of the former Non-Core Bank will be shown in the segment report in the column "Other and Consolidation" from now on. Adjustments were also made to the cost allocation, resulting in a greater burden on the operating segments. This change will improve the transparency of the Group's earnings situation based on the performance of its operating segments. The previous year's figures have been adjusted accordingly. Further details on the adjustments made to segment reporting can be found in the "Economic report" in the "Segment results" section.

Management Board of Hamburg Commercial Bank strengthened
At its meeting held on 27 March 2019, the Supervisory Board passed a resolution to appoint two new members to the Management Board to work alongside Stefan Ermisch (CEO), Ulrik Lackschewitz (CRO), Dr Nicolas Blanchard (CCO) and Oliver Gatzke (CFO/CTO): Mr Ian Banwell joined Hamburg Commercial Bank as Chief Operating Officer (COO) on 1 April 2019 and Christopher Brody has been the Bank's Chief Investment Officer (CIO) since 1 July 2019.

Earnings, net assets and financial position

Group performance in line with expectations overall

The Group net result before tax amounted to € 96 million as at 30 June 2019 (same period in the previous year: € 6 million). It was characterised by satisfactory operating performance, with net interest income coming to € 227 million. The total income of € 226 million was influenced by a negative result from financial instruments categorised as FVPL (€ -37 million), which was mainly the result of temporary valuation effects. Taking into account the annual contributions for the bank levy and the deposit guarantee fund, which had already been recognised in full in the first half of the year, very positive other operating income (€ 80 million) and developments in loan loss provisions (€ 25 million) resulted in a Group net result before tax that outperformed expectations. In the previous year, positive effects resulting from the net reversal of loan loss provisions and gains realised on the disposal of securities had a positive impact on the Group net result for the first half of the year. On the other hand, the half-year Group net result for the previous year was hit for the last time by guarantee expenses, including a compensation payment of € 100 million.

Based on the **net income before taxes** as at 30 June 2019, the Group's return on equity (**RoE**) is moderately ahead of expectations at 4.4 % (31 December 2018: 2.2 %).

The cost-income ratio (**CIR**) comes to 62.1 % on the reporting date (31 December 2018: 27.2 %). This marked increase is in line with expectations insofar as the ratio as at 31 December 2018 was positively overstated by significant special effects resulting from the reassessment of interest and principal cash flows from hybrid instruments (€ 994 million). The marked reduction in operating expenses in the reporting period reflects just how successful the stringent implementation of the first few cost measures planned as part of the transformation programme has been.

Key Group management indicators

	30.06.2019	31.12.2018 (30.06.2018)
Net income before taxes (€ m)	96	97 (6)
CIR	62.1%	27.2 % (57.3 %)
RoE	4.4%	2.2% (0.3%)
NPE ratio[1,2]	1.7%	2.0%
NPE coverage ratio AC[2]	62.7%	61.0%
CET1 capital ratio[3]	17.0%	18.4%
LCR	184%	225%
NSFR	109%	121%

[1] The NPE ratio measures the sum of the risk positions (EaD, exposure at default) of borrowers in default as a percentage of the sum of the Bank's risk positions.
[2] As at 31 December 2018, taking into account adjusting events after the reporting date.
[3] Not in-period: regulatory disclosure pursuant to the CRR (balance sheet amounts as at the reporting date only included in part).

With the successful completion of the privatisation process at the end of last year, the **NPE ratio** amounted to 2.0 %. Thanks to the systematic winding down of risk positions, the NPE ratio fell further in the first half of 2019 and came in at 1.7 % as at the reporting date of 30 June 2019.

The **NPE coverage ratio AC**, which was newly defined due to the introduction of IFRS 9 in the previous year and is calculated as the ratio of specific loan loss provisions on defaulted loans measured at amortised cost (AC) to the exposure at default (EaD) of these defaulted loans (NPE), amounted to 62.7 % as at 30 June 2019 (31 December 2018: 61.0 %). This means that the Bank still has extremely solid coverage of the NPE portfolio as at the reporting date.

The **CET1 ratio** came to 17.0 % as at the reporting date (31 December 2018: 18.4 %). The decline is due, in particular, to increases in risk-weighted assets (RWA), which are mainly attributable to adjustments to the model parameters for credit risks. Actuarial interest rate-induced effects in the context of the remeasurement of defined benefit pension obligations also had a negative impact. Despite the decline compared with 31 December 2018, the Bank's CET1 ratio remains at a good level and was considerably higher than the internal ambition level of 16 %.

The liquidity ratios (**LCR:** 184 % and **NSFR:** 109 %) are consistent with the Bank's plans and are much higher than the ECB's minimum requirements at this very good level.

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

Management system and defined management indicators of the IFRS Group

The Bank's integrated management system is aimed at the targeted management of key value drivers – income, efficiency/costs and profitability, risk, capital and liquidity. The Bank uses a risk-adjusted key indicator and ratio system for this purpose that ensures that the Bank is managed in a uniform and effective manner. The Hamburg Commercial Bank Group is managed mainly on the basis of figures for the Group prepared in accordance with the International Financial Reporting Standards (IFRS) and/or the relevant prudential rules.

Within the management reporting framework, the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. On the one hand, the focus is placed on the change in these key indicators compared to the same period of the previous year and, on the other, on their expected change over the remainder of 2019.

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 2019 as a whole, is set out in Hamburg Commercial Bank's Group management Report for the 2018 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 2019	January – June 2018	Change in %
Interest income from financial assets categorised as AC and FVOCI	432	469[1]	-8
Interest income from other financial instruments	719	815	-12
Negative interest on investments categorised as AC and FVOCI	-14	-10	40
Negative interest on other cash investments and derivatives	-93	-120	-23
Interest expenses	-900	-935	-4
Positive interest on borrowings and derivatives	93	119	-22
Net income/loss from hybrid financial instruments	-10	-45	78
Net interest income	**227**	**293**	**-23**
Net commission income	28	23	22
Result from hedging	-4	-9[1]	56
Result from financial instruments categorised as FVPL	-37	-34[1]	-9
Net income from financial investments	7	78	-91
Result from the disposal of financial assets classified as AC	5	-3	>100
Total income	**226**	**348**	**-35**
Loan loss provisions	25	131	81
Hedging effect of credit derivative second loss guarantee	–	-50	100
Total income after loan loss provisions	**251**	**429**	**-41**
Administrative expenses	-190	-207[1]	-8
Other operating income	80	13[1]	>100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-37	-40[1]	-8
Net income before restructuring and privatisation	**104**	**195**	**-47**
Net income from restructuring and privatisation	-8	-31	74
Expenses for government guarantees	–	-158	-100
Net income before taxes	**96**	**6**	**>100**
Income tax expenses	-91	-76	20
Group net result	**5**	**-70**	**>100**
Group net result attributable to non-controlling interests	–	1	-100
Group net result attributable to Hamburg Commercial Bank shareholders	5	-71	>100

[1] The previous year figure was adjusted. Please refer to Note 2 for more details.

Total income down as expected
Total income decreased in the first half of 2019 to € 226 million compared to € 348 million in the same period in the previous year. This development is attributable, in particular, to special effects included in the previous year. These special effects arose from the portfolio transaction (the portfolio transaction) executed in the course of the privatisation process/related to gains realised in connection with the disposal of securities, and had a significant positive effect on total income in the comparison period. By contrast, the following developments in the main income items were significant in the reporting period:

In particular, total income was driven by net interest income, which rose to € 227 million (same period of the previous year: € 293 million). The marked year-on-year decline is mainly due to the fact that net interest income in the comparison period was clearly characterised by positive valuation effects overall, in particular resulting from the fair value measurement of the portfolio transaction. In the first half of 2019, net operating interest income developed largely in line with the plan and is characterised by a virtually constant gross volume of new business compared with the same period of the previous year and, as expected, by reduced funding costs. Net income from hybrid financial instruments had a negative impact on net interest income, albeit to a lesser extent than in the first half of the previous year.

Net commission income came to € 28 million as at 30 June 2019 (same period of the previous year: € 23 million). With earnings that were slightly below plan due to volume factors, the lack of premium expenses, reported in net commission income, for a synthetic securitisation transaction that was terminated at the end of 2018 had a positive effect compared with the previous year.

The result from financial instruments categorised as FVPL had a marked negative impact on total income at € -37 million (same period of the previous year: € -34 million). This result can be traced back to developments in the interest rate environment. This resulted in temporary valuation effects in connection with interest rate hedging derivatives that cannot be taken into account in hedge accounting. In the previous year, the negative result in this item was influenced to a significant degree by subsequent valuation effects from the portfolio transaction, with these negative valuation effects being offset by interest income in the same amount.

Net income from financial investments including other income items amounted to € 12 million (same period of the previous year: € 75 million) and includes gains realised in connection with the disposal of securities and results from the disposal of financial assets classified as AC (in this case: prepayment penalties for early repayments). Compared with the prior-year reporting period, there were no significant sales.

Loan loss provisions (income statement result) show net reversal

Loan loss provisions (income statement) made a positive contribution of € 25 million to the net result in the reporting period (prior-year period: € 131 million). This is due to the reversal of specific loan loss provisions thanks to successful restructuring measures, mainly in the Shipping segment. By contrast, additions to IFRS 9 Level 2 general loan loss provisions had a compensating effect, partly against the backdrop of macroeconomic risks. This applies, in particular, to the Real Estate segment due to the ongoing uncertainties surrounding Brexit. In addition to reversals of loan loss provisions, the prior-year period was also characterised by compensation effects relating to the guarantee.

Drop in administrative expenses

Administrative expenses came to € -190 million as at 30 June 2019 (same period of the previous year: € -207 million). The renewed drop is the result of the systematic implementation of the measures that form part of the transformation project to reduce costs and boost efficiency ("Operating Efficiency"). These measures will be implemented resolutely until an appropriate CIR of 40 % has been achieved. The Bank made the progress it planned to make in implementing operating cost measures in the reporting period. Operating expenses, for example, were reduced significantly and amounted to € -80 million (same period of the previous year: € -95 million). Cost reductions were achieved, in particular, in the IT, external services and project work cost categories, as well as with regard to legal advice. Within this context, it is important to bear in mind that expenses in connection with IT transformation, which will contribute to a significant reduction in operating expenses and thus boost profitability in the medium term, will not be incurred until the second half of 2019 onwards. Depreciation of property, plant and equipment and amortisation of intangible assets came to € -5 million (same period of the previous year: € -13 million). In the previous year, this item had been hit by unscheduled depreciation on aircraft in the amount of € -8 million.

Personnel expenses came to € -105 million in the reporting period (same period of the previous year: € -99 million). In the first quarter of 2019, the successful conclusion of the negotiations with the Bank's social partners set the course for the successful implementation of the strategic personnel expense targets. The specific personnel measures resulting from the agreement will take significant pressure off personnel expenses as planned from the second half of 2019 onwards, and will then continue to do so gradually during the transformation phase.

Other income items make a marked contribution to net income before taxes

Other operating income amounted to € 80 million (same period of the previous year: € 13 million). The significant year-on-year increase is attributable, in particular, to the partial reversal of a provision for litigation risks associated with the lending business and to the recognition, in income, of a reimbursement claim from a settlement in a legal dispute.

The expenses for regulatory affairs, the deposit guarantee fund and banking associations are largely stable compared to the reference period and amount to € -37 million based on the fixed (bank levy)/ expected (deposit guarantee fund) annual contributions (same period of the previous year: € -40 million).

Restructuring and privatisation costs

Net income from restructuring and privatisation in the amount of € -8 million in total has put moderate pressure on earnings. In the same period of the previous year, this figure came to € -31 million in total. The drop in this item is attributable to the negative effects in connection with the privatisation process in the first half of the previous year.

Guarantee premiums no longer apply due to termination of the second loss guarantee

The guarantee was terminated in the fourth quarter of 2018 as part of the completed privatisation process. As a result, no guarantee premiums were incurred in the reporting period. The expenses for the guarantee premium, including a compensation payment for the termination of the guarantee (€ -100 million), amounted to € -158 million in the same period of the previous year and had already had a significant negative impact on the Bank's net income in the first half of the year.

Group net result as at 30 June 2019 ahead of expectations
Overall, Hamburg Commercial Bank achieved net income before taxes of € 96 million as at the reporting date (same period of the previous year: € 6 million). The net result as at 30 June 2019 is ahead of expectations. In addition to satisfactory business development in the operating segments, this was helped along by special effects in the other operating result and positive developments in loan loss provisions. Net income before taxes increased by € 90 million compared with the same period of the previous year. With lower total income after loan loss provisions, the absence of guarantee expenses and special effects in the other operating result in the first half of 2019 were the decisive factors behind this development.

After taxes, the Group net result comes to € 5 million (same period of the previous year: € -70 million). Income tax expense includes tax expenses from deferred taxes in the amount of € -90 million. The deferred tax expense results from the reversal of deferred tax assets in accordance with tax planning for 2019.

Net assets and financial position

Material items on the statement of financial position

(€ m)	30.06.2019	31.12.2018	Change in %
Assets			
Cash reserve	870	5,362	-84
Loans and advances to banks	3,046	3,167	-4
Loans and advances to customers	32,260	32,791	-2
Loan loss provisions	-726	-831	-13
Trading assets	4,079	3,094	32
Financial investments	9,234	10,100	-9
Non-current assets held for sale and disposal groups	107	65	65
Other assets	1,329	1,373	-3
Total assets	**50,199**	**55,121**	**-9**
Liabilities			
Liabilities to banks	5,204	5,470	-5
Liabilities to customers	23,524	28,093	-16
Securitised liabilities	9,271	9,458	-2
Trading liabilities	2,945	2,812	5
Provisions	1,786	1,746	2
Subordinated capital	1,595	1,614	-1
Equity	4,365	4,437	-2
Other liabilities	1,509	1,491	1
Total equity and liabilities	**50,199**	**55,121**	**-9**

Total assets reduced further as planned
As planned, the Group's total assets continued to decline in the first half of 2019, falling by just under 9 % to € 50,199 million (31 December 2018: € 55,121 million). The following developments affected the individual key balance sheet items:

On the assets side of the balance sheet, the decline in the cash reserve was the key driver behind the reduction in total assets. The cash reserve was down considerably compared with the end of the previous year to € 870 million (31 December 2018: € 5,362 million). This marked decline reflects the Bank's active liquidity management, which is aimed at systematically whittling down the liquidity reserves built up during the privatisation period.

Loans and advances to banks, on the other hand, only fell slightly and amounted to € 3,046 million (31 December 2018: € 3,167 million).

Loans and advances to customers were relatively stable compared with the end of the previous year, with a carrying amount of € 32,260 million as at 30 June 2019 (31 December 2018: € 32,791 million).

Loan loss provisions disclosed on the balance sheet were down as at 30 June 2019 and amounted to € -726 million (31 December 2018: € - 831 million). With reversals slightly exceeding additions overall, the decline is mainly attributable to utilisation in the reporting period.

Trading assets increased to € 4,079 million (31 December 2018: € 3,094 million). The reasons for this development were an increase in securities held for trading purposes and an increase in the positive fair values of derivatives (in particular interest-related transactions). This increase in the fair values of derivatives was partly offset by an increase in the netting volume (as against 31 December 2018).

Financial investments dropped significantly to € 9,234 million (31 December 2018: € 10,100 million). This was due, in particular, to the winding down of securities portfolios in the context of liquidity management.

On the liabilities side, liabilities to banks fell slightly to € 5,204 million (31 December 2018: € 5,470 million).

The noticeable reduction in excess liquidity on the assets side of the balance sheet had an impact on the liabilities side of the balance sheet, in particular in the form of a significant decline in liabilities to customers to € 23,524 million (31 December 2018: € 28,093 million). In line with the funding strategy, fixed-term deposits, in particular, were reduced as planned.

Securitised liabilities came to € 9,271 million, down only slightly compared with the end of the previous year (31 December 2018: € 9,458 million).

Trading liabilities comprising negative fair values of derivatives (€ 2,945 million, 31 December 2018: € 2,812 million) were up in line with the positive fair values of trading assets (before netting). Due to the increased netting volume compared with 31 December 2018, this increase only had a comparatively minor impact on the balance sheet.

As at June 30, 2019, provisions amounted to € 1,786 million (31 December 2018: € 1,746 million). The increase as against the previous year is due to an increase in pension obligations, largely based on actuarial interest rates. The reversal of provisions for litigation risks and the utilisation of provisions for restructuring had the opposite effect.

As at 30 June 2019, the subordinated capital amounted to € 1,595 million, virtually unchanged as against the level seen at the end of the previous year (31 December 2018: € 1,614 million).

Despite the Group net result being in slightly positive territory, the Bank's reported equity fell slightly and amounted to € 4,365 million (31 December 2018: € 4,437 million). The drop was mainly due to changes in pension obligations.

Business volume also down

The business volume decreased in line with total assets to € 59,067 million (31 December 2018: € 64,496 million). Off-balance sheet transactions also decreased: Sureties and guarantees fell to € 1,598 million (31 December 2018: € 1,748 million), while irrevocable loan commitments dropped to € 7,270 million (31 December 2018: € 7,627 million).

Structure of liabilities by financial instruments

(€ m)	30.06.2019		31.12.2018	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Pfandbriefe and asset-based funding	**12,132**	**10,797**	**13,074**	**11,148**
Pfandbriefe	7,473	6,462	8,021	6,772
Other secured funding	4,659	4,335	5,053	4,376
Unsecured liabilities (senior preferred)	**19,829**	**3,868**	**23,212**	**2,873**
Unsecured liabilities (senior non-preferred)	**5,851**	**4,027**	**6,555**	**4,441**
Profit participation certificates and other subordinated liabilities	**1,069**	**1,069**	**1,067**	**1,067**
Hybrid instruments	**713**	**713**	**727**	**687**
Total	**39,594**	**20,474**	**44,635**	**20,216**

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 may 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 (covered bonds, asset-based funding). These mainly include debt instruments issued under Pfandbrief programmes (mortgage, public sector and ship Pfandbrief programmes) as well as other asset-based funding issues, repo transactions and deposits from development banks. The total amount of secured debt instruments outstanding was € 12,132 million as at 30 June 2019 (31 December 2018: € 13,074 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 € 25,680 million (31 December 2018: € 29,767 million). The call and time deposits are shown together with structured unsecured financial instruments in the "senior preferred" category and total € 19,829 million (31 December 2018: € 23,212 million). The "senior non-preferred" category consists primarily of bearer and registered bonds that do not have any structured elements and amounted to € 5,851 million as at 30 June 2019 (31 December 2018: € 6,555 million).

The two line items Profit participation certificates and other subordinated liabilities (€ 1,069 million, 31 December 2018: € 1,067 million) and hybrid instruments (€ 713 million, 31 December 2018: € 727 million) in total represent subordinated capital. Of the hybrid instruments (Resparc I and Resparc II), € 186 million (31 December 2018: € 180 million) is reported under Securitised liabilities in the balance sheet.

Capital and funding

RWA, regulatory capital and capital ratios

	30.06.2019	31.12.2018
Risk-weighted assets (RWA) (€ bn)	23.6	22.1
Regulatory capital (€ bn)	5.1	5.2
of which: CET1 capital (€ bn)	4.0	4.1
Overall capital ratio (%)	21.5	23.3
Tier 1 capital ratio (%)	17.0	18.4
CET1 capital ratio (%)	17.0	18.4

CET1 ratio at a solid level

The CET1 ratio was down as against 31 December 2018 (18.4 %) to 17.0 %. This was due, in particular, to a net increase in RWA of around EUR 1.5 billion, which is largely attributable to adjustments to the model parameters for credit risks, as well as a negative impact on common equity tier 1 capital resulting from the remeasurement of net liabilities from defined benefit pension obligations not recognised through profit or loss, which is mainly due to the actuarial interest rate. The CET1 ratio is still well in excess of the internal ambition level of at least 16 %.

The tier 1 capital ratio and the overall capital ratio fell in line with the common equity tier 1 ratio compared with 31 December 2018. Please refer to the Risk report for information on compliance with banking supervisory requirements.

Hamburg Commercial Bank's leverage ratio came to a very solid 8.1 % as at 30 June 2019 (31 December 2018: 7.3 %). This development was driven by the winding down of the leverage exposure to € 49.9 billion in the reporting period (31 December 2018: € 55.6 billion). The leverage ratio is still much higher than the internal ambition level of at least 4 %, meaning that it also exceeds the regulatory benchmark of 3 % (binding as at the end of June 2021).

The BRRD (EU Bank Recovery and Resolution Directive) requires banks in EU member states to maintain sufficient loss absorption and recapitalisation capacity in the form of regulatory capital and defined liabilities. To this end, an institution-specific MREL (Minimum Requirement for Own Funds and Eligible Liabilities) requirement for Hamburg Commercial Bank has been defined by the European Single Resolution Board (SRB), the resolution authority responsible for the Bank. As at 30 June 2019, the Bank clearly met the MREL requirement imposed by the SRB.

Funding activities expanded further

With the successful placement of a € 500 million senior preferred issue on the capital market, the Bank has significantly strengthened its funding base over the long term. The debut bond has a term of three years and was more than twice oversubscribed with strong demand from institutional investors in Germany and abroad, allowing the Bank to achieve attractive pricing conditions.

All in all, the funding raised is clearly in excess of the pro rata planned value. In the first half of 2019, around € 1.5 billion in long-term funds were raised.

Besides the issuing activities on the capital market, the structural improvement in deposits also contributed to the implementation of the funding strategy. Within this context, the volume of short-term deposits – relating to both retail and corporate clients – was reduced, while at the same time increasing the maturity of the deposits.

Key liquidity ratios

	30.06.2019	31.12.2018
Total deposits (€ bn)	13.9	16.7
LCR (%)	184	225
NSFR (%)	109	121

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

Segment results

Segment overview January – June 2019

(€ m)		Corporate Clients	Real Estate	Shipping	Treasury & Markets	Other[3] and Consoli-dation[4]	Group
Total income	**2019**	**92**	**104**	**59**	**29**	**-58**	**226**
	2018	106	95	52	182	-87	348
Loan loss provisions[1]	**2019**	**-22**	**-41**	**87**	**-1**	**2**	**25**
	2018	-4	3	140	18	-76	81
Administrative expenses[2]	**2019**	**-64**	**-47**	**-32**	**-42**	**-5**	**-190**
	2018	-72	-47	-30	-52	-6	-207
Net income before taxes	**2019**	**-12**	**56**	**111**	**-20**	**-39**	**96**
	2018	15	38	138	136	-321	6
Segment assets (€ bn)	**30.06.2019**	**11.2**	**13.0**	**4.3**	**14.1**	**7.6**	**50.2**
	31.12.2018	11.5	12.4	4.5	19.3	7.4	55.1

[1] Summary of "Loan loss provisions" and "Hedging effect of credit derivative under the second loss guarantee".
[2] After change in cost allocations; prior-year figures adjusted accordingly.
[3] Incl. Non-Core Bank; prior-year figures adjusted accordingly.
[4] Consolidation also includes the effects from differences in accounting.

Adjustments to segment reporting

Following the completion of the portfolio transaction in November 2018, the segment reporting was split into the Core Bank (as the sum of its four operating segments) and the Non-Core Bank for the last time as at 31 December 2018. As at 30 June 2019, the segment structure was changed in accordance with the requirements set out in IFRS 8 (Management Approach) to the effect that the Non-Core Bank has been dissolved and, as a logical consequence, the four operating segments, which have been maintained unchanged, no longer operate under the term "Core Bank". The small number of transactions remaining in the Non-Core Bank will be shown in the segment report in the column "Other and Consolidation" from now on. Adjustments were also made to the cost allocation, resulting in a greater burden on the operating segments. The Bank's overhead costs are now allocated to the divisions in full. This change will improve the transparency of the Group's earnings situation based on the performance of its operating segments. The previous year's figures have been adjusted accordingly.

Business development in the segments

The **Corporate Clients** segment is well diversified and comprises the Energy & Infrastructure, Trade & Food, Healthcare, Industry & Services and Wealth Management business areas as at the reporting date. In addition, the business unit offers the consultancy areas of structured finance, leveraged buyout and mergers & acquisitions from a single source for all clients of the Bank.

In the Corporate Clients segment, net income before taxes in the first half of 2019 amounted to € -12 million (same period of the previous year: € 15 million). This development is due, in particular, to the decline in total income, as well as the additions to loan loss provisions (€ -22 million, same period of the previous year: € -4 million). This was partly offset by a reduction in administrative expenses. The decline in total income reflects the Bank's business development in a highly competitive environment, as well as a deliberately profitability-oriented business approach, which initially results in a planned decline in the average volume of interest-bearing receivables. Net interest and commission income declined accordingly. Furthermore, negative valuation effects for customer derivatives put considerable pressure on total income.

The development of new business in the Corporate Clients segment is a mixed bag. Whereas new business in the conventional corporates segment developed satisfactorily overall, even taking into account the highly competitive environment and the earnings-focused approach, new business in the Energy & Infrastructure segment was down significantly on the same period of the previous year. This is due to a much higher proportion of structuring-intensive project financing, which is characterised on the one hand by attractive returns but on the other by longer implementation periods, in the reporting period. Gross new business in the Corporate Clients segment came to a total of € 0.8 billion (same period of previous year: € 1.3 billion). In line with new business, the cross-selling result was also down in a year-on-year comparison. In the Energy & Infrastructure division, the volume of receivables stabilised at a good level.

The **Real Estate** segment generated net income before taxes of € 56 million in the first six months of 2019 (same period in the previous year: € 38 million). In addition to the year-on-year increase in net interest and commission income, this development is also attributable to the positive other operating income. This was counteracted by loan loss provisions that were set up to reflect Brexit risks at levels 1 and 2. Gross new business totalled € 2.3 billion in a competitive environment that remained intense (same period of the previous year: € 2.3 billion), in line with expectations. The positive development in business with international institutional investors continued and the high market penetration in the northern German core region was expanded. The division is also exploiting its good market position in the metropolitan regions of western Germany.

In the **Shipping** segment, net income before taxes amounted to € 111 million (same period of the previous year: € 138 million). While operating income showed solid development in line with expectations, reversals of loan loss provisions also made a noticeable contribution to the result, albeit to a lesser extent than in the same period last year. In a market environment that remains challenging, gross new business with national and international shipping companies with good credit ratings was moderately higher than in the previous year (€ 0.3 billion) at € 0.5 billion.

The **Treasury & Markets** segments generated net income before taxes that was in line with expectations at € -20 million (same period of the previous year: € 136 million). Income from the client business with capital market products, generated from the newly established originate to distribute (OtD) activities, from the portfolios that were transferred from the Non-Core Bank to the Core Bank in the reporting period and from the management of market price risks largely offset the negative effects resulting from the persistent negative interest rate level that showed up in net trading income. The significant decline in the net result compared with the same period of the previous year can be traced back to the special effects associated with the sale of securities included in the previous year.

"Other and Consolidation“ division

Administrative functions and overall bank positions, as well as the remaining portfolios from the former Non-Core Bank, are disclosed in “Other” under “Other and Consolidation” as segments not subject to reporting requirements. “Consolidation” also comprises items that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. In addition to the measurement and disclosure differences the result from restructuring and privatisation is allocated in full to this division. The costs for liquidity reserves and the funding structure are also reported under "Other and Consolidation". Due to the uncertainties that were naturally inherent in the privatisation process, the Bank had switched its liquidity management approach over to an above-average supply of liquidity. This was systematically reduced in the reporting period.

Net income before income taxes amounted to € -39 million as at reporting date. The previous year's result of € -321 million was hit, in particular, by effects resulting from the presentation of the portfolio transaction and the second loss guarantee. In addition, the much higher net result is attributable on the one hand to an increase in other operating income. What is more, the increase in earnings was driven by the reduced costs for liquidity reserves and the funding structure, which are reflected in total income. Compared to the same period of the previous year, the reporting period also includes net income from restructuring and privatisation that is slightly negative (same period of the previous year: € -31 million). Negative effects resulting from valuation and hedge effects for overall bank positions are also included in the result.

The segment assets of “Other and Consolidation” mainly include the liquidity reserve. Segment assets as at 30 June 2019 came to € 7.6 billion (31 December 2018: € 7.4 billion).

Final assessment of Hamburg Commercial Bank’s position

In the first half of 2019, the Bank’s development was in line with expectations in an environment that was still favourable in general, but was also highly competitive in parts. Operating business development was characterised by earnings and cost ratios that were largely in line with the planned level, as well as new business activities that showed satisfactory development overall. Other key management indicators relating to capital and liquidity are ahead of the defined ambition levels - in some cases considerably so; the development of the risk ratios is consistent with the Bank's risk structure, which has also been optimised as part of the privatisation process.

Hamburg Commercial Bank considers itself to have a solid position, particularly in view of the mounting macroeconomic and geopolitical risks. This is due, on the one hand, to the good credit quality of the portfolio and, on the other, to the forward-looking loan loss provisions policy on the basis of which the Bank anticipated these risks and had already taken them into account in the balance sheet in the previous financial year by setting up corresponding loan loss provisions.

Nevertheless, the continuing downward interest rate trend is having a negative impact on the Bank’s net assets and earnings situation, also because it has a negative impact on the measurement of pension obligations (reflected in a reduction in equity not affecting income) and contributes to temporary negative valuation effects with regard to financial instruments.

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

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

Employees of Hamburg Commercial Bank

Far-reaching changes in the organisational structure

Based on the transformation programme approved by the Management Board in December 2018, a central focal point in 2019 will be measures to optimise the organisational and cost structure. As far as personnel is concerned, staff reduction measures and their implementation in line with the Bank's plans is of crucial importance when it comes to achieving the Bank's cost targets. Key progress was made in this regard in the first half of 2019. Negotiations on a reconciliation of interests and a social compensation plan were concluded with the works council members in the first quarter of 2019. Based on the results of the voluntary leavers programme included in this agreement to date, the Bank is confident, as things stand at the moment, that the job cuts can be implemented according to plan. Nonetheless, the second half of 2019 will also be dominated by the challenge of rapidly implementing the reduction targets defined in the transformation programme in a socially responsible manner and in agreement with the employees. As at the reporting date, only a small proportion of the planned staff reductions had been implemented on schedule. By 30 June 2019, the number of full-time staff employed by the Hamburg Commercial Bank Group had fallen to 1,630 (31 December 2018: 1,716).

Employees in the Group

	30.06.2019	31.12.2018
Full-time employees (FTE) in the Group[1]	**1,630**	**1,716**
of which: Women	603	631
of which: Men	1,027	1,085
of which: Employees in Germany	1,564	1,648
of which: Employees abroad	66	68
Total number of employees in the Group ("headcount")	**1,914**	**2,021**
Key employee figures		
Part-time employees (%)	26.2	26.7
Average age in years[2]	47.1	46.0
Average period of employment (years)	15.9	14.8

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

Organisational Vitality: modern HR development to support transformation

The optimisation of the Bank's organisational structure ("Organisational Vitality") involves a significantly reduced and streamlined organisational structure to match the business model, as well as a change in the corporate culture. As well as establishing a culture of performance, this includes identifying and fostering the development of top performers, who will receive proactive support in the form of appropriate measures from the HR development department.

In the first half of 2019, Hamburg Commercial Bank's HR development activities also focused on supporting and accompanying employees during the transformation phase. One focus was also on the megatrend of digitalisation. A hands-on-dialogue format was introduced here in addition to conventional training courses.

There are also programmes for the further development of managers with the focus on change and implementation skills. The transformation and bank-wide strategy activation is being supported by the HR development department in the form of appropriate events with a clear focus on results.

An interesting range of occupational and health-oriented seminars rounds off the HR development programme of Hamburg Commercial Bank.

Hamburg Commercial Bank as an attractive employer for young professionals

The optimisation of the corporate culture also includes the onboarding of new employees in order to further accelerate the Bank's transformation and increase added value. Flexibility and cross-team cooperation are key success factors in the introduction of Organisational Vitality.

Active measures to foster the development of young professionals play an essential role in the optimisation of the corporate culture.

Hamburg Commercial Bank offers high-quality training leading to the Bachelor of Arts/Science degree in business management/information systems and for the occupation of office management specialist. A total of 23 students on dual study programmes/trainees were employed in the first half of 2019.

This year, ten dual students will complete their dual studies at Hamburg Commercial Bank with a very good or good overall score and will receive a permanent job offer. These young professionals now have further promotion possibilities following the training.

For new entrants to the profession, Hamburg Commercial Bank offers a 24-month trainee programme covering a wide range of topics. The trainees gain comprehensive and intensive insights into the Bank's various fields of activity. A total of 17 trainees were employed in the first half of 2019.

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

Equal opportunities and women in management positions and diversity concept

Hamburg Commercial Bank is continuing to actively address the issues of equal opportunity and the promotion of women with the assistance of its equal opportunities officer. The Bank set the following quotas in line with the law, which came into force in May 2015, regarding equal representation of women and men in management positions in the private sector and public services and the resulting introduction of Section 76 (4) of the German Stock Corporation Act (AktG):

At the level of managers reporting directly to the Management Board, Hamburg Commercial Bank was aiming to achieve a ratio of 16 % women. It has reached this objective, with a current figure of 21 %. The female department head ratio slightly exceeds the target at 17 % (target of 15 %).

Statistics on equal opportunities as at 30 June 2019[1)]

	Number			Ratio	
	Women	Men	Total	Women	Men
Managers reporting directly	3	11	14	21%	79%
Heads of department	9	45	54	17%	83%
Total	**12**	**56**	**68**	**18%**	**82%**

1) Head Office excluding employees released from their duties.

Further details on equal opportunities can be found in the "Employees of Hamburg Commercial Bank" section of the Group management report for the 2018 financial year.

Forecast, opportunities and risks report

Forecast report including opportunities and risks

The following section should be read in conjunction with the other sections in this interim management report. The forward-looking statements contained in this forecast report are based on assumptions and conclusions based on information available to the Bank at the time this interim management report was prepared. The statements are based on a series of assumptions that relate to future events and are incorporated into 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

Unless otherwise stated, statements made regarding the underlying conditions are based on internal assessments and estimates.

Global economy remains under pressure
The global economy is likely to slow further as the year progresses. The Bank anticipates economic growth of 3.3 % in 2019. The waning momentum can be traced back to an advanced economic cycle as well as risks – for example resulting from the trade conflict – which are likely to become more pronounced than originally expected in view of the duration of the dispute.

In the US, the growth rate for 2019 is tipped to come in at 2.3 % (2018: 2.9 %). This is because the economic cycle has passed its zenith, the effect resulting from the tax reforms is coming to an end and the trade conflict with China is also having a negative impact. The slowdown in growth is also likely to continue in China. After GDP growth of 6.6 % in 2018, growth should level off at 6.2 % (2019). The government in China is likely to try to mitigate the downturn using fiscal and monetary policy measures, which should be successful in part. The risk factor relating to the trade dispute and a structural loss of momentum following very high growth rates in the past cannot, however, be compensated for entirely.

In the eurozone, growth picked up speed in the first quarter of 2019 to 0.4 %, but the remaining quarters are likely to be less dynamic. This outlook is supported by the weaker global economic environment and specific factors in the eurozone, such as the growth-stifling policy in Italy or the continuing uncertainty surrounding Brexit. Accordingly, growth this year is likely to be much lower than in 2018 at around 1 %. The Bank does not, however, expect to see a recession, as unemployment is falling, which should support private consumption. In addition, the financing conditions for growth remain stimulating. Germany's economy is expected to grow by 0.7 % in 2019, i.e. at a slower rate than the eurozone as a whole, as the country is likely to suffer more than the EMU area as a whole as a result of the slowdown in foreign trade.

Monetary easing pushes yields down further, euro could reap the benefits
The Fed and the ECB have made a U-turn in response to the gloomier economic and inflation outlook. Both central banks are now looking to loosen their monetary policy in the coming months. In the US, the Fed could reduce the range for the Fed funds rate in three steps by 25 bps in each case to between 1.50 % and 1.75 % by the end of 2019. The retreat from interest rate hikes and the shift towards monetary easing has led to a noticeable drop in Treasury yields, a trend which is likely to continue. By the end of 2020, the Bank expects ten-year yields to be on a downward trend overall. The ECB has also distanced itself from the normalisation of monetary policy and is more likely to cut interest rates over the next few months. The deposit rate is likely to be reduced by 10 bps to -0.50 % to begin with, combined with a staggering of the deposit rate to mitigate the resulting impact on banks. Further interest rate cuts cannot be ruled out. The ECB is, however, unlikely to want to make too much use of interest rate cuts as an instrument, as it is aware of the risks associated with extremely low interest rates. This means that if the downside inflation risks continue to increase, the central bank could decide to make new net bond purchases. Bund yields are likely to continue to come under downward pressure as a result of the new easing measures, and long-dated bonds could even touch upon new record lows in negative territory.

In the second half of 2019, the euro is likely to gain more considerable ground against the US dollar, as the Fed has much more room for manoeuvre than the ECB in its monetary easing.

Outlook for relevant markets
Following developments in the first half of 2019, the Bank is largely confirming the forecasts it made in the Group management report for the 2018 financial year with regard to the development of the relevant markets. In summary, the Bank expects

- the German **real estate markets** to be influenced by a domestic economy that remains robust but looks set to weaken, and by the return to much lower interest rates, in the current year: While a damper is likely to remain on rental price growth, property values, albeit to a lesser extent for retail properties, should still chart a marked increase driven by interest rates.
- the **other relevant sectors** to show only very moderate positive development overall, although the expansion of **renewable energies** will paint a mixed picture.
- the uneven development on the **shipping markets** to continue: charter rates and ship values in the container segment are likely to show weaker development in the second half of 2019, whereas bulkers are likely to continue on a cautious upward trajectory following the setback at the beginning of the year. As far as oil tankers are concerned, a consolidation trend is expected following the sharp rise in rates and prices.

Nevertheless, the general economic environment, which is characterised, among other things, by the possibility of escalating trade disputes, ongoing uncertainty surrounding Brexit and generally high capacity utilisation, is expected to lead to mounting uncertainty and, as a result, to increasing risks for the general development of the relevant markets. Further information and details on the sector developments expected by the Bank can be found in the "Forecast, opportunities and risk report" of the Group management report for the 2018 financial year in the section entitled "Forecast report including opportunities and risks".

Ongoing challenging environment for banks
Against the backdrop of the further increase in geopolitical and economic uncertainties, as well as potentially high level of volatility in the financial markets, the overall banking environment is likely to remain challenging in the second half of the year. Although the growth forecasts are currently still relatively positive, the downside potential is to be classified as increasingly critical due to the complex range of influencing factors (e.g. trade conflicts, Brexit, potential overheating of the real estate markets).

With regard to monetary policy, signs of a turnaround are starting to emerge in Europe, too, and could become a reality if the economic uncertainties become entrenched. In this situation, the ECB is likely to review its arsenal of monetary policy measures once again. All in all, the ECB is therefore likely to maintain its expansive monetary policy for longer than previously expected, meaning that the pressure on net interest income resulting from the low interest rate environment will continue to increase for the time being.

In a European comparison, the need to adapt is the most pronounced on the German banking market, as German institutions have below-average sources of income that do not rely on interest, low credit margins due to the intense competition and, at the same time, very high cost-income ratios and low RoEs that are stuck, as a result, below the cost of capital.

Regulators and market participants will focus even more on an increasingly comprehensive view of banks' capital adequacy and liquidity resources. This is particularly important regarding the extent to which banks are prepared for the new regulatory standards for bail-in eligible liabilities. These relevant capital and liquidity requirements that form part of the resolution mechanism include in particular the institution-specific minimum requirements for regulatory capital and eligible liabilities (MREL) defined by the national banking supervisory authorities and resolution authorities. This should provide banks with even more of an incentive than before to optimise the increasingly granular liabilities side of their balance sheets, as they seek to strike a balance between regulatory requirements on the one hand and cost aspects on the other.

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

Expected business development of Hamburg Commercial Bank

Continued systematic implementation of the transformation programme
The second half of the 2019 financial year will also be characterised by the focused and systematic implementation of the transformation programme.

This means that all packages of measures will be vigorously pursued in order to make the Bank's business model viable and flexible in the long run, thus laying the foundation for its success in a dynamic and competitive environment and ultimately ensuring a seamless transition to the deposit guarantee fund of private banks at the beginning of 2022.

The focus of the transformation programme for the second half of 2019 will be on measures to optimise the organisational and cost structure ("Operating Efficiency"). In this respect, staff reduction measures and IT transformation are of particular importance due to the key role that they play in helping to achieve a sustained reduction in administrative expenses.

The operational implementation of the staff reduction measures started immediately following the agreement reached with the works council members in March 2019 on a reconciliation of interests and a social compensation plan. Continuing with the implementation of the measures as planned is an operational focal point for the second half of the year, as the achievement of the Bank's cost targets requires both the achievement of quantitative targets and adherence to the ambitious timetable.

In view of the forthcoming IT transformation, the second half of 2019 will be characterised, first of all, by moves to press ahead with the necessary transfer of expertise and tasks to the strategic partner (transition) as part of the outsourcing of IT application support. The transfer process is scheduled to have been completed by the end of this financial year. Second, the bank-wide BIT project will focus on modernising IT, i.e. Establishing an efficient IT platform. The associated introduction of a state-of-the-art, integrated and standardised application landscape, as well as workplace infrastructure that is geared towards mobility and cloud use, will create significant cost-cutting potential, the realisation of which is also crucial when it comes to achieving the Bank's cost targets.

On the earnings side, the Bank will be focusing on further increasing the profitability of client relationships while maintaining stringent price discipline when pricing loan exposures. This will be supported by measures to optimise capital allocation, which primarily involve the optimum use of available capital in asset classes and for clients with an attractive risk/return profile. For Hamburg Commercial Bank, the focus is on the quality of the assets, not on increasing market share.

Hamburg Commercial Bank will continue to focus on its core business areas. At the same time, however, new earnings potential will be selectively tapped into, allowing the Bank to forge ahead with the diversification of asset classes in the balance sheet. In this respect, Hamburg Commercial Bank is also planning to enter niche markets that offer attractive return opportunities with an appropriate risk profile for the Bank – also due to the corresponding expertise available in these areas. Potential target markets include leasing and factoring. In addition, the Bank's originate-to-distribute (OtD) approach will be strengthened in order to push ahead with the expansion of franchise potential in a manner that is as balance-sheet-friendly as possible. With regard to international activities, moderate expansion is planned, although Hamburg Commercial Bank will only move into selected markets with an attractive risk/return profile on the basis of existing and sustainable business relationships.

The reduction in refinancing costs is expected to make a significant contribution to leveraging the Bank's profitability potential. In this respect, the focus will be on tailoring the funding and capital structure to suit the needs associated with the Bank's business focus, with total assets initially declining as planned.

Based on business developments in the first half of the year and taking risks in the macroeconomic and regulatory environment into account, and also assuming that the transformation process will proceed according to plan, the Bank remains cautious in its outlook and is confirming the forecasts it published in the Group management report for the 2018 financial year with regard to business development and the key management indicators derived from this business development.

For information on the expected development of the key management indicators, including the associated opportunities and risks, please refer to the "Forecast, opportunities and risk report" of the Group management report for the 2018 financial year in the section entitled "Forecast report including opportunities and risks".

Overall appraisal and net income forecast

On the basis of the generally satisfactory performance of the IFRS Group in the first half of 2019 and given that the transformation process has been running to plan overall to date, the Bank is confident, from today's perspective, that it will be able to achieve the targets set for 2019 as a whole. The second half of the 2019 financial year will be characterised by the further implementation of the operating earnings and cost measures. In order to ensure the successful implementation of the transformation programme, the individual measures taken will be continuously reviewed and adjusted if necessary.

Accordingly, the Bank still expects to see slightly positive IFRS net income before taxes in 2019. This net income forecast is subject to any unforeseeable effects resulting from the implementation of the restructuring/transformation process and/or unforeseeable geopolitical influences (see also the comments on risks in the "Risk report" section).

The earnings forecast and future development of Hamburg Commercial Bank are associated with major challenges which are described in detail in the Group management report as at 31 December 2018. In summary, these mainly concern adverse developments in the course of the transformation process, as well as general challenges. As far as the general challenges are concerned, the most significant risks hanging over the Bank's ability to achieve its earnings forecast are macroeconomic setbacks in the sectors that are relevant to the Bank, constantly increasing regulatory requirements and the low interest rate environment.

Risk report

The main risks to which the Bank is exposed include default risks, market risks, liquidity risks, operational risks, business strategy risks and reputation risks. The methods, instruments and processes used to manage these risks are explained in detail in the Risk Report contained in the Group management report for the 2018 financial year. In addition, the "Forecast, Opportunities and risk Report" contained in this Interim Report provides information on the anticipated business situation, including a current assessment of the main opportunities and risks for the Hamburg Commercial Bank for the remainder of the year.

Setting Risk Appetite and Risk Guidelines

The Strategic Risk Framework (SRF), which serves as the foundation of the risk culture, sets out the focus of the Bank's risk management activities and defines the objectives of risk management based on the planned development of key business activities and measures taken to achieve these objectives. The focus is on securing and allocating scarce resources as well as ensuring sustainable revenue optimisation taking into account the risk appetite, business strategy objectives, the market environment and both the existing and planned portfolio.
The transformation into a profitable private bank, implementation of the objectives of the new owners and meeting the requirements of other stakeholders (especially the banking supervisory authorities, Deposit Guarantee Fund of the Association of German Banks) is supported by the SRF guidelines.

The SRF contains the risk strategy principles as the key guidelines for risk-conscious action and the cornerstone of a sustainable risk culture. These form the framework for the formulation of the risk appetite statement (RAS) and risk strategy. The RAS is broken down into a financial and non-financial RAS on the basis of the risk inventory and is aimed at providing a condensed description of selected risk appetite areas in order to achieve the overall Bank's objectives. The financial RAS consists of a catalogue of key figures and ratios, the non-financial RAS of qualitative targets regarding the risk culture. Their implementation is ensured via the risk strategy and limit system, whereby the risk strategy describes the management of risks based on the risk inventory in accordance with the business strategy and RAS. It provides the framework for the sub-risk strategies (counterparty default risk for performing and non-performing exposure respectively, market risk, liquidity risk and non-financial risk (NFR) along with reputation risk, operational and business strategy risks). The SRF forms the foundation of the business strategy and is a key basis for planning within the Bank.

Key risk indicators of the Group

A functioning limit system requires that the risk appetite be derived on a rigorous basis. This is derived separately for the three scarce resources – regulatory and economic capital and liquidity – from the risk capacity. Starting from the risk appetite the Bank has established a system of risk limits and guidelines for all three resources, which serves to avert risks that could jeopardise the Bank's continued existence and to achieve the risk strategy objectives.

The SRF is approved by the Management Board ("tone from the top") and reviewed at least once a year. Where necessary, adjustments are made during the year. It is also fully integrated into the Bank's processes, for example by its embedding in the Bank's objectives and the definition of guidelines for the strategy process, in risk reporting and the Code of Conduct.

Key risk indicators of the Group

	30.06.2019	Limit	Guideline
ICAAP utilisation from an economic perspective/RBC	52%	< 90%	–
Economic capital required (€ bn)	1.8	< 2.5	–
of which: for default risks	1.2	< 1.4	–
for market risks	0.3	< 0.8	–
for liquidity risks	0.1	< 0.3	–
NPE ratio	1.7%	–	< 3.0%
CET1 ratio (same period calculation, including Pillar 2 requirement)	17.2%	> 11.0%	–
T1 ratio (same period calculation)	17.2%	> 12.5%	–
Overall capital ratio	21.7%	> 14.5%	–
MREL	24.4%	> 10.1%	–
Leverage ratio	8.1%	> 4.0%	–
Liquidity coverage ratio (LCR)	184%	> 115%	–
Net stable funding ratio (NSFR)	109%	> 102%	–
NLP2 in the stress case (€ bn) Month 1	6,9	> 0.5	–
Month 2	6.4	> 0.5	–
Month 3	5.0	> 0.5	–

ICAAP under the economic perspective/Risk Bearing Capacity

Hamburg Commercial Bank has implemented the ECB guide for the Internal Capital Adequacy Assessment Process (ICAAP) as at the end of 2018. Accordingly, capital adequacy is to be assessed under a normative and an economic perspective. 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 serves as a basis for reviewing at a given date whether all material risks are backed by internal capital. Compared to the regulatory perspective (CRR), it is based on a significantly qualified concept of capital and a broadened concept of risk. The measurement of risks is based on refined economic methods and procedures. As part of the monitoring of the risk-bearing capacity, Hamburg Commercial Bank regularly compares the total economic capital required for all material risk types quantifiable under internal procedures (overall risk) to the available economic risk coverage potential.

In addition to the regulatory Tier 1 capital modified for economic purposes, the risk coverage potential includes, inter alia, a negative balance comprising unrealised gains and losses on all assets and liabilities. A positive balance and the effects of a positive credit standing are not recognised in compliance with the ICAAP requirements.

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

The risk coverage potential (RCP) amounted to € 3.6 billion as at 30 June 2019 (31 December 2018: € 3.7 billion). The slight decrease is attributable, inter alia, to increased regulatory deductions, as well as altered specific loan loss provisions, accounted for in the RCP.

The overall risk takes into account default risk, market risk, operational risk, as well as the liquidity maturity transformation risk as an element of liquidity risk. Economic capital required as an expression of unexpected losses is determined monthly for default, liquidity and market risks in a methodological consistent manner with a confidence level of 99.9 % and a risk horizon of one year. The economic capital requirements for the individual risk types are aggregated to an overall economic risk. Risk-reducing correlations are not applied for this.

Overall economic risk increased by € 0.2 billion compared to the 2018 year-end and amounted to € 1.8 billion as at the reporting date (31 December 2018: € 1.6 billion).

In line with the risk-bearing capacity concept, market risk (value-at-risk, VaR) is scaled up on the basis of the confidence level chosen by the Bank and a one-day holding period to show the economic capital required for market risk positions for the purpose of managing risk-bearing capacity with a risk horizon of one year. The economic capital required for market risk amounted to € 0.3 billion as at 30 June 2019 (31 December 2018: € 0.2 billion).

Hamburg Commercial Bank also uses a VaR approach to quantify the liquidity maturity transformation risk. This long-term/structural liquidity risk is an expression of the danger of increased refinancing costs for the subsequent closure of open liquidity positions. The liquidity value-at-risk (LVaR), as a measure of the economic capital required for liquidity risk, was € 102 million as at 30 June 2019 (31 December 2018: € 50 million). On the other hand, insolvency risk, which, in principle, is more important for the purposes of managing the liquidity risk, is backed by a buffer of liquid funds. Information on managing insolvency risk is included in the section entitled "Liquidity risk".

Operational risks are determined by means of a modified standard approach, which also takes account of results from the scenario analyses. The corresponding economic capital required amounted to € 0.2 billion as at 30 June 2019 (31 December 2018: € 0.2 billion).

The Utilisation of risk coverage potential amounted to 52 % as at the reporting date (31 December 2018: 43 %). The main reasons for the increase in the coverage was the increase in risk potential, mainly due to changes in the regulatory framework. These refer, inter alia, to a necessary splitting of the determination of market risks as well as the consideration of effects from risk derivation under a normative perspective on the derivation of a risk-bearing capacity within an economic perspective. The risk-bearing capacity was ensured at all times during the period under review.

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

Risk-bearing capacity of the Group

(€ bn)	30.06.2019	31.12.2018
Economic risk coverage potential	3.6	3.7
Economic capital required	1.8	1.6
for default risks	1.2	1.1
for market risks	0.3	0.2
for liquidity risks	0.1	0.1
for operational risks	0.2	0.2
Risk coverage potential buffer	1.8	2.1
Utilisation of risk coverage potential (in %)	52	43

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). The SREP requirements (Pillar 2 requirement "P2R" including the combined capital buffer requirements) for the Bank for 2019 are 10.5 % for common equity Tier 1 capital (CET1), 12.0 % for Tier 1 capital and 14.0 % for the overall capital requirement. 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.

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

Regulatory capital ratios[1)]

(%)	30.06.2019	31.12.2018
Overall capital ratio	21.5	23.3
Tier 1 capital ratio	17.0	18.4
CET1 capital ratio	17.0	18.4

[1)] Regulatory group according to CRR

Regulatory capital[1)]

(€ bn)	30.06.2019	31.12.2018
Regulatory capital	5.1	5.2
of which: Tier 1 capital	4.0	4.1
of which: CET1 capital	4.0	4.1
of which: Additional Tier 1 capital	0.0	0.0
of which: supplementary capital	1.1	1.1

[1)] Regulatory group according to CRR

Risk-weighted assets (RWA)[1)]

(€ bn)	30.06.2019	31.12.2018
Market risks	1.1	1.0
Operational risks	1.5	1.7
Credit risks	18.1	19.0
Other RWA	2.9	0.4
Total RWA	**23.6**	**22.1**

[1)] Regulatory group according to CRR

The regulatory CET1 capital ratio for the single entity in accordance with HGB-accounting standards was 16.5 % as at 30 June 2019 (31 December 2018: 18.2 %). This ratio was particularly affected by the increase in aggregated RWA, which is mainly attributable to the required adjustments to the model parameters for credit risk. The corresponding Tier 1 capital ratio reached 16.5 % (31 December 2018: 18.2 %), the corresponding overall capital ratio amounted to 20.7 % (31 December 2018: 22.9 %). The single entity (HGB) regulatory requirements for capital ratios were adhered to at all times during the reporting period.

Risks for the capital ratio trend

Risks may arise from the regulatory environment, for instance from interpretation decisions or audits, in addition to the risks for the capital ratios set out in the following section on "scenario calculations".

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 LGD-/PD-estimates in the internal models.

Furthermore, there is a potential risk of the income statement and ultimately future capital ratios being adversely affected by legal action brought against the Bank as a result of the cancellation of silent participations in the Bank as part of the optimisation and restructuring of the capital structure at the end of 2018, under which the hybrid capital instruments will either be redeemed in 2021 at the HGB-carrying-amount in the 2020 financial year or repaid by the Bank before the redemption date in 2021 on the basis of possible voluntary repurchase offers. Individual and groups of investors in hybrid instruments have taken legal action against the Bank and, in addition to establishing that their cancellation is invalid, request that they be written up to their nominal value and are claiming compensation for missed interest payments. In the event that, contrary to expectations, the plaintiffs are successful in court, the income statement and ultimately the future capital ratios could be adversely impacted to a significant extent.

Should several of the risks (including those described in the following "scenario calculations") arise in combination with each other, additional measures to strengthen capital may be required.

Under CRR II further burdens for the capital ratios could result from the proposed changes to the regulatory requirements – partly referred to as "Basel IV" – probably on a gradual basis from 2022 until 2027.

For Hamburg Commercial Bank, stricter rules concerning counterparty risk resulting from Basel IV will be of particular relevance. Hamburg Commercial Bank extensively uses models approved by the supervisory authorities to map counterparty risk (Internal Ratings Based Approach, IRBA). Under Basel IV, it is planned to significantly restrict the use of IRBA models by basing the capital backing more closely on the standardised approach (CSA floor), by limiting the use of the IRBA model to certain exposure classes as well as limiting the use of internal risk parameters (Constrained IRB).

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

Scenario calculations

In addition to the above-described economic perspective, compliance with the regulatory capital requirements over a medium-term horizon (at least a 3-year perspective in the base and stress case) under the internal normative perspective is also assessed in accordance with the ECB Guide for the Internal Capital Adequacy Assessment Process (ICAAP). Adherence to the stipulated capital ratios and requirements is checked by means of the quarterly calculation of the regulatory capital ratios as at the reporting date and over a multi-year scenario horizon. These requirements refer explicitly to the capital planning and to dynamic scenarios in the baseline and adverse scenarios (base and downside planning). Whilst all key ratio requirements must be met in principle in the base planning, the capital buffer requirements may also not be complied with temporarily in the downside scenario. The normative approach is not limited to the Pillar 1 risks covered by the regulatory capital requirements but also takes account of reciprocal relationships that have an economic effect on the key regulatory ratios.

In addition to stress tests specific to risk types, the Bank also regularly conducts stress tests across all risk types in order to be able to better estimate the effects of potential crises on key parameters such as ICAAP/utilisation of the risk-bearing capacity, regulatory capital ratios and liquidity and thus Hamburg Commercial Bank's overall risk position. Based on observed market developments, the Scenario Management Committee approves macroeconomic and segment-specific forecasts for the carrying out of dynamic stress tests. These expected and stress forecasts are also incorporated in the normative perspective in different simulation scenarios and presented quarterly to the Asset and Liability Committee (ALCO) and Overall Management Board. Significant macroeconomic risks regarding the capital ratios and RWA result from a potential deterioration in the market and risk parameters in the Bank's core markets, including interest forecasts and a stronger US dollar. The impact of macroeconomic scenarios, such as a severe economic downturn or asset specific crises as well as adverse impacts resulting from regulatory developments, on the Pillar I and II capital ratios and leverage ratio is regularly calculated.

If the further stabilisation of the shipping industry assumed, amongst other things, in the planning does not occur or there is a deterioration in the real estate market (especially real estate values) or a significantly weaker macroeconomic environment or significantly stronger USD exchange rate (downside scenario), this would result in a material deterioration in the risk parameters. In the event that this causes a deterioration in the key capital adequacy or SRF parameters or a breach of the SRF guidelines for the relevant MaSan indicators, measures will have to be taken to strengthen the capital ratios after the transition into the MaSan early warning phase in order to comply with the internally required parameters and thus the regulatory requirements (Pillar 2 requirement) at the Hamburg Commercial Bank Group level. If capital buffer requirements (Pillar 2 requirement) are not met in such a scenario despite measures being taken, a capital conservation plan would then have to be prepared in accordance with Section 10i (3) of the German Banking Act (KWG). In addition, so-called ad hoc stress analyses are performed for purposes of the economic perspective, i.e. the impact of changes in risk parameters is investigated based on the current portfolio for a one-year risk horizon. The results are incorporated in Hamburg Commercial Bank's internal reporting system every quarter and analysed on a regular basis by the ALCO and the Management Board in terms of an action-oriented management dialogue. Besides the review of the capital adequacy for the buffer maintained for risk coverage potential, regulatory capital and liquidity maintained under the economic perspective as at the reporting date and in the different stress scenarios, this analysis is used to discuss the need for options to strengthen the financial stability of Hamburg Commercial Bank.

Hamburg Commercial Bank's recovery plan drawn up in accordance with the Act on the Recovery and Resolution of Credit Institutions (Sanierungs- und Abwicklungsgesetz, SAG) has a comparable objective. It serves both the purpose of the early identification of any resource bottlenecks using appropriate indicators and their elimination in crisis situations by means of predefined options.

The effectiveness of the options identified, the selected recovery plan warning indicators and related processes are reviewed annually and substantiated in the recovery plan by means of specific stress scenarios. The particular purpose of both processes is to ensure that the Bank is able to comply with the regulatory minimum requirements and internal guidelines, even under stress conditions. In addition, Hamburg Commercial Bank carries out inverse stress tests at least once a year. Scenarios that could endanger Hamburg Commercial Bank's ability to survive are identified for these. This information is also used by the Management Board of Hamburg Commercial Bank as guidance for discussing and deciding upon any action required in the case of any developments that threaten the Bank's existence. In addition to stress tests across risk types, Hamburg Commercial Bank has established procedures for the early identification of undesirable trends at the level of the individual risk types, which are explained in the following sections.

Default risk

Default risk exposure

The figures in the following tables showing default risk exposure are based on the exposure at default (EaD). The EaD corresponds to the volume of loan receivables, securities, equity holdings, derivative financial instruments (positive market values after netting) and off-balance-sheet transactions (taking credit conversion factors into account). Risk-mitigating effects (such as recognition of collateral) are not included in EaD. Total EaD amounted to € 51,097 million as at 30 June 2019.

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) accounted for 71 % of the total exposure at the Group level (31 December 2018: 73 %).

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

(€ m)	30.06.2019		
	Business areas	Other and Consolidation	Total
1 (AAAA) to 1 (AA+)	8,767	3,670	12,437
1 (AA) to 1 (A–)	7,494	2,193	9,687
2 to 5	13,970	357	14,327
6 to 9	10,746	2	10,748
10 to 12	1,560	–	1,560
13 to 15	1,082	4	1,086
16 to 18 (default categories)	734	139	873
Other[2)]	74	305	379
Total	**44,427**	**6,670**	**51,097**

1) Mean default probabilities (in %): 1 (AAAA) to 1 (AA+): 0.00–0.02; 1 (AA) to 1 (A–): 0.03–0.09; 2 to 5: 0.12–0.39; 6 to 9: 0.59–1.98; 10 to 12: 2.96–6.67; 13 to 15: 10.00–45.00; 16 to 18: 100.00

2) Transactions, for which there is no internal or external rating available, are reflected in the "Other" line item, such as receivables from third parties of our consolidated equity holdings.

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

(€ m)	31.12.2018		
	Business areas	Other and Consolidation[3]	Total
1 (AAAA) to 1 (AA+)	13,389	3,648	17,037
1 (AA) to 1 (A–)	7,992	2,104	10,096
2 to 5	14,005	175	14,180
6 to 9	10,642	1	10,643
10 to 12	1,848	–	1,848
13 to 15	1,539	5	1,544
16 to 18 (default categories)	699	183	882
Other[2]	92	319	411
Total	**50,207**	**6,434**	**56,641**

[1] Mean default probabilities (in %): 1 (AAAA) to 1 (AA+): 0.00–0.02; 1 (AA) to 1 (A–): 0.03–0.09; 2 to 5: 0.12–0.39; 6 to 9: 0.59–1.98; 10 to 12: 2.96–6.67; 13 to 15: 10.00–45.00; 16 to 18: 100.00

[2] Transactions, for which there is no internal or external rating available, are reflected in the "Other" line item, such as receivables from third parties of our consolidated equity holdings.

[3] Transactions entered into by the Non-Core Bank segment, which still existed at the year-end, are included in the Other and Consolidation segment.

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

Default risk structure by sector

(€ m)	30.06.2019		
	Business areas	Other and Consolidation	Total
Industry	7,803	5	7,808
Shipping	4,654	133	4,787
Trade and transportation	2,725	–	2,725
Credit institutions	3,188	3,692	6,880
Other financial institutions	2,226	18	2,244
Land and buildings	11,279	–	11,279
Other services	4,418	435	4,853
Public sector	7,791	2,376	10,167
Private households	343	11	354
Other	–	–	–
Total	**44,427**	**6,670**	**51,097**

Default risk structure by sector

(€ m)	31.12.2018		
	Business areas	Other and Consolidation[1]	Total
Industry	7,930	7	7,937
Shipping	4,999	137	5,136
Trade and transportation	2,836	–	2,836
Credit institutions	3,603	3,276	6,879
Other financial institutions	2,135	16	2,151
Land and buildings	10,875	39	10,914
Other services	4,528	401	4,929
Public sector	12,912	2,546	15,458
Private households	389	13	402
Other	–	–	–
Total	**50,207**	**6,434**	**56,641**

[1] Transactions entered into by the Non-Core Bank segment, which still existed at the year-end, are included in the Other and Consolidation segment.

The following table shows EaD broken down by residual maturities:

Default risk structure by residual maturity

(€ m)	30.06.2019		
	Business areas	Other and Consolidation	Total
Up to 3 months	4,455	43	4,498
> 3 months to 6 months	2,007	160	2,167
> 6 months to 1 year	3,550	604	4,154
> 1 year to 5 years	19,835	3,413	23,248
> 5 years to 10 years	9,785	2,095	11,880
> 10 years	4,795	355	5,150
Other	–	–	–
Total	**44,427**	**6,670**	**51,097**

Default risk structure by residual maturities

(€ m)	31.12.2018		
	Business areas	Other and Consolidation[1]	Total
Up to 3 months	9,717	728	10,445
> 3 months to 6 months	1,864	156	2,020
> 6 months to 1 year	2,841	198	3,039
> 1 year to 5 years	20,944	3,383	24,327
> 5 years to 10 years	9,660	1,607	11,267
> 10 years	5,182	362	5,544
Other	–	–	–
Total	**50,207**	**6,434**	**56,641**

[1] Transactions entered into by the Non-Core Bank segment, which still existed at the year-end, are included in the Other and Consolidation segment.

The following table provides an overview of the foreign exposure by region, which reached € 17,354 million as at 30 June 2019 (31 December 2018: € 16,689 million):

Foreign exposure by region

(€ m)	30.06.2019		
	Business areas	Other and Consolidation	Total
Eurozone	8,407	1,067	9,474
Western Europe	3,463	953	4,416
Eastern Europe	228	2	230
Africa	491	49	540
North America	574	–	574
Latin America	368	–	368
Middle East	45	3	48
Asia-Pacific region	967	77	1,044
International organisations	113	547	660
Total	**14,656**	**2,698**	**17,354**

Foreign exposure by region

(€ m)	31.12.2018		
	Business areas	Other and Consolidation[1]	Total
Eurozone	7,889	876	8,765
Western Europe	3,481	944	4,425
Eastern Europe	245	2	247
Africa	530	49	579
North America	526	–	526
Latin America	401	–	401
Middle East	28	5	33
Asia-Pacific region	1,057	79	1,136
International organisations	69	508	577
Total	**14,226**	**2,463**	**16,689**

[1] Transactions entered into by the Non-Core Bank segment, which still existed at the year-end, are included in the Other and Consolidation segment.

The basis for the allocation of the transactions to the regions is the country of the customer relevant for transfer risk, taking account of any collateral relevant for the transfer risk. The country relevant for transfer risk is the country from where Hamburg Commercial Bank receives the cash flows. A number of European countries are subject to increased monitoring due to their unfavourable fiscal and economic data.

These include, in particular Greece, Italy, Portugal and Spain. As a result of economic developments and the EU sanctions, the exposure to Russia and Turkey is also being monitored more closely.

The following table shows the EaD of the exposures to the European countries shown.

Exposure at default in selected European countries[1]

(€ m)	Public sector		Banks		Corporates/Other		Total	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Greece	–	–	–	–	349	337	349	337
Italy	16	15	–	–	269	270	285	286
Portugal	63	56	–	–	96	96	160	153
Russia	–	–	–	–	39	28	40	28
Spain	106	93	32	30	315	329	453	451
Turkey	–	–	–	27	31	31	31	58
Total	**185**	**164**	**32**	**57**	**1,099**	**1,091**	**1,318**	**1,313**

[1] Cyprus and Croatia were removed from the selection of closely monitored European countries. This change was reflected in the comparative data as at 31.12.2018.

The direct country exposure to the countries shown above as at 30 June 2019 was maintained approximately at the level of 31 December 2018. The commitments in the Corporates/Other sector for Greece and Turkey relate primarily to ship financing arrangements, which do not entail transfer risk due to the existing collateral. The exposure to Great Britain (€ 2,331 million) is being closely monitored due to the possible Brexit.

Loan loss provisions

Loan loss provisions expense before currency translation amounted to € 25 million as at the reporting date (same period of the previous year: € 162 million). The net reversal is due to the reversal of specific loan loss provisions thanks to successful restructuring measures, mainly in the Shipping segment. This is offset by allocations in the Real Estate segment (especially against the backdrop of ongoing uncertainty surrounding Brexit) as well as the consideration of an increasing probability of adverse economic developments.

The following table provides an overview broken down by segment.

Changes in loan loss provisions in the lending business

(€ m)	January–June 2019								
	Specific loan loss provisions/ provisions	General loan loss provisions	Loan loss provisions recognised on financial investments	Loan loss provisions (LLP) before currency translation income and compensation	Currency translation income on loan loss provisions	Compensation item	Total	Hedging effect of credit derivative second loss guarantee	LLP including hedging effect of credit derivative
Corporate Clients	-16	-6	–	-22	–	–	-22	–	-22
Shipping	80	7	–	87	–	–	87	–	87
Real Estate Clients	- 1	-40	–	-41	–	–	-41	–	-41
Treasury & Markets	–	-2	1	-1	–	–	-1	–	-1
Other and Consolidation	**3**	**-1**	**–**	**2**	**–**	**–**	**2**	**–**	**2**
Group	**66**	**-42**	**1**	**25**	**–**	**–**	**25**	**–**	**25**

Changes in loan loss provisions in the lending business[1)]

(€ m)	January–June 2018								
	Specific loan loss provi-sions/ provisions	General loan loss provisions	Loss provisions recog-nised for financial invest-ments	Loan loss provisions (LLP) be-fore currency trans-lation in-come and com-pensation	Currency translation income on loan loss provisions	Compen-sation item	Total	Hedging effect of credit de-rivative second loss guarantee	LLP including hedging effect of credit derivative
Corporate Clients	-3	-1	–	-4	–	–	-4	–	-4
Shipping	27	113	–	140	–	–	140	–	140
Real Estate Clients	7	-4	–	3	–	–	3	–	3
Treasury & Markets	1	15	2	18	–	–	18	–	18
Other and Consolidation	**4**	**1**	**0**	**5**	**-1**	**-30**	**-26**	**– 50**	**-76**
Group	**36**	**124**	**2**	**162**	**-1**	**-30**	**131**	**– 50**	**81**

[1)] Transactions entered into by the Non-Core Bank segment, which still existed at the year-end, are included in the Other and Consolidation segment.

Further information on the change in loan loss provisions in the individual divisions is set out in the "Segment" section Details regarding the total loan loss provisions are presented in Notes 10 and 20 in the notes to the Group financial statements.

Market risk

The system for measuring and managing market risk market risks at Hamburg Commercial Bank is based on the economic daily profit and loss and on a value-at-risk approach. For the purposes of the same-day measurement and management of market risk the Bank applies a VaR approach (99.0 % confidence level, holding period of one day and historical observation period of 250 days), the results of which cannot be directly compared with the development in economic capital required for market risk positions within the risk-bearing capacity approach for methodological reasons. The economic capital required for market risk positions is monitored on a monthly basis. The daily market risk of the trading book positions was € 0.6 million and that of the banking book positions € 11.4 million as at 30 June 2019. The overall market risk, which cannot be derived from adding the VaR of the trading and banking book positions due to risk-mitigating correlation effects, amounted to € 11.5 million. In addition to the risk determined by the system, the value-at-risk of the Hamburg Commercial Bank includes a VaR add-on of € +0.2 million for residual risks for corporate bonds, Pfandbriefe and government bonds (only included at the Group level).

Developments with respect to the individual market risk types during the first six months of 2019 are presented in the table set out below.

Daily value-at-risk of the Group

(€ m)	Interest rate risk[1]		Credit-spread-risk[1]		Foreign exchange risk		Equity risk		Total[2]	
	Jan. – June 2019	Jan. – Dec. 2018	Jan. – June 2019	Jan. – Dec. 2018	Jan. – June 2019	Jan. – Dec. 2018	Jan. – June 2019	Jan. – Dec. 2018	Jan. – June 2019	Jan. – Dec. 2018
Average	9.2	5.6	6.1	7.3	1.9	8.9	0.8	1.2	12.1	13.3
Maximum	11.4	7.1	6.6	9.3	6.2	14.9	1.0	1.9	13.6	17.2
Minimum	6.5	3.8	5.6	5.9	0.8	3.3	0.7	0.7	11.0	9.9
Period end value	10.1	5.8	6.0	6.1	1.6	4.2	0.8	0.8	11.6	11.4

[1] Credit spread risk is a sub-type of interest rate risk. It is not disclosed as part of interest rate risk but as a separate item due to its significance for Hamburg Commercial Bank.
[2] Due to correlations, the VaR does not result from adding up individual values.

During the reporting period total VaR tended to move sideways with moderate fluctuations compared to the previous year-end.

Under the value-at-risk approach, total VaR is capped by a limit that has particularly strict escalation rules. Limits are set for the trading book VaR, the interest rate VaR in the banking book and the credit spread VaR by means of risk guidelines.

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

Liquidity risk

Hamburg Commercial Bank's internal liquidity management represents a core component of the Internal Liquidity Adequacy Assessment Process (ILAAP).

A distinction is made in the ILAAP between two approaches –the normative perspective and the economic perspective. The normative perspective is an assessment of the ability to fulfil all regulatory, supervisory and, in part internal liquidity requirements and guidelines today and in the future and covers a multi-year assessment period. The objective is the forward-looking assessment of liquidity adequacy. In addition to a baseline scenario, adverse scenarios are also to be taken into account in forecasting the parameters.

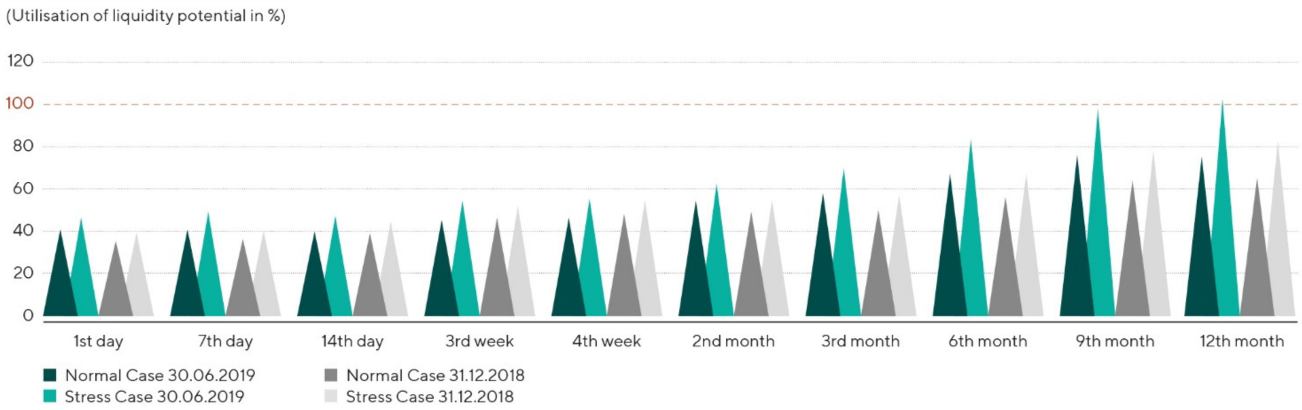
Conversely, the economic perspective ensures that all material risks that may negatively affect solvency are identified, quantified and covered by internal liquidity so that the business strategy can be pursued continuously and the continuity of the institution is maintained at all times. The objective of the economic perspective is to manage economic risks and ensure liquidity adequacy through stress test programmes. Only internal parameters (Pillar 2 ratios) are considered from today's perspective under the economic perspective, i.e. on the basis of the current balance sheet. Any structural events occurring at the Bank or in the environment are taken into account.

A distinction is made between insolvency risk and liquidity transformation risk in the internal liquidity management process. Liquidity maturity transformation risk refers to the risk that a loss will result from a mismatch in the contractual maturities of assets and liabilities, the so-called liquidity maturity transformation position, and from the change in the Bank's refinancing surcharge.

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

The gaps are shown on a cumulative basis from day one to twelve months in order to map future liquidity requirements. They are compared to the respective liquidity potential which is applied to close the cumulative gaps of the individual maturity bands and consequently represent the respective limit for insolvency risk. Utilisation of this limit is monitored daily. The following chart shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case liquidity development reports as at 30 June 2019 and as at 31 December 2018. Utilisation represents the ratio of the cumulative gap to the total liquidity potential, which also includes the liquidity buffer required under supervisory law.

Limit on cumulative liquidity gaps



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

The liquidity potential had a peak utilisation of 79 % in the eleventh month as at the reporting date in the normal case assessment, which is based on the assumption of business development in an ordinary market environment. All limits within the defined minimum survival period of twelve months were thereby adhered to. The stress case liquidity development report (combined scenario – economic downturn and rating downgrade) shows that the liquidity potential was also not exceeded within the minimum survival period of one month established taking account of MaRisk and the minimum survival period of three months derived from the 2017 SREP decision; in fact, the minimum survival period of 3 months was significantly exceeded with a survival period of 9 months as at 30 June 2019. Compared to the 2018 year-end, utilisation levels have increased in the normal case and stress case in virtually all maturity bands. The changes are attributable to the conscious winding down of excess liquidity, particularly through reducing deposits. Critical limit utilisation levels were not reported in the normal case nor in the stress case liquidity development report during the period under review.

The regulatory indicator for liquidity risks is the liquidity coverage ratio (LCR), the purpose of which is to ensure that liquidity is safeguarded in an acute stress period of 30 days. When calculating the LCR, the amount of highly liquid assets is compared to the net outflows over the next 30 days. Their basis of calculation is laid down in the CRR and the CRR Delegated Regulation (EU) 2015/61. The minimum threshold of 110 % to be maintained by Hamburg Commercial Bank was maintained at all times in the reporting period. The respective value amounted to 184 % as at 30 June 2019 (31 December 2018: 225 %). The net stable funding ratio (NSFR), which must be adhered to from 2021 at the earliest, is calculated as the ratio of available stable funding resources across all maturities to the stable funding required and must also be at least 100 % after full implementation. As at 30 June 2019 the NSFR amounted to 109 % under the QIS (31 December 2018: 121 %). Since 31 March 2018 Hamburg Commercial Bank AG has also calculated the adjusted additional liquidity monitoring metrics (AMM) including the preparation of the stipulated liquidity development report in accordance with Implementing Regulation 2016/313.

By means of the AMM the LCP (liquidity capacity period) is determined for the supervisory authorities. In so doing, inflows and outflows from a contractual point of view excluding any prolongation or new business assumptions are compared to the unencumbered liquid funds of the counterbalancing capacity less any haircuts. The LCP is no longer maintained from the date on which the cumulative cash flows give rise to a need for liquid funds, which exceeds the liquidity position. At this date, the Bank's liquidity reserves are no longer sufficient from a purely contractual perspective to meet further payment obligations. The supervisory authorities has stipulated a minimum LCP period of four weeks for the Bank in 2019, which may not be undershot for a period of five banking days. This figure is determined by the Bank on a daily basis and was four months as at 30 June 2019.

Hamburg Commercial Bank successfully implemented its funding strategy in the first half of the 2019 financial year. In particular, it made a very successful début in the capital markets with the placement of a benchmark senior-preferred issue. Besides the issuing activities, deposits from corporates, institutional investors and retail customers contributed to the refinancing of the business. As part of the review of the strategy regarding the use of retail funding, the proportion of retail funding will be initially reduced. The regulatory requirements for the liquidity ratios were met at all times during the reporting period. The future refinancing and diversification of the funding structure continue to constitute major challenges. There is still no unrestricted access to the capital markets, although the issue of a benchmark bond in the first half of 2019 has shown that access has further improved. In addition, institutional deposits have a comparatively short contractual term, and there is a relatively high, albeit substantially reduced, level of counterparty concentration. Should access to the existing sources of refinancing deteriorate, this would severely limit the funding options and would adversely impact the Bank's rating. Execution of funding measures in the market can also be made more difficult by potential tensions in the financial markets. A more than expected restrictive monetary policy adopted by the major central banks could also significantly limit the refinancing options and increase funding costs.

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

Hamburg Commercial Bank's liquidity and funding plan is based on assumptions about client behaviour based on the deposit base and durations, especially with regard to the trend of short-term deposits. Even in critical, exceptional situations, there is the risk that the relevant behavioural assumptions used for the simulation scenarios could prove to be incorrect resulting in considerable unplanned liquidity outflows.

Part of the assets denominated in foreign currency are refinanced via derivatives (e.g., via EUR/USD basis swaps). An appreciation in the US dollar results in an increase in the cash collateral to be provided and therefore exerts pressure on the liquidity situation under otherwise similar conditions.

The regulatory liquidity ratios such as the LCR, NSFR and minimum survival period in the combined stress scenario would deteriorate regardless of any intentional control measures taken such as, for example, a reduction in short-term deposits.

It is also possible that additional requirements in various prudential regulatory areas such as liquidity may arise from the regular SREP process carried out within the Banking Union within the scope of discretionary decisions of the banking supervisory authorities.

Other material risks

In addition to operational risk, business strategy risk and reputation risk are included in the other material risks of Hamburg Commercial Bank. In August 2019, Hamburg Commercial Bank established a "Non-Financial Risk" organisation unit in the Non-Financial Risk & Compliance division in order to develop and implement a uniform and integrated management of the risk types considered hereunder. The Bank adopted a Non-financial Risk Framework in order to better address the increasing regulatory requirements, the framework provides an overview over the roles and responsibilities within a Three Lines of Defence model and the procedures, methods and implementation of the NFR management of the Bank.

It should be mentioned with regard to IT risk as a component of operational risk that the IT of Hamburg Commercial Bank is being fundamentally overhauled in close consultation with the business. The IT division is outsourcing application support to an external service provider, the IT application landscape and the IT-infrastructure will then be updated and digitisation initiatives supported on a new basis. The risks of this business/IT-transformation will be reduced by taking a step-by-step approach with four parallel phases of the old and new environment, as well as by sustainable partnerships, effective management and independent quality assurance. In this way, IT will also ensure stable operations during the overhaul.

Hamburg Commercial Bank recognised provisions within the legal risk category, which is another component of operational risk, of € 201 million for litigation risks and costs as at the reporting date (31 December 2018: € 250 million). In addition, there are also contingent liabilities arising from legal disputes. A major portion of the provisions for litigation risks relates to the legal proceedings mentioned below.

Since 2005, Hamburg Commercial Bank AG has been involved in legal proceedings with a Turkish shipping group and up to now had to pay a total amount of USD 54 million in the year 2013 due to final decisions made by Turkish courts. The plaintiffs asserted at a later date further claims in the Turkish courts under which damages are asserted based on loss of profit and third party liabilities in connection with measures taken to realise loan collateral provided to the Bank for a loan.

Furthermore, Hamburg Commercial Bank AG is being sued for payment by a former borrower. The claims were increased and filed by the plaintiff in the 4th quarter of 2018. The plaintiff is asserting various claims, particularly claims for payment of compensation and for unjustified enrichment in connection with measures taken by the Bank in connection with a non-performing loan. Judgements in the first instance in Q2 2019 dismissed the action predominantly in favour of Hamburg Commercial Bank. Appeals were lodged.

Furthermore, individual and groups of investors in hybrid financial instruments have taken legal action against the Bank and, in addition to establishing that their cancellation is invalid, request that they be written up to their nominal value and are claiming compensation for missed interest payments.

As a component of legal risk, tax risks mainly result from the fact that the binding interpretation of rules that can be interpreted in specific cases may only be known after several years due to the long period between tax audits. Tax audits are currently being conducted for the years 2008–2011 and 2012–2015. Appropriate provisions have been recognised for the effects of the tax audits.

Hamburg Commercial Bank recognised provisions and liabilities (including interest) totalling € 13 million for tax risks (31 December 2018: € 14 million). Tax risks arising from tax audits account for a significant proportion of these provisions.

Further information on tax risks, as well as on other operational risks, reputational risks and the business strategy risk can be found in the Group management report for the 2018 financial year. Regarding the other risks set out in detail in the Group management report for the 2018 financial year, no material changes have arisen in the course of this year to date.

Hamburg 15 August 2019

Stefan Ermisch	Ulrik Lackschewitz
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Interim group financial statements

Group explanatory notes

Group statement of income

for the period from 1 January to 30 June 2019

(€ m)	Note	January – June 2019	January – June 2018	Change in %
Interest income from financial assets categorised as AC and FVOCI		432	469[1]	-8
Interest income from other financial instruments		719	815	-12
Negative interest on investments categorised as AC and FVOCI		-14	-10	40
Negative interest on other cash investments and derivatives		-93	-120	-23
Interest expenses		-900	-935	-4
Positive interest on borrowings and derivatives		93	119	-22
Net income/loss from hybrid financial instruments		-10	-45	78
Net interest income	(4)	**227**	**293**	**-23**
Net commission income	(5)	28	23	22
Result from hedging	(6)	-4	-9[1]	56
Result from financial instruments categorised as FVPL	(7)	-37	-34[1]	-9
Net income from financial investments	(8)	7	78	-91
Result from the disposal of financial assets classified as AC	(9)	5	-3	> 100
Total income		**226**	**348**	**-35**
Loan loss provisions	(10)	25	131	81
Hedging effect of credit derivative second loss guarantee		–	-50	100
Total income after loan loss provisions		**251**	**429**	**-41**
Administrative expenses	(11)	-190	-207[1]	-8
Other operating income	(12)	80	13[1]	> 100
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(13)	-37	-40[1]	-8
Net income before restructuring and privatisation		**104**	**195**	**-47**
Net income from restructuring and privatisation	(14)	-8	-31	74
Expenses for government guarantees	(15)	–	-158	-100
Net income before taxes		**96**	**6**	**> 100**
Income tax expenses		-91	-76	20
Group net result		**5**	**-70**	**> 100**
Group net result attributable to non-controlling interests		–	1	-100
Group net result attributable to Hamburg Commercial Bank shareholders		5	-71	> 100

[1] The previous year figure was adjusted. Please refer to Note 2 for more details.

Earnings per share

(€)	Note	January – June 2019	January – June 2018
Undiluted	(16)	0.02	-0.24
Diluted	(16)	0.02	-0.24
Number of shares (millions)		**302**	**302**

Group statement of comprehensive income

for the period from 1 January to 30 June 2019

Reconciliation with total comprehensive income/loss

(€ m)	January – June 2019	January – June 2018
Group net result	**5**	**-70**
Income and expenses that have been reclassified to the statement of income or may be reclassified at a later date		
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement (before taxes)		
Unrealised gains and losses (before taxes)	17	-59
Gains and losses (before taxes) reclassified to the statement of income	-5	-81
Income taxes recognised	1	47
	13	**-93**
Differences resulting from currency translation	4	10
	4	**10**
Subtotal	**17**	**-83**
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)	-7	-1
Income taxes recognised	2	–
	-5	**-1**
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	-131	14
Income taxes recognised	42	–
	-89	**14**
Subtotal	**-94**	**13**
Other comprehensive income for the period	**-77**	**-70**
Total comprehensive income	**-72**	**-140**
Total comprehensive income attributable to non-controlling interests	–	1
Total comprehensive income attributable to Hamburg Commercial Bank shareholders	-72	-141

Group statement of financial position

as at 30 June 2019

Assets

(€ m)	Note	30.06.2019	31.12.2018	Change in %
Cash reserve	(17)	870	5,362	-84
Loans and advances to banks	(18)	3,046	3,167	-4
Loans and advances to customers	(19)	32,260	32,791	-2
Loan loss provisions	(20)	-726	-831	-13
Positive fair values of hedging derivatives	(21)	127	175	-27
Positive adjustment item from portfolio fair value hedges	(21)	279	200	40
Trading assets	(22)	4,079	3,094	32
Financial investments	(23)	9,234	10,100	-9
Intangible assets	(24)	7	8	-13
Property, plant and equipment	(25)	101	139	-27
Investment property	(25)	44	40	10
Non-current assets held for sale and disposal groups	(26)	107	65	65
Current tax assets		47	49	-4
Deferred tax assets	(27)	668	713	-6
Other assets	(28)	56	49	14
Total assets		**50,199**	**55,121**	**-9**

Liabilities

(€ m)	Note	30.06.2019	31.12.2018	Change in %
Liabilities to banks	(29)	5,204	5,470	–5
Liabilities to customers	(30)	23,524	28,093	–16
Securitised liabilities	(31)	9,271	9,458	–2
Negative fair values of hedging derivatives	(21)	566	501	13
Negative adjustment item from portfolio fair value hedges	(21)	487	460	6
Trading liabilities	(32)	2,945	2,812	5
Provisions	(33)	1,786	1,746	2
Current tax liabilities		10	12	–17
Other liabilities	(34)	446	518	–14
Subordinated capital	(35)	1,595	1,614	–1
Equity	(36)	4,365	4,437	–2
Share capital		3,018	3,018	–
Capital reserve		75	75	–
Retained earnings		993	1,012	–2
Revaluation reserve		246	238	3
Currency conversion reserve		26	22	18
Group net result		5	70	–93
Total before non-controlling interests		4,363	4,435	–2
Non-controlling interests		2	2	–
Total equity and liabilities		**50,199**	**55,121**	**–9**

Group statement of changes in equity

(€ m)	Note	Share capital	Capital reserve
As at 1 January 2018		**3,018**	**75**
Effects from the first-time application of IFRS 9		–	–
Changes due to restatements		–	–
Adjusted amount as at 1 January 2018		**3,018**	**75**
Group net result		–	–
Changes due to restatements		–	–
Changes resulting from the revaluation of net defined benefit liabilities		–	–
Credit risk-induced changes in the value of liabilities designated at fair value[1]		–	–
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement		–	–
Exchange rate changes			
thereof resulting from currency translation		–	–
thereof resulting from changes in scope of consolidation		–	–
Other comprehensive income		–	–
Comprehensive income as at 30 June 2018		**–**	**–**
Compensation for the Group net loss for the previous year		–	–
As at 30 June 2018		**3,018**	**75**
As at 1 January 2019		**3,018**	**75**
Group net result		–	–
Changes resulting from the revaluation of net defined benefit liabilities		–	–
Credit risk-induced changes in the value of liabilities designated at fair value[1]		–	–
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement		–	–
Exchange rate changes			
thereof resulting from currency translation		–	–
Other comprehensive income		–	–
Comprehensive income as at 30 June 2019		**–**	**–**
Additions from the Group net result for the previous year		–	–
As at 30 June 2019	**(36)**	**3,018**	**75**

[1] The reclassification of the credit risk-induced changes in the value of liabilities designated at fair value to retained earnings is due to the repurchase of issues/promissory note loans.

	Retained earnings	Currency conversion re-serve	Revaluation reserve	Group net result	Total before non-control-ling interests	Non-control-ling interests	Total
	1,701	**2**	**117**	**-535**	**4,378**	**-5**	**4,373**
	-175	1	253	–	79	–	79
	-23	–	23	–	–	–	–
	1,503	**3**	**393**	**-535**	**4,457**	**-5**	**4,452**
	–	–	–	-78	-78	1	-77
	–	–	–	7	7	–	7
	14	–	–	–	14	–	14
	–	–	-1	–	-1	–	-1
	–	–	-93	–	-93	–	-93
	–	13	–	–	13	–	13
	–	-3	–	–	-3	–	-3
	14	10	-94	–	-70	–	-70
	14	**10**	**-94**	**-71**	**-141**	**1**	**-140**
	-535	–	–	535	–	–	–
	982	**13**	**299**	**-71**	**4,316**	**-4**	**4,312**
	1,012	**22**	**238**	**70**	**4,435**	**2**	**4,437**
	–	–	–	5	5	–	5
	-89	–	–	–	-89	–	-89
	–	–	-5	–	-5	–	-5
	–	–	13	–	13	–	13
	–	4	–	–	4	–	4
	-89	4	8	–	-77	–	-77
	-89	**4**	**8**	**5**	**-72**	**–**	**-72**
	70	–	–	-70	–	–	–
	993	**26**	**246**	**5**	**4,363**	**2**	**4,365**

Group cash flow statement

Condensed cash flow statement

(€ m)	January – June 2019	January – June 2018
Cash and cash equivalents as at 1 January	**5,362**	**6,625**
Cash flow from operating activities	-5,309	-5,149
Cash flow from investing activities	857	1,222
Cash flow from financing activities	-40	–
Cash and cash equivalents as at 30 June	**870**	**2,698**

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, major new issues with a volume of € 1,802 million were issued (previous year: € 343 million). The volume of repayments/repurchases in this period amounted to € 1,199 million (previous year: € 166 million), and the volume of maturing issues came to € 809 million (previous year: € 1,717 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 explanatory notes

(selected explanatory notes)

General information

1. Accounting principles

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

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

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

The interim Group financial statements as at 30 June 2019 were prepared in accordance with IFRS as approved and published by the International Accounting Standards Board (IASB) and adopted by the European Union. In particular, the application of IAS 34 (Interim Financial Reporting) has been observed.

In the interim Group financial statements, the same accounting policies have been applied as in the consolidated financial statements of Hamburg Commercial Bank AG as at 31 December 2018.

In accordance with IAS 34.C4, Hamburg Commercial Bank does not prepare any expert opinions for pension liabilities during the year and takes the data from the last expert opinion as at 31 December 2018 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).

During the current financial year, the following accounting standards need to be applied for the first time as a matter of principle:

IFRS 16 – Leases

IFRS 16 provides a single model regarding how lessees are to recognise leases in their balance sheets. A lessee recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. Exceptions apply to short-term leases and leases for low-value assets. Accounting at the level of the lessor is comparable to the previous provisions – i.e. the lessor continues to classify leases as finance or operating leases.

IFRS 16 replaces the previous guidelines on leases (IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC15 Operating Leases – Incentives and SIC27 Evaluating the Substance of Transactions in the Legal Form of a Lease).

Upon the introduction of IFRS 16, Hamburg Commercial Bank did not reassess the existence of a lease as a general rule, making use of the transitional provisions set out in IFRS 16.C3. This excluded what are known as multi-component contracts, for which the assessment criterion has changed significantly in connection with the transition from IAS 17 to IFRS 16 (with regard to the accounting effect). Since this threshold for accounting effects will shift towards the assessment as to whether the matter in question relates to a service or lease relationship or a service or lease component, the multi-component contracts in the Bank's portfolio were reassessed as part of a portfolio analysis. In accordance with the relief provision set out in IFRS 16.C10 (c), the Bank has recognised leases whose term ends within 12 months of 1 January 2019 as short-term leases in accordance with IFRS 16.6 in the switch to IFRS 16. Hamburg Commercial Bank applied the modified retrospective method, pursuant to IFRS 16.C5 (b), to the leases identified, according to which the cumulative effects resulting from the first-time application of the standard are recognised as an adjustment to the opening balance sheet value for retained earnings. In accordance with this method, the comparative figures for previous periods were not adjusted. The total effect from the first-time application of the standard to retained earnings as at 1 January 2019 amounts to € 0 million.

The business volume of Hamburg Commercial Bank in the form of leases – those in which Hamburg Commercial Bank acts as both the lessee and the lessor – is of very minor importance overall. Leasing transactions in which Hamburg Commercial Bank acts as the lessee are used to lease real estate (mainly Group business premises), technical equipment and machinery for operating and office equipment, as well as motor vehicles.

Taking into account materiality aspects and making use of the simplified provisions for low-value and short-term leases (IFRS 16.5), as well as the option of not applying the provisions to intangible assets (IFRS 16.4), the Group recognised lease liabilities for real estate leases (Group business premises) previously classified as operating leases under IAS 17 as at 1 January 2019. These liabilities were measured at the net present value of the remaining lease payments as at 1 January 2019. In the absence of sufficient information on the inherent interest rate of each lease, the Bank applies an incremental borrowing rate that is commensurate with the term of the lease based on the Bank's liquidity costs for the purposes of calculating the net present value. The weighted average incremental borrowing rate applied to the lease liabilities as at 1 January 2019 was 0.6585 %.

Payments for leases that Hamburg Commercial Bank excludes from the scope of IFRS 16 are recognised through profit or loss in other operating income in the reporting period in which they arise.

Calculating the amount of a lease liability and the right of use associated with a lease implies estimates regarding the lease term, particularly against the backdrop of possible termination or renewal options. With regard to the property leases that are relevant, for the purposes of IFRS 16, at Hamburg Commercial Bank, an extension of the term by exercising a contractual extension option (or a shortening of the term by exercising a termination option) cannot be regarded as sufficiently certain without a specific Management Board resolution, which is why the calculation is based exclusively on the contractually agreed term.

In line with the lease liabilities resulting from real estate leases in which Hamburg Commercial Bank is the lessee, the Group capitalised right-of-use assets from leases amounting to € 11 million as at 1 January 2019. This corresponds to the amount of the lease liability as at 1 January 2019 (IFRS 16.C8 (b) (ii)). The right-of-use assets are subject to depreciation on a straight-line basis over the contractual useful life.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The adjustments relate to a minor adjustment to the assessment criteria relevant to the classification of financial assets. Financial assets with a negative prepayment penalty ("prepayment feature with negative compensation") can be recognised, subject to certain requirements, at amortised cost or at fair value through other comprehensive income, instead of at fair value through profit or loss.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 relate to plan amendment, curtailment or settlement. In accordance with IAS 19.99, the net defined benefit liability has to be remeasured in such cases taking current actuarial assumptions into account. In accordance with the amendments, the current service cost and the net interest for the period after the remeasurement also have to be determined based on the updated actuarial assumptions. In addition, the remeasured net liability (taking into account the adjusted benefits resulting from the intervention) is to be used to determine the net interest expense after the intervention.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that IFRS 9 is to apply to long-term interests in associates and joint ventures to which the equity method is not applied.

IFRIC 23 Uncertainty over Income Tax Treatments

The tax treatment of certain scenarios and transactions may depend on future recognition by the tax authorities or fiscal courts. IAS 12 Income Taxes sets out provisions governing how actual and deferred taxes are to be recognised. IFRIC 23 supplements the provisions set out in IAS 12 regarding how to deal with uncertainty surrounding the income tax treatment of scenarios and transactions.

Improvements to IFRS 2015–2017
The Annual Improvements to IFRS 2015-2017 amended four IFRSs.

IFRS 3 clarifies that, when an entity obtains control over a business operation in which it previously held an interest as part of a joint operation, the principles governing successive business combinations are to be applied. The interest previously held by the acquirer is to be remeasured.

IFRS 11 states that a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 is amended in such a way that a company is to account for all income tax consequences of dividend payments in the same way as the income on which the dividends are based.

Finally, IAS 23 states that, in connection with the calculation of the capitalisation rate, if a company has generally borrowed funds to purchase qualifying assets, the costs associated with debt taken out specifically in connection with the qualifying assets is not to be included until the asset is completed.

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

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

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

All findings up until 15 August 2019 have been taken into account.

Going concern assumption
Accounting and valuation are based on the assumption that the Bank is a going concern. The Bank's corporate planning forms the basis for the going concern assumption.

2. Adjustments to the prior-year figures

I. Changes in the presentation of the Group statement of income

In the previous year, the presentation in the statement of income was adjusted to reflect the following circumstances (see also the detailed information in the Annual Report as at 31 December 2018 under "Adjustments to the prior-year figures"). This also leads to adjustments in the presentation of the prior-year figures in the interim report as at 30 June 2019:

- Expenses paid in advance and charged on by Hamburg Commercial Bank are no longer reported under Administrative expenses but under the Other operating result. For the prior-year period from 1 January 2018 to 30 June 2018, this results in a reduction in administrative expenses of approximately € 10 million and an increase in other operating expenses of approximately € 10 million.
- Regulatory expenses (i.e. levies imposed by supervisory authorities in addition to the bank levy) and expenses for banking associations are no longer reported under Administrative expenses, but rather together with the expenses for the bank levy and deposit guarantee fund.

  For the prior-year period from 1 January 2018 to 30 June 2018, this results in a reduction in administrative expenses of approximately € 6 million and an increase in expenses for regulatory affairs, deposit guarantee fund and banking associations of approximately € 6 million.

II. Corrections to prior-year figures

Retrospective corrections were made to the prior-year figures to reflect the following circumstances:

A) BID-ASK ADJUSTMENTS
The bid-ask adjustments for financial instruments categorised as FVPL DFV were calculated as at 30 June 2018 on the basis of old spreads and not on the basis of actual (narrowed) spreads. This resulted in the financial instruments concerned being reported incorrectly in the statement of financial position and in the corresponding income statement item as at 30 June 2018. The prior-year figures were adjusted as follows:

- Increase in "Result from financial instruments categorised as FVPL" of approx. € 6.5 million

-
- Reduction in “Loans and advances to customers” [at FVPL] in the amount of approx. € 0.5 million
- Increase in “Securitised liabilities [at FVPL]” in the amount of approx. € 7 million

B) MICRO FAIR VALUE HEDGE

As at 30 June 2018, an incorrect calculation of the hedge adjustment for hedged items led to an increase in the result from hedging and a reduction in the revaluation reserve. The prior-year figures were adjusted as follows:

- Increase in the revaluation reserve in the amount of approx. € 7 million
- Reduction in the result from hedging of approx. € 7 million

In addition, the amortisation of the hedged items was applied on the basis of the change in value since the conclusion of the transaction and not on the basis of the change in value since the start of designation (1 January 2018). This meant that the amortisation values shown in the income statement as at 30 June 2018 were excessively negative. The prior-year figures were adjusted as follows:

- Reduction in the revaluation reserve in the amount of approx. € 7 million
- Increase in interest income in the amount of approx. € 7 million

C) DEFERRED TAXES

When preparing the opening statement of financial position in accordance with IFRS 9 as at 1 January 2018, the effects resulting from deferred taxes on historical valuation effects of municipal loans (from IAS 39) were allocated to the revaluation reserve (changes in the fair value of financial assets from the "Hold & Sale" category) and were not reported in retained earnings. As at 30 June 2018, this resulted in a shift in disclosure within equity between retained earnings and the revaluation reserve of approximately € 23 million. The prior-year figures were adjusted as follows:

- Increase in the revaluation reserve in the amount of approx. € 23 million
- Reduction in retained earnings in the amount of approx. € 23 million

The changes described under II. led to an overall increase in the Group net result and comprehensive income for the same period of the previous year of approximately € 7 million.

3. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg, the scope of consolidation includes 27 fully consolidated subsidiaries (31 December 2018: 32).

As at 31 December 2018, 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 2019 relate to the subsidiaries listed below.

III. Information on subsidiaries – changes to the scope of consolidation

A) ADDITIONS

The company CAPCELLENCE Vintage Year 19 Beteiligungen GmbH & Co. KG, Hamburg, which was set up on 22 January 2019 and in which Hamburg Commercial Bank AG holds the majority of voting rights, is included in the Group financial statements for the first time on a fully consolidated basis.

Disposals

Contrary to the inclusion as at 31 December 2018, the following companies are no longer included in the scope of fully consolidated companies:

- Avia Management S.à.r.l., Luxembourg
- Bu Wi Beteiligungsholding GmbH, Hamburg
- Neptune Finance Partner S.à.r.l., Luxembourg
- Neptune Finance Partner II S.à.r.l., Luxembourg
- Next Generation Aircraft Finance 2 S.à.r.l., Findel
- Next Generation Aircraft Finance 3 S.à.r.l., Findel

The aforementioned subsidiaries are special purpose companies that no longer perform any operating activities, or holding companies whose equity holdings no longer perform any operating activities. These companies were deconsolidated in the second quarter of 2019 due to their immateriality with regard to the earnings, net assets and financial position of the Hamburg Commercial Bank Group. The deconsolidation of these companies had no material impact on earnings either on a case-by-case basis or overall.

IV. Information on consolidated structured entities

Hamburg Commercial Bank's scope of consolidation includes seven fully-consolidated structured entities. These companies are controlled due to contractual rights and/or principal-agent relationships. Concerning three of these companies, the majority of the voting rights is also held.

Notes on the Group statement of income

4. Net interest income

Net interest income

(€ m)	January – June 2019	January – June 2018
Interest income from		
Lending and money market transactions categorised as AC and FVOCI	360	339
Fixed-interest securities categorised as AC and FVOCI	49	8
Impaired financial assets	23	122
Interest income from financial assets categorised as AC and FVOCI	**432**	**469**
thereof attributable to financial assets measured at AC	417	338
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	15	131
Interest income from		
Other lending and money market transactions	25	69
Other fixed-interest securities	9	77
Trading transactions	4	4
Derivative financial instruments	678	661
Current income from		
Equities and other non-fixed-interest securities	–	3
Long-term equity investments	3	1
Interest income from other financial instruments	**719**	**815**
Negative interest on investments categorised as AC and FVOCI	**-14**	**-10**
thereof attributable to financial assets measured at AC	-14	-10
Negative interest on other cash investments and derivatives	**-93**	**-120**
Interest expenses for		
Liabilities to banks	34	49
Liabilities to customers	180	194
Securitised liabilities	50	81
Subordinated capital	8	7
Other liabilities	10	9
Derivative financial instruments	618	595
Interest expenses	**900**	**935**
thereof attributable to financial liabilities not measured at fair value through profit or loss	153	200
Positive interest on borrowings and derivatives	**-93**	**-119**
thereof attributable to financial liabilities not measured at fair value through profit or loss	-6	-9
Net income from re-estimating interest and repayment cash flows	8	–
Net income from discounting and compounding	-18	-45
Net income/loss from hybrid financial instruments	**-10**	**-45**
thereof attributable to financial liabilities not measured at fair value through profit or loss	-10	-45
Total	**227**	**293**

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

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.

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

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

The difference between the valuation for tax purposes and measurement under IFRS 9 B5.4.6 results in deferred tax income of less than € 1 million (previous year: € 5 million).

5. Net commission income

Net commission income

(€ m)	January – June 2019	January – June 2018
Commission income from		
Lending business	16	17
Securities business	2	3
Guarantee business	5	5
Payments and account transactions as well as documentary business	11	11
Other commission income	5	8
Commission income	**39**	**44**
Commission expense from		
Lending business	2	1
Securities business	1	1
Guarantee business	–	13
Payments and account transactions as well as documentary business	2	5
Other commission expenses	6	1
Commission expenses	**11**	**21**
Total	**28**	**23**

Financial instruments that are not measured at fair value through profit or loss account for € 32 million of net commission income (previous year: € 25 million). Financial instruments measured at fair value through profit or loss account for € -4 million of net commission income (previous year: € -2 million).

A securitisation transaction terminated in December 2018 is included in the previous year's period with a premium expense of € 13 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 item Result from hedging. The item contains the profit contributions from micro and portfolio fair value hedges. Hedge accounting is used solely for interest rate risks.

Result from hedging

(€ m)	January – June 2019	January – June 2018
Fair value changes from hedging transactions	-115	-15
Micro fair value hedge	-96	-4
Portfolio fair value hedge	-19	-11
Fair value changes from underlyings	111	6
Micro fair value hedge	91	3
Portfolio fair value hedge	19	3
Total	**-4**	**-9**

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 Net interest income.

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

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

Result from financial instruments categorised as FVPL

(€ m)	January – June 2019	January – June 2018
Bonds and interest rate derivatives		
FVPL Held For Trading	-103	-17
FVPL Designated	9	21
FVPL Other	37	-109
Total	**-57**	**-105**
Equities and equity derivatives		
FVPL Held For Trading	3	7
FVPL Designated	-3	1
FVPL Other	7	-2
Total	**7**	**6**
Other products		
FVPL Held For Trading	-1	2
FVPL Designated	–	1
FVPL Other	14	-17
Total	**13**	**-14**
Compensation under the second loss guarantee	–	79
Total	**-37**	**-34**

The Result from financial instruments categorised as FVPL includes net income from foreign currency of € 1 million (previous year: € -6 million).

During the reporting period € 4 million (previous year: € -1 million) of the changes in fair value of the financial assets categorised as FVPL Designated related to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € -4 million (previous year: € -4 million) is attributable to changes in the credit spread.

8. Net income from financial investments

This item contains the realised results of financial investments categorised as FVOCI.

Net income from financial investments

(€ m)	January – June 2019	January – June 2018
Realised results from financial assets categorised as FVOCI	7	78
Total	**7**	**78**

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.

The disposals in the reporting period relate to premature repayments.

Result from the disposal of financial assets classified as AC

(€ m)	January – June 2019	January – June 2018
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	5	3
Total gains	**5**	**3**
Losses from the disposal of financial assets classified as AC		
Loans and advances to customers	–	6
Total losses	**–**	**6**
Total	**5**	**-3**

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 providers

(€ m)	January – June 2019	January – June 2018
Loans and advances to customers		
Insignificant increase in the loan default risk (level 1/12-month ECL)	-4	24
thereof AC	-4	24
Significant increase in the loan default risk (level 2/lifetime ECL)	-42	102
thereof AC	-40	102
thereof FVOCI	-2	0
Impaired credit rating (level 3/lifetime ECL)	74	15
thereof AC	74	15
Result from the change in loan loss provisions on loans and advances to customers	**28**	**141**
Financial investments		
Significant increase in the loan default risk (level 2/lifetime ECL)	1	2
thereof FVOCI	1	2
Result from the change in loan loss provisions for financial investments	**1**	**2**
Off-balance-sheet business		
Insignificant increase in the loan default risk (level 1/12-month ECL)	3	-1
Significant increase in the loan default risk (level 2/lifetime ECL)	1	-1
Impaired credit rating (level 3/lifetime ECL)	–	12
Provisions in lending business in accordance with IAS 37	-6	12
Result from changes in provisions in the lending business	**-2**	**22**
– Direct write-downs	4	8
+ Payments received on loans and advances previously written down	3	5
+ Result of non-substantial modifications	-1	0
Result from other changes to loan loss provisions	**-2**	**-3**
Result from changes in loan loss provisions before currency translation gains or losses and compensation	**25**	**162**
Currency translation gains or losses on loan loss provisions denominated in foreign currency	**–**	**-1**
Compensation under the second loss guarantee	**–**	**-30**
Total loan loss provisions	**25**	**131**

11. Administrative expenses

Administrative expenses

(€ m)	January – June 2019	January – June 2018
Personnel expenses	105	99
Operating expenses	80	95
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	5	13
Total	**190**	**207**

No unscheduled depreciation was recognised in the period under review (previous year: € 8 million, which was attributable to the former Non-Core Bank segment).

12. Other operating income

Other operating income

(€ m)	January – June 2019	January – June 2018
Other operating income	108	40
Other operating expenses	28	27
Total	**80**	**13**

Other operating income includes income from the reversal of provisions in the amount of € 55 million (previous year: € 3 million). Other operating expenses include expenses from allocations to provisions in the amount of € 6 million (previous year: € 7 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 2019	January – June 2018
Expenses for European bank levy	29	32
Expenses for deposit guarantee fund	3	2
Expenses for banking supervisory authority	4	4
Expenses for banking associations	1	2
Total	**37**	**40**

Since 31 December 2018 and with retrospective effect for the comparative period ending on 30 June 2018, the Bank has reported regulatory expenses (European bank levy and contributions paid to the supervisory authorities), the deposit guarantee fund and membership fees paid to banking associations under this item.

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. Net income from restructuring and privatisation

Net income from restructuring and privatisation

(€ m)	January – June 2019	January – June 2018
Operating expenses due to restructuring	–	8
Income from reversals of provisions and liabilities from restructuring	6	2
Net income from restructuring	**6**	**-6**
Expenses from privatisation	14	25
Net income from restructuring and privatisation	**-8**	**-31**

Hamburg Commercial Bank continued the restructuring programme adopted in connection with the successful privatisation on 28 November 2018 in the first half of 2019. This item also includes expenses resulting from the privatisation process, which mainly consisted of expenses for the change in brand and for external consultants in the reporting period. It also includes expenses for the transformation programme, which is designed to ensure the achievement of the Bank's strategic objectives and, as a result, its seamless transition to the deposit guarantee fund of private banks by 2022.

15. Expenses for government guarantees

Expenses for government guarantees

(€ m)	January – June 2019	January – June 2018
HSH Finanzfonds AöR	–	158
Total	**–**	**158**

The guarantee granted by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg in the amount of € 10 billion was cancelled with the closing of the privatisation process on 28 November 2018. Expenses in the 2018 half-year include a one-time amount of € 100 million for the early cancellation of the guarantee.

16. Earnings per share

To calculate earnings per share, the Group net result attributable to Hamburg Commercial Bank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review. As in the previous year, Hamburg Commercial Bank AG has not issued any diluted forms of capital as at 30 June 2019, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

Earnings per share

	January – June 2019	January – June 2018
Attributable Group net result (€ m) – undiluted/diluted	5	-71
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.02	-0.24
Diluted	0.02	-0.24

Notes on the Group statement of financial position

17. Cash reserve

Cash reserve

(€ m)	30.06.2019	31.12.2018
Cash on hand	2	1
Balances at central banks	816	5,299
thereof at the Deutsche Bundesbank	809	5,289
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	52	62
Total	**870**	**5,362**

18. Loans and advances to banks

Loans and advances to banks

(€ m)	30.06.2019	31.12.2018
Payable on demand	2,012	1,784
Other loans and advances	1,034	1,383
Total	**3,046**	**3,167**

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

19. Loans and advances to customers

Loans and advances to customers

(€ m)	30.06.2019	31.12.2018
Retail customers	408	452
Corporate clients	28,284	28,435
Public authorities	3,568	3,904
Total	**32,260**	**32,791**

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

20. Loan loss provisions

Loan loss provisions

(€ m)	30.06.2019	31.12.2018
Loan loss provisions for loans and advances to customers categorised as AC, incl. leasing	726	831
Loan loss provisions in the lending business	**726**	**831**
Loan loss provisions for items in the statement of financial position	**726**	**831**
Provisions in the lending business	56	60
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	**782**	**891**

In accordance with IFRS 9, the loan loss provisions balance sheet item is only set up for loans and advances to banks and loans and advances to customers categorised as AC.

For information on the development of the entire loan loss provisions under IFRS 9, please refer to Note 38.

21. Hedge accounting

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

III. 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, as well as from the reference interest rate of the hedging transactions.

Hedge accounting is used solely for interest rate risks.

IV. Effects on cash flows

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

Micro fair value hedges

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

V. 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, hedge adjustment and the positive and negative fair values of derivatives used in hedge accounting. Only interest rate swaps are currently taken into account as hedging instruments. If a derivative is designated only as pro rata in hedge accounting, the item Positive/negative fair value of hedging derivatives 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.

Hedging instruments[1]

(€ m)		30.06.2019			31.12.2018		
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	8,684	127	78	9,577	175	-62
Interest rate derivatives (liabilities side)	Negative fair values of hedging derivatives	8,286	566	186	7,610	501	-41

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

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

UNDERLYING TRANSACTIONS

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

Underlying transactions[1)]

(€ m)		30.06.2019			31.12.2018		
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	8,603	274	79	9,347	195	-54
Micro fair value hedge	Loans and advances to customers	1,116	103	90	1,035	13	13
Portfolio fair value hedge: Fixed-interest issues	Negative adjustment item from portfolio fair value hedges	12,937	457	58	13,315	399	-57
Portfolio fair value hedge (inactive)	Positive adjustment item from portfolio fair value hedges	736	5	–	802	5	-1
Portfolio fair value hedge (inactive)	Negative adjustment item from portfolio fair value hedges	175	30	-31	302	61	-36
Micro fair value hedge (inactive)	Loans and advances to customers	227	58	-16	262	74	-14
Micro fair value hedge (inactive)	Liabilities due to customers, securitised liabilities, subordinated capital	57	9	-7	293	16	-10

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

The components of the underlying transactions relevant to the balance sheet are reported in the balance sheet items Positive adjustment item from portfolio fair value hedges and Negative adjustment item from portfolio fair value hedges. The values shown there result from the sum of the cumulative hedge adjustments (ltd) of active and inactive portfolios.

22. Trading assets

Only financial assets in the FVPL Trading category are reported under Trading assets. 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)	30.06.2019	31.12.2018
Debentures and other fixed-interest securities	789	196
Positive fair value of financial derivatives	3,244	2,846
Receivables from syndication transactions	46	52
Total	**4,079**	**3,094**

23. Financial investments

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

Financial investments

(€ m)	30.06.2019	31.12.2018
Debentures and other fixed-interest securities	9,183	10,046
Shares and other non-fixed-interest securities	11	9
Long-term equity investments	40	44
Interests in affiliated companies	–	1
Total	9,234	10,100

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

24. Intangible assets

Intangible assets

(€ m)	30.06.2019	31.12.2018
Software	7	8
developed in-house	1	1
acquired	6	7
Total	**7**	**8**

25. Property, plant and equipment and investment property

Property, plant and equipment

(€ m)	30.06.2019	31.12.2018
Land and buildings	89	130
Plant and equipment	5	7
Right-of-use assets from leasing	4	–
Assets under construction	3	2
Total	**101**	**139**

In the period under review, the Bank reported right-of-use-assets resulting from land and buildings rented under leases in accordance with IFRS 16 for the first time. Further information can be found in Note 1 regarding the "Standards applied for the first time in the reporting period".

In the reporting period, reclassifications were made from land and buildings to assets held for sale and disposal groups.

Under the item Investment property, all property (land or buildings, including the right-of-use assets resulting from properties rented as part of a lease that meet the requirements for definition as investment property) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of the Bank. Properties leased, in the capacity of lessor, under operating leases are also included in this item.

Investment property

(€ m)	30.06.2019	31.12.2018
Investment property	44	40
Total	**44**	**40**

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

Non-current assets held for sale and disposal groups

(€ m)	30.06.2019	31.12.2018
Loans and advances to customers	–	8
Financial investments	8	–
Property, plant and equipment	95	53
Investment property	4	4
Total	**107**	**65**

The loans and advances to customers of € 8 million reported in the previous year were derecognised completely in the second half of 2019. The loans and advances to customers were measured at fair value.

The Bank plans to sell an equity holding measured at fair value within the next 12 months. The equity holding to be sold is allocated to the "Other and Consolidation" column in the segment report.

As part of the Bank's restructuring plan, which was adopted in 2018, the intention is to concentrate the Bank's operations in one building at both the Hamburg and Kiel locations. The land and buildings (property, plant and equipment) no longer to be used for the Bank's own purposes and two other properties previously held as investment property are to be sold. In the reporting period, the remaining land and buildings that will no longer be used by HCOB Bank AG in the future, amounting to € 42 million, also met the classification criteria set out in IFRS 5. All buildings and land classified as held for sale and investment property are allocated to the "Other and consolidation" column in the segment report.

27. Deferred tax assets

Of the deferred tax assets of € 668 million (31 December 2018: € 713 million), € 205 million (31 December 2018: € 185 million) relates to tax loss carry-forwards.

As at 30 June 2019, € 139 million of this amount was attributable to the head office (31 December 2018: € 159 million), with € 55 million attributable to the Luxembourg branch (31 December 2018: € 16 million) and € 11 million to the Singapore branch (31 December 2018: € 10 million).

The recoverability of deferred taxes on losses carried forward results from planned future positive tax results.

28. Other assets

Other assets

(€ m)	30.06.2019	31.12.2018
Other prepaid expenses	14	15
Receivables from fund transactions	10	10
Receivables from other taxes	7	3
Other assets	25	21
Total	**56**	**49**

€ 37 million of the assets disclosed in the table relate to financial instruments (31 December 2018: € 34 million).

29. Liabilities to banks

Liabilities to banks

(€ m)	30.06.2019	31.12.2018
Payable on demand	487	476
Other term liabilities	4,717	4,994
Total	**5,204**	**5,470**

30. Liabilities to customers

Liabilities to customers

(€ m)	30.06.2019	31.12.2018
Savings deposits	10	11
Other liabilities		
Payable on demand	6,696	8,103
Term liabilities	16,818	19,979
Total	**23,524**	**28,093**

31. Securitised liabilities

Securitised liabilities

(€ m)	30.06.2019	31.12.2018
Debentures issued	9,271	9,458
Total	**9,271**	**9,458**

Debentures issued include € 186 million of hybrid financial instruments (31 December 2018: € 180 million) The carrying amount of these hybrid financial instruments was determined based on assumptions relating to future earnings of Hamburg Commercial Bank (IFRS 9.B5.4.6). In the item Securitised liabilities, repurchased own debentures in the amount of € 2,175 million (31 December 2018: € 1,341 million) were deducted.

32. Trading liabilities

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

Trading liabilities

(€ m)	30.06.2019	31.12.2018
Negative fair value from derivative financial instruments		
Interest rate-related business	2,533	2,417
Currency-related business	20	33
Other business	392	362
Total	**2,945**	**2,812**

33. Provisions

Provisions

(€ m)	30.06.2019	31.12.2018
Provisions for pension obligations and similar obligations	1,113	995
Other provisions		
Provisions for personnel expenses	19	28
Provisions in the lending business	65	63
Provisions for restructuring	279	308
Provisions for litigation risks and costs	201	250
Other provisions	109	102
Total	**1,786**	**1,746**

The net change in pension provisions of € 118 million comprises payments for pension obligations in the amount of € 26 million and additions in the amount of € 144 million. The increase is largely due to the drop in the market interest rate level.

The decrease in provisions for litigation risks and costs is attributable to the reversal of a provision due to a court judgment. Further information on the Bank's legal risks is provided in the Risk report under "Other material risks".

For information on the development of loan loss provisions for financial instruments reported under contingent liabilities in the current year, please refer to Note 38 (Schedule of loan loss provisions).

34. Other liabilities

Other liabilities

(€ m)	30.06.2019	31.12.2018
Collateral provided for liabilities assumed	330	423
Liabilities for outstanding invoices	41	49
Other tax liabilities	19	5
Personnel liabilities	11	8
Deferred income	10	11
Liabilities from leases (lessee)	8	–
Liabilities for restructuring	8	5
Other	19	17
Total	**446**	**518**

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

€ 388 million of the liabilities reported here relate to financial instruments (31 December 2018: € 498 million).

35. Subordinated capital

Subordinated capital

(€ m)	30.06.2019	31.12.2018
Subordinated liabilities	1,069	1,067
Silent participations	526	547
Total	**1,595**	**1,614**

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

In addition to hybrid instruments disclosed here, hybrid instruments are also disclosed in the line item Securitised liabilities (cf. Note 31).

36. Equity

Equity

(€ m)	30.06.2019	31.12.2018
Share capital	3,018	3,018
Capital reserve	75	75
Retained earnings	993	1,012
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-253	-122
of which: Deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	81	39
Revaluation reserve	246	238
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	-4	1
of which: Valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	250	237
Currency conversion reserve	26	22
Group net result	5	70
Total before non-controlling interests	**4,363**	**4,435**
Non-controlling interests	2	2
Total	**4,365**	**4,437**

Changes in ordinary shares

(Number of shares)	30.06.2019	31.12.2018
Number at the beginning of the year	301,822,453	301,822,453
Number at the end of the year	**301,822,453**	**301,822,453**

Segment reporting

37. Segment report

(€ m / %)	Corporate Clients		Real Estate		Shipping		Treasury & Markets	
	30.06. 2019	30.06. 2018	30.06. 2019	30.06. 2018	30.06. 2019	30.06. 2018	30.06. 2019	30.06. 2018
Net interest income	75	80	85	80	46	46	1	56
Net commission income	17	21	8	7	9	5	-4	5
Result from hedging	–	–	–	–	–	–	–	–
Result from financial instruments categorised as FVPL	-1	4	7	7	4	1	25	55
Net income from financial investments including other income items[1]	1	1	4	1	–	–	7	66
Total income	**92**	**106**	**104**	**95**	**59**	**52**	**29**	**182**
Loan loss provisions[2]	-22	-4	-41	3	87	140	-1	18
Administrative expenses	-64	-72	-47	-47	-32	-30	-42	-52
Other operating income	-11	5	52	–	–	–	2	–
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-7	-8	-12	-8	-3	-4	-8	-8
Net income before restructuring and privatisation	**-12**	**27**	**56**	**43**	**111**	**158**	**-20**	**140**
Net income from restructuring and privatisation	–	–	–	–	–	–	–	–
Expenses for government guarantees	–	-12	–	-5	–	-20	–	-4
Net income before taxes	**-12**	**15**	**56**	**38**	**111**	**138**	**-20**	**136**
Cost/income ratio (CIR)	79%	65%	30%	49%	54%	58%	135%	29%
Return on equity before taxes	-2%	2%	11%	9%	32%	43%	-7%	44%
Average equity	1,460	1,443	979	891	698	635	556	621

(€ bn)	30.06. 2019	31.12. 2018	30.06. 2019	31.12. 2018	30.06. 2019	31.12. 2018	30.06. 2019	31.12. 2018
Segment assets	**11.2**	**11.5**	**13.0**	**12.4**	**4.3**	**4.5**	**14.1**	**19.3**

[1] Including "Net income from financial investments accounted for under the equity method", "Result from the disposal of financial assets classified as AC", "Result from the reclassification of financial assets previously categorised as AC" and "Result from the reclassification of financial assets formerly classified as FVOCI as a mandatory requirement".

[2] In the previous year: summary of "Loan loss provisions" and "Hedging effect of credit derivative under the second loss guarantee.

(€ m/%)	Other		Consolidation[3]		Total Other and Consolidation		Group	
	30.06. 2019	30.06. 2018	30.06. 2019	30.06. 2018	30.06. 2019	30.06. 2018	30.06. 2019	30.06. 2018
Net interest income	-8	–	28	31	20	31	227	293
Net commission income	–	-15	-2	–	-2	-15	28	23
Result from hedging	–	–	-4	-9	-4	-9	-4	-9
Result from financial instruments categorised as FVPL	-6	-90	-66	-11	-72	-101	-37	-34
Net income from financial investments including other income items[1]	–	7	–	–	–	7	12	75
Total income	**-14**	**-98**	**-44**	**11**	**-58**	**-87**	**226**	**348**
Loan loss provisions[2]	2	6	–	-82	2	-76	25	81
Administrative expenses	-5	-5	–	-1	-5	-6	-190	-207
Other operating income	36	3	1	5	37	8	80	13
Expenses for bank levy and deposit guarantee fund	-5	-13	-2	1	-7	-12	-37	-40
Net income before restructuring and privatisation	**14**	**-107**	**-45**	**-66**	**-31**	**-173**	**104**	**195**
Net income from restructuring and privatisation	–	–	-8	-31	-8	-31	-8	-31
Expenses for government guarantees	–	-118	–	1	–	-117	–	-158
Net income before taxes	**14**	**-225**	**-53**	**-96**	**-39**	**-321**	**96**	**6**
Cost/income ratio (CIR)	–	–	–	–	–	–	62.1%	57.3%
Return on equity before tax	–	–	–	–	–	–	4.4%	0.3%
Average equity	692	788	–	1	692	789	4,385	4,379

(€ bn)	30.06. 2019	31.12. 2018	30.06. 2019	31.12. 2018	30.06. 2019	31.12. 2018	30.06. 2019	31.12. 2018
Segment assets	**7.5**	**7.4**	**0.1**	**0.0**	**7.6**	**7.4**	**50.2**	**55.1**

[1] Including "Net income from financial investments accounted for under the equity method", "Result from the disposal of financial assets classified as AC", "Result from the reclassification of financial assets previously categorised as AC" and "Result from the reclassification of financial assets formerly classified as FVOCI as a mandatory requirement".

[2] In the previous year: summary of "Loan loss provisions" and "Hedging effect of credit derivative under the second loss guarantee.

[3] Consolidation includes, among other things, reconciliation effects resulting from differences in recognition between the internal management system and IFRS accounting.

Segment reporting is in accordance with the provisions of IFRS 8. The segments result from 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.

As at 30 June 2019, segment reporting was changed in accordance with the requirements set out in IFRS 8 (Management Approach). Following the disposal of the Non-Core Bank portfolios as part of the portfolio transaction in November 2018, the Non-Core Bank segment and the Core Bank (as the sum of its four operating segments) no longer exist. The small number of remaining transactions, which are immaterial in terms of amount, and the prior-year results of the former Non-Core Bank are shown under "Other". The cost allocation within the Group was also changed. The previous year's figures have been adjusted accordingly.

Hamburg Commercial Bank comprises the Real Estate, Shipping, Corporate Clients and Treasury & Markets segments, as well as the "Total Other and Consolidation" segment. The business activities of the Real Estate, Shipping and Corporate Clients customer departments focus on offering financing solutions in the lending business.

In the Corporate Clients segment, the strategic focus is on the Energy & Infrastructure, Trade & Food, Healthcare and Industry & Services and business areas. In addition, the business unit offers the consultancy areas of structured financing, leveraged buy-out and mergers & acquisitions from a single source for all clients of the Bank. The Real Estate segment includes business with real estate clients, while the Shipping segment includes the business with shipping clients.

The Treasury & Markets segment supports the customer departments in their business by providing a tailored range of capital market-oriented product solutions and within the framework of syndications. At the same time, support is provided to the savings banks and institutional clients in the areas of issuance and deposits. This segment is also responsible for the central management of the liquidity and market price risks relating to the Bank's position and the Bank's function as an issuer.

The administrative expenses incurred by the segments comprise the direct personnel and operating costs attributable to the segments, as well as the allocation of the Bank's overhead costs. The cost allocation was adjusted in 2019. The Bank's overhead costs are now allocated to the Bank's divisions in full. This puts more of a burden on the operating segments. The previous year's figures have been adjusted accordingly.

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

The "Total other and consolidation" column corresponds to the sum of the "Other" and "Consolidation" columns. In the "Other" column, overall bank positions, as well as corporate and service functions, are shown as non-reportable segments. Overall bank positions include the liquidity buffer to be maintained in accordance with the Minimum Requirements for Risk Management (MaRisk) and the effects of equity. The corporate and service functions also include the Transaction Banking product division, which offers tailor-made services in the fields of payment transactions, account management and foreign trade for the customer departments, insofar as these activities were not allocated to the reportable segments as part of the business management of the Bank.

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

Net interest income for the purpose of internal reporting to management is calculated in accordance with the Fund Transfer Pricing (FTP). The planned investment and financing profit is distributed among the business segments on the basis of the economic capital committed. The transformation contribution mainly includes the results from the liquidity management of the banking book and, as a result, the temporary effects resulting from the increase in liquidity during the privatisation phase, in particular. The transformation contribution is reported centrally under Other in line with the internal management and is not allocated to the segments.

Reconciliation effects relating to Net interest income in the amount of € 28 million are due largely to valuation differences. These are largely the result of the use of internal transactions within the framework of internal interest rate and liquidity management/the consideration of imputed interest rate margins (fund transfer pricing, FTP)) instead of gross interest in the lending business. Further reconciliation effects result, in particular, from the use of what are, in some cases, different calculation and amortisation methods within the context of internal reporting. In addition, in the internal management system, the measurement results of the hedging derivatives in hedge accounting are only recognised upon the disposal of AC or FVOCI positions, whereas under the IFRS hedge accounting regulations, the hedge adjustments are continuously amortised within Net interest income.

The reconciliation effects of the Result from financial instruments categorised as FVPL (€ -66 million) include differences resulting from the presentation of capital market transactions between the internal management system and IFRS accounting, as well as from the hedging of certain financial instruments that can be included in the portfolio fair value hedge in full in the internal recognition of the interest rate hedge transaction, whereas under the IFRS, they cannot, or can only partly, be included in the portfolio fair value hedge.

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

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

Geographical information as well as information on income from external clients for each product and service is not collected for management reporting due to a lack of management relevance and disproportionately high costs, whereby disclosures in accordance with IFRS 8.32 and 8.33 are not made.

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

The allocation key for the allocation of the average reported equity capital to the segments is the regulatory capital commitment due to its management relevance.

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

Disclosures on financial instruments

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

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

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

Development in gross carrying amounts for loans and advances to banks

(€ m)	30.06.2019				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2019	**3,166**	**–**	**–**	**–**	**3,166**
thereof AC	3,000	–	–	–	3,000
thereof FVOCI	166	–	–	–	166
New additions and increases	577	21	–	–	598
thereof AC	577	21	–	–	598
Repayments, disposals and sales	701	21	–	–	722
thereof AC	636	21	–	–	657
thereof FVOCI	65	–	–	–	65
FV changes	4	–	–	–	4
thereof FVOCI	4	–	–	–	4
Carrying amounts as at 30 June 2019	**3,046**	**–**	**–**	**–**	**3,046**
thereof AC	2,941	–	–	–	2,941
thereof FVOCI	105	–	–	–	105

Development in gross carrying amounts for loans and advances to banks

(€ m)	31.12.2018				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2018	**3,761**	**5**	**–**	**–**	**3,766**
thereof AC	3,556	5	–	–	3,561
thereof FVOCI	205	–	–	–	205
New additions and increases	861	12	–	–	873
thereof AC	861	12	–	–	873
Repayments, disposals and sales	1,451	17	–	–	1,468
thereof AC	1,416	17	–	–	1,433
thereof FVOCI	35	–	–	–	35
Exchange rate changes	1	–	–	–	1
thereof AC	2	–	–	–	2
thereof FVOCI	-1	–	–	–	-1
FV changes	-3	–	–	–	-3
thereof FVOCI	-3	–	–	–	-3
Changes in the scope of consolidation	-3	–	–	–	-3
thereof AC	-3	–	–	–	-3
Carrying amounts as at 31 December 2018	3,166	–	–	–	3,166
thereof AC	3,000	–	–	–	3,000
thereof FVOCI	166	–	–	–	166

Development in loan loss provisions for loans and advances to banks

There were no changes in loan loss provisions for loans and advances to banks in the period under review.

Development in loan loss provisions for loans and advances to banks

(€ m)	31.12.2018			
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions on 1 January 2018	**1**	**–**	**–**	**1**
Reversals due to disposals, repayments and other reductions	1	–	–	1
Loan loss provisions on 31 December 2018	**–**	**–**	**–**	**–**

Development in gross carrying amounts for loans and advances to customers

(€ m)	30.06.2019				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2019	**28,152**	**3,017**	**955**	**–**	**32,124**
thereof AC	26,094	3,008	955	–	30,057
thereof FVOCI	1,985	9	–	–	1,994
thereof Receivables under finance leases	73	–	–	–	73
Transfer to LECL level 2	-909	1,052	-143		–
thereof AC	-909	1,052	-143		–
Transfer to LECL level 3	-1	-1	2		–
thereof AC	-1	-1	2		–
Transfer to 12-month ECL	165	-165	–		–
thereof AC	165	-165	–		–
New additions and increases	5,301	211	25	–	5,537
thereof AC	5,289	211	25	–	5,525
thereof FVOCI	12	–	–	–	12
Utilisation and impairment	–	–	86	–	86
thereof AC	–	–	86	–	86
Repayments, disposals and sales	5,157	722	196	–	6,075
thereof AC	4,878	722	196	–	5,796
thereof FVOCI	266	–	–	–	266
thereof Receivables under finance leases	13	–	–	–	13
Exchange rate changes	4	8	2	–	14
thereof AC	2	8	2	–	12
thereof FVOCI	2	–	–	–	2
FV changes	70	3	–	–	73
thereof FVOCI	70	3	–	–	73
Carrying amounts as at 30 June 2019	**27,625**	**3,403**	**559**	**–**	**31,587**
thereof AC	25,762	3,391	559	–	29,712
thereof FVOCI	1,803	12	–	–	1,815
thereof Receivables under finance lease transactions	60	–	–	–	60

Development in gross carrying amounts for loans and advances to customers

(€ m)	31.12.2018				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-im-paired (LECL level 3)	Loans purchased or originated credit-im-paired (POCI)	Total
Carrying amounts as at 1 January 2018	**28,441**	**2,743**	**1,700**	**–**	**32,884**
thereof AC	26,095	2,724	1,700	–	30,519
thereof FVOCI	2,270	19	–	–	2,289
thereof Receivables under finance leases	76	–	–	–	76
Transfer to LECL level 2	-1,067	1,293	-226		–
thereof AC	-1,067	1,293	-226		–
Transfer to LECL level 3	-36	-423	459		–
thereof AC	-36	-423	459		–
Transfer to 12-month ECL	482	-149	-333		–
thereof AC	482	-149	-333		–
New additions and increases	10,274	520	262	–	11,056
thereof AC	10,274	520	262	–	11,056
Utilisation and impairment	–	–	492	–	492
thereof AC	–	–	492	–	492
Repayments, disposals and sales	10,089	1,016	445	–	11,550
thereof AC	9,853	1,005	445	–	11,303
thereof FVOCI	229	11	–	–	240
thereof Receivables under finance leases	7	–	–	–	7
Exchange rate changes	207	48	30	–	285
thereof AC	199	48	30	–	277
thereof FVOCI	4	–	–	–	4
thereof Receivables under finance leases	4	–	–	–	4
FV changes	-60	1	–	–	-59
thereof FVOCI	-60	1	–	–	-59
Carrying amounts as at 31 December 2018	**28,152**	**3,017**	**955**	**–**	**32,124**
thereof AC	26,094	3,008	955	–	30,057
thereof FVOCI	1,985	9	–	–	1,994
thereof Receivables under finance lease transactions	73	–	–	–	73

Development in loan loss provisions for loans and advances to customers

(€ m)	30.06.2019			
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions on 1 January 2019	**94**	**241**	**496**	**831**
thereof AC	94	241	496	831
Transfer to LECL level 2	-24	24	–	–
thereof AC	-24	24	–	–
Transfer to 12-month ECL	7	-7	–	–
thereof AC	7	-7	–	–
Reversals due to disposals, repayments and other reductions	6	7	96	109
thereof AC	6	7	96	109
Additions due to new additions and other increases	10	49	23	82
thereof AC	10	46	23	79
thereof FVOCI	–	3	–	3
Utilisation	–	–	81	81
thereof AC			81	81
Change in line with effective interest rate	–	–	4	4
thereof AC			4	4
Exchange rate changes	–	–	2	2
thereof AC	–	–	2	2
Loan loss provisions on 30 June 2019	**81**	**300**	**348**	**729**
thereof AC	81	297	348	726
thereof FVOCI	–	3	–	3

Development in loan loss provisions for loans and advances to customers

(€ m)	31.12.2018			
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions on 1 January 2018	**61**	**216**	**700**	**977**
Transfer to LECL level 2	-12	12	–	–
Transfer to LECL level 3	–	-21	21	–
Transfer to 12-month ECL	12	-12	–	–
Reversals due to disposals, repayments and other reductions	49	134	149	332
Additions due to new additions and other increases	81	180	373	634
Utilisation	–	–	474	474
Change in line with effective interest rate	–	–	13	13
Exchange rate changes	1	–	12	13
Loan loss provisions on 31 December 2018	**94**	**241**	**496**	**831**

In the prior-year period, changes in loans and advances to customers relate only to transactions categorised as AC.

Development in gross carrying amounts for financial investments

(€ m)	30.06.2019		
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Total
Carrying amounts as at 1 January 2019	**9,413**	**55**	**9,468**
thereof AC	114	–	114
thereof FVOCI	9,299	55	9,354
New additions and increases	1,060	-1	1,059
thereof AC	8	–	8
thereof FVOCI	1,052	-1	1,051
Repayments, disposals and sales	1,999	–	1,999
thereof AC	11	–	11
thereof FVOCI	1,988	–	1,988
Exchange rate changes	1	–	1
thereof FVOCI	1	–	1
FV changes	28	6	34
thereof FVOCI	28	6	34
Carrying amounts as at 30 June 2019	**8,503**	**60**	**8,563**
thereof AC	111	–	111
thereof FVOCI	8,392	60	8,452

Development in gross carrying amounts for financial investments

(€ m)	31.12.2018		
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Total
Carrying amounts as at 1 January 2018	**12,664**	**250**	**12,914**
thereof AC	103	–	103
thereof FVOCI	12,561	250	12,811
Transfer to 12-month ECL	53	-53	–
thereof FVOCI	53	-53	–
New additions and increases	519	4	523
thereof AC	31	3	34
thereof FVOCI	488	1	489
Repayments, disposals and sales	3,771	152	3,923
thereof AC	20	3	23
thereof FVOCI	3,751	149	3,900
Exchange rate changes	-1	–	-1
thereof FVOCI	-1	–	-1
FV changes	-51	6	-45
thereof FVOCI	-51	6	-45
Carrying amounts as at 31 December 2018	**9,413**	**55**	**9,468**
thereof AC	114	–	114
thereof FVOCI	9,299	55	9,354

Development in loan loss provisions for financial investments

(€ m)	30.06.2019			
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions on 1 January 2019	**–**	**5**	**–**	**5**
Reversals due to disposals and other reductions	–	1	–	1
Loan loss provisions on 30 June 2019	**–**	**4**	**–**	**4**

Development in loan loss provisions for financial investments

(€ m)	31.12.2018			
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions on 1 January 2018	**–**	**7**	**–**	**7**
Reversals due to disposals and other reductions	–	5	–	5
Additions due to new additions and other increases	–	3	–	3
Loan loss provisions on 31 December 2018	**–**	**5**	**–**	**5**

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

There were no non-current assets held for sale and disposal groups categorised as AC or FVOCI as at the balance sheet date.

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

(€ m)	31.12.2018				
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2018	**2**	**–**	**–**	**–**	**2**
thereof AC	2	–	–	–	2
Changes in the scope of consolidation	-2	–	–	–	-2
thereof AC	-2	–	–	–	-2
Carrying amounts as at 31 December 2018	**–**	**–**	**–**	**–**	**–**
thereof AC	–	–	–	–	–

Carrying amounts of off-balance-sheet business

(€ m)	30.06.2019			
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Carrying amounts as at 1 January 2019	**8,110**	**386**	**77**	**8,573**
Transfer to LECL level 2	-38	38	–	–
Transfer to LECL level 3	-9	-7	16	–
Transfer to 12-month ECL	91	-91	–	–
New joiners	2,534	43	11	2,588
Disposals	2,896	152	10	3,058
Exchange rate changes	3	–	–	3
Carrying amount as at 30 June 2019	**7,795**	**217**	**94**	**8,106**

Carrying amounts of off-balance-sheet business

(€ m)	31.12.2018			
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Carrying amounts as at 1 January 2018	**7,152**	**252**	**199**	**7,603**
Transfer to LECL level 2	-92	95	-3	–
Transfer to LECL level 3	-6	-1	7	–
Transfer to 12-month ECL	23	-23	–	–
New joiners	7,972	280	40	8,292
Disposals	6,971	219	167	7,357
Exchange rate changes	32	2	1	35
Carrying amounts as at 31 December 2018	**8,110**	**386**	**77**	**8,573**

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

(€ m)	30.06.2019			
	Insignificant increase in the loan default risk (12-month ECL)	Significant in-crease in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Total
Loan loss provisions on 1 January 2019	**6**	**6**	**48**	**60**
Transfer to 12-month ECL	4	-4	–	–
Reversals due to disposals and other reductions	9	2	21	32
Additions due to new additions and other increases	6	1	21	28
Loan loss provisions on 30 June 2019	**7**	**1**	**48**	**56**
thereof Provisions for contingent liabilities	–	–	10	10
thereof Provisions for irrevocable loan commitments	7	1	14	22
thereof Other loan provisions	–	–	24	24

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

(€ m)	31.12.2018			
	Insignificant increase in the loan default risk (12-month ECL)	Significant in-crease in the loan default risk (LECL level 2)	Credit-im-paired (LECL level 3)	Total
Loan loss provisions on 1 January 2018	**8**	**2**	**46**	**56**
Reversals due to disposals and other reductions	9	2	18	29
Additions due to new additions and other increases	7	6	27	40
Utilisation	–	–	8	8
Exchange rate changes	–	–	1	1
Loan loss provisions on 31 December 2018	**6**	**6**	**48**	**60**
thereof Provisions for contingent liabilities	1	–	9	10
thereof Provisions for irrevocable loan commitments	5	6	19	30
thereof Other loan provisions	–	–	20	20

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

III. DETERMINATION OF FAIR VALUE

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

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

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

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

VALUATION TECHNIQUES AND MODELS

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

The fair value is determined based on the income approach using a valuation model if the market approach using the mark-to-market or mark-to-matrix method is not possible or is not of sufficient quality. Where available, inputs observable in the market, quality assured market data from appropriate pricing agencies and validated prices from market partners (arrangers) are also used as a primary source for model valuations. Fair values determined by means of model valuations, for which only observable inputs are used or which are only based to an insignificant extent on unobservable inputs, are assigned to level 2 of the fair value hierarchy. If the fair values determined using valuation models are based to a significant extent on unobservable inputs, they are assigned to level 3 of the fair value hierarchy.

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

VALUE ADJUSTMENTS

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

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

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

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

DAY ONE PROFIT AND LOSS

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

MEASUREMENT PROCESSES

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

Fair values of financial instruments assigned to level 3 are determined again on a periodic basis – but at least on a monthly basis. Any changes in value that have occurred since the previous period are reviewed for plausibility. Where available, observable market information such as transaction prices or attributes of valuation parameters are also used in the internal price validation. If there are material differences between the fair values determined by the Bank and prices offered by counterparties, the valuation model used is subjected to an ad hoc validation process.

II. Fair values of financial instruments

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

Fair values of financial instruments

Assets

(€ m) 30.06.2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVOCI Mandatory	**10,364**	**10,639**	**7,421**	**2,928**	**15**
Loans and advances to banks	105	105	–	105	–
Loans and advances to customers	1,812	1,812	–	1,812	–
Financial investments[1]	8,447	8,722	7,421	1,011	15
FVPL Designated	**234**	**234**	**–**	**234**	**–**
Loans and advances to banks	–	–	–	–	–
Loans and advances to customers	131	131	–	131	–
Financial investments	103	103	–	103	–
FVPL Held For Trading	**4,079**	**4,079**	**576**	**3,213**	**290**
Trading assets	4,079	4,079	576	3,213	290
FVPL Other	**1,127**	**1,127**	**9**	**610**	**508**
Loans and advances to customers	546	546	–	133	413
Financial investments	573	573	9	477	87
Non-current assets held for sale and disposal groups	8	8	–	–	8
AC assets	**32,944**	**33,784**	**n.a.**	**n.a.**	**n.r.**
Cash reserve	870	870	n.a.	n.a.	n.r.
Loans and advances to banks	2,941	2,951	n.a.	n.a.	n.r.
Loans and advances to customers	28,985	29,815	n.a.	n.a.	n.r.
Financial investments	111	111	n.a.	n.a.	n.r.
Other assets	37	37	n.a.	n.a.	n.r.
No IFRS 9 category	**466**	**187**	**–**	**127**	**–**
Positive fair values of hedging derivatives	127	127	–	127	–
Receivables under finance leases	60	60	n.a.	n.a.	n.a.
Value adjustments from the portfolio fair value hedge	279		n.a.	n.a.	n.a.
Total assets	**49,214**	**50,050**			

[1] The difference between the carrying amount and fair value of financial instruments categorised as FVOCI Mandatory amounts to € 275 million. This amount is offset by the separately reported reconciling item from the portfolio fair value hedge in the amount of € 279 million, € 275 million of which is attributable to FVOCI financial investments. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

Fair values of financial instruments

Assets

(€ m) 31.12.2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVOCI Mandatory	**11,510**	**11,705**	**8,169**	**3,326**	**15**
Loans and advances to banks	167	167	–	167	–
Loans and advances to customers	1,994	1,994	–	1,994	–
Financial investments[1]	9,349	9,544	8,169	1,165	15
FVPL Designated	**216**	**216**	**–**	**216**	**–**
Loans and advances to customers	120	120	–	120	–
Financial investments	96	96	–	96	–
FVPL Held For Trading	**3,094**	**3,094**	**147**	**2,656**	**291**
Trading assets	3,094	3,094	147	2,656	291
FVPL Other	**1,096**	**1,096**	**8**	**579**	**509**
Loans and advances to customers	547	547	–	136	411
Financial investments	541	541	8	443	90
Non-current assets held for sale and disposal groups	8	8	–	–	8
AC assets	**37,735**	**38,359**	**–**	**11,462**	**26,897**
Cash reserve	5,362	5,362	–	5,362	–
Loans and advances to banks	3,000	3,007	–	2,956	51
Loans and advances to customers	29,226	29,843	–	3,020	26,823
Financial investments	114	114	–	91	23
Other assets	33	33	–	33	–
No IFRS 9 category	**448**	**248**	**–**	**175**	**–**
Positive fair values of hedging derivatives	175	175	–	175	–
Receivables under finance leases	73	73	n.a.	n.a.	n.a.
Value adjustments from the portfolio fair value hedge	200	–	n.a.	n.a.	n.a.
Total assets	**54,099**	**54,718**	**8,324**	**18,414**	**27,712**

[1] The difference between the carrying amount and fair value of financial instruments categorised as FVOCI Mandatory amounts to € 195 million. This amount is offset by the separately reported reconciling item from the portfolio fair value hedge in the amount of € 200 million, € 195 million of which is attributable to FVOCI financial investments. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

The effective portions of the hedging relationship recognised through profit or loss are disclosed in the Value adjustments from the portfolio fair value hedge item, of which € 275 million is accounted for by financial investments classified as FVOCI as a mandatory requirement (31 December 2018: € 195 million) and € 4 million (31 December 2018: € 5 million) by loans and advances to banks and customers classified as AC HTC.

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) 30.06.2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVPL Designated	**2,120**	**2,120**	**–**	**1,258**	**861**
Liabilities to banks	123	123	–	11	112
Liabilities to customers	736	736	–	365	370
Securitised liabilities	1,261	1,261	–	882	379
FVPL Held For Trading	**2,945**	**2,945**	**–**	**2,847**	**98**
Trading liabilities	2,945	2,945	–	2,847	98
AC liabilities	**37,862**	**38,942**	**n.a.**	**n.r.**	**n.r.**
Liabilities to banks	5,081	5,093	n.a.	n.r.	n.r.
Liabilities to customers	22,788	23,623	n.a.	n.r.	n.r.
Securitised liabilities	8,010	8,143	n.a.	n.r.	n.r.
Other liabilities	388	388	n.a.	n.r.	n.r.
Subordinated capital	1,595	1,695	n.a.	n.r.	n.r.
No IFRS 9 category	**1,053**	**566**	**–**	**566**	**–**
Negative fair value of hedging derivatives	566	566	–	566	–
Value adjustments from the portfolio fair value hedge	487		n.a.	n.a.	n.a.
Total liabilities	**43,980**	**44,573**			

Fair values of financial instruments

Liabilities

(€ m) 31.12.2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVPL Designated	**2,181**	**2,181**	**–**	**1,323**	**858**
Liabilities to banks	124	124	–	16	108
Liabilities to customers	746	746	–	362	384
Securitised liabilities	1,311	1,311	–	945	366
FVPL Held For Trading	**2,812**	**2,812**	**–**	**2,719**	**93**
Trading liabilities	2,812	2,812	–	2,719	93
AC liabilities	**42,953**	**44,079**	**–**	**43,158**	**921**
Liabilities to banks	5,346	5,258	–	5,203	55
Liabilities to customers	27,347	28,104	–	27,859	245
Securitised liabilities	8,147	8,351	–	8,248	103
Other liabilities	499	499	–	499	–
Subordinated capital	1,614	1,867	–	1,349	518
No IFRS 9 category	**961**	**501**	**–**	**501**	**–**
Negative fair value of hedging derivatives	501	501	–	501	–
Value adjustments from the portfolio fair value hedge	460	–	n.r.	n.r.	n.r.
Total liabilities	**48,907**	**49,573**	**–**	**47,701**	**1,872**

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) 30.06.2019	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Trading assets (FVPL Trading)	44	-6	13	-45	1	-7
Financial investments						
thereof FVOCI Mandatory	326	-244	244	-326	–	–
of which debt instruments	326	-244	244	-326	–	–
Total	**370**	**-250**	**257**	**-371**	**1**	**-7**

Transfer, assets

(€ m) 31.12.2018	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Loans and advances to customers						
thereof FVPL Other	–	–	–	-19	19	–
Credit derivative under the second loss guarantee	–	–	969	–	–	-969
Trading assets (FVPL Trading)	25	-64	67	-27	2	-3
Financial investments						
thereof FVOCI Mandatory	536	-1,079	1,079	-536	–	–
thereof FVPL Other	–	–	23	–	–	-23
Total	**561**	**-1,143**	**2,138**	**-582**	**21**	**-995**

There were no liability transfers in the reporting period.

Transfer, liabilities

(€ m) 31.12.2018	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Trading liabilities (FVPL Trading)	–	–	–	1	–	–1
Total	**–**	**–**	**–**	**1**	**–**	**-1**

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, for which the OTC market is the relevant 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 which were or are allocated to level 3 during the reporting period.

Reconciliation, Assets

(€ m)		Change in balance affecting income		Quantitative change in balance	
30.06.2019	1 January 2019	Realised net in-come(income statement)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	411	45	–	32	-40
Trading assets (FVPL Trading)	291	12	–	–	–
Financial investments					
thereof FVOCI Mandatory	15	–	–	–	–
thereof FVPL Other	90	5	–	–	–
Non-current assets held for sale and disposal groups					
thereof FVPL Other	8	–	–	–	-6
Total	**815**	**62**	**–**	**32**	**-46**

[1] Of the net income in the income statement recognised in profit or loss, € 57 million relates to the result from financial instruments categorised as FVPL and € 5 million to net interest income.

Quantitative change in balance		Transfers					
Issues	Settlements	From level 3	To level 3	Transfer/ recategorisation	Exchange rate changes	30.06.2019	Net income from assets held as at 30 June 2019
–	-28	–	–	–	-7	413	-7
–	-7	-7	1	–	–	290	14
–	–	–	–	–	–	15	–
–	–	–	–	-8	–	87	5
–	-2	–	–	8	–	8	–
–	**-37**	**-7**	**1**	**–**	**-7**	**813**	**12**

Reconciliation, Assets

(€ m)		Change in balance affecting income		Quantitative change in balance	
31.12.2018	1 January 2018	Realised net in-come(income statement)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to banks					
thereof FVPL Other	43	–	–	–	–
Loans and advances to customers					
thereof FVOCI Mandatory	135	-2	-33	–	–
thereof FVPL Other	491	36	–	71	-103
Credit derivative under the second loss guarantee	1,014	-45	–	–	–
Trading assets (FVPL Trading)	331	-28	–	53	-63
Financial investments					
thereof FVOCI Mandatory	–	–	–	15	–
thereof FVPL Other	150	-10	–	–	-24
Non-current assets held for sale and disposal groups					
thereof FVPL Other	12	–	–	–	–
Total	**2,176**	**-49**[1)]	**-33**	**139**	**-190**

[1)] Of the net income in the income statement recognised in profit or loss, € -65 million relates to the result from financial instruments categorised as FVPL and € 16 million to net interest income.

Quantitative change in balance		Transfers					
Issues	Settlements	From level 3	To level 3	Transfer/ recategorisa-tion	Exchange rate changes	31.12.2018	Net income from assets held as at 31 December 2018
							–
–	-43	–	–	–	–	–	–
–	-100	–	–	–	–	–	–
–	-103	–	19	–	–	411	-11
–	–	-969	–	–	–	–	–
–	–	-3	2	–	-1	291	-37
–	–	–	–	–	–	15	–
–	–	-23	–	–	-3	90	-1
–	-4	–	–	–	–	8	–
–	**-250**	**-995**	**21**	**–**	**-4**	**815**	**-49**

Reconciliation, Liabilities

(€ m)		Change in balance affecting income		Quantitative change in balance	
	1 January 2019	Net income recognised in profit or loss	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	108	3	1	–	–
Liabilities to customers					
FVPL Designated	384	-7	3	–	-10
Securitised liabilities					
FVPL Designated	366	5	-1	–	–
Trading liabilities (FVPL Trading)	93	5	–	–	–
Total	**951**	**6[1)]**	**3**	**–**	**-10**

[1)] Of the net income in the income statement recognised in profit or loss, € 8 million relates to the result from financial instruments categorised as FVPL and € -3 million to net interest income.

Reconciliation, Liabilities

(€ m)		Change in balance affecting income		Quantitative change in balance	
31.12.2018	01.01.2018	Net income recognised in profit or loss	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	107	2	-1	–	–
Liabilities to customers					
FVPL Designated	421	-10	3	14	-13
Securitised liabilities					
FVPL Designated	360	-16	2	–	–
Trading liabilities (FVPL Trading)	167	-17	–	–	-56
Total	**1,055**	**-41[1)]**	**4**	**14**	**-69**

[1)] Of the net income in the income statement recognised in profit or loss, € -27 million relates to the result from financial instruments categorised as FVPL and € -14 million to net interest income.

Quantitative change in balance		Transfers					
New business	Settlements	From level 3	To level 3	Transfer/ recategorisa- tion	Exchange rate changes	30.06.2019	Net income from assets held as at 30 June 2019
–	–	–	–	–	–	112	3
–	–	–	–	–	–	370	-5
–	–	–	–	–	9	379	4
–	–	–	–	–	–	98	5
–	**–**	**–**	**–**	**–**	**9**	**959**	**7**

Quantitative change in balance		Transfers					
New business	Settlements	From level 3	To level 3	Transfer/ recategorisa- tion	Exchange rate changes	31.12.2018	Net income from assets held as at 31 December 2018
–	–	–	–	–	–	108	1
–	-31	–	–	–	–	384	-6
–	-2	–	–	–	22	366	-14
–	–	-1	–	–	–	93	-23
–	**-33**	**-1**	**–**	**–**	**22**	**951**	**-42**

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) 30.06.2019		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin
Loans and advances to customers	FVPL Other	413		DCF method	Spread (bps)	94 – 1435
				Option pricing model	Interest rate FX correlation	-25% - 17%
				Price	Price	9 – 111
Trading assets/trading liabilities	FVPL Held For Trading	290	98	DCF method	Spread	94 – 1435
				Option pricing model	Interest rate volatility	10% - 25%
					Interest rate FX correlation	-25% - 17%
					FX correlation	17% - 62%
Financial investments	FVPL Other	87		Option pricing model	Interest rate volatility	10% - 25%
				Price	Price	1 – 11,000
				DCF method	Capital costs	7% - 9%
	Mandatory FVOCI	15		DCF method	Spread (bps)	94 – 1435
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Spread	94 – 1435
Liabilities to banks	FVPL Designated		112	Option pricing model	Interest rate volatility	10% - 25%
					Interest rate FX correlation	-25% - 17%
Liabilities to customers	FVPL Designated		370	Option pricing model	Interest rate volatility	10% - 25%
					Interest rate FX correlation	-25% - 17%
				Price	Price	9 – 111
Securitised liabilities	FVPL Designated		379	Option pricing model	Interest rate volatility	10% - 25%
					FX correlation	17% - 62%
Total		**813**	**959**			

Fair value

(€ m) 31.12.2018		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin
Loans and advances to customers	FVPL Other	411		DCF method	Spread (bps)	71 – 1447
				Option pricing model	Interest rate FX correlation	-33% - 26%
				Price	Price	
Trading assets/trading liabilities	FVPL Held For Trading	291	93	DCF method	Spread	71 – 1447
				Option pricing model	Interest rate volatility	4% - 24%
					Interest rate FX correlation	-33% - 26%
					FX correlation	31% - 56%
Financial investments	FVPL Other	90		Option pricing model		
					Interest rate volatility	4% - 24%
				Price	Price	1 – 12,000
				DCF method	Capital costs	7% - 9%
	Mandatory FVOCI	15		DCF method	Spread (bps)	71 – 1447
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Spread	71 – 1447
Liabilities to banks	FVPL Designated		108	Option pricing model	Interest rate volatility	4% - 24%
					Interest rate FX correlation	-33% - 26%
Liabilities to customers	FVPL Designated		384	Option pricing model		
					Interest rate volatility	4% - 24%
					Interest rate FX correlation	-33% - 26%
				Price	Price	30 – 95
Securitised liabilities	FVPL Designated		366	Option pricing model		
					Interest rate volatility	4% - 24%
					FX correlation	31% - 56%
Total		**815**	**951**			

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

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

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

IV. Sensitivities of fair values in relation to unobservable inputs

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

CORRELATION
Correlation can represent an important unobservable input for the measurement of derivatives. It is a measure of the degree to which two reference values move in relation to each other. Correlation is an important input for the model-based determination of the fair value of derivatives with more than one underlying. Financial instruments of this type include, for example, derivatives with several currencies ("FX basket") or several shares as the underlyings ("equity basket" derivatives). Currency correlations describe the relationship between changes in the 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 the 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 when 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 when 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 when the price increases and it falls when the price declines.

V. Reciprocal effects between unobservable inputs

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

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

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had certain effects on the fair values of the financial instruments in question. Advantageous and disadvantageous changes to fair value have been determined by recalculating the fair values based on possible alternative values to the relevant unobservable inputs. The interest volatilities were changed by +/- 5 %, all correlations by +/- 20 % (capped at +/- 100 %), price parameters by +/- 2 % and spreads by +/- 69 bps. Overall, this would then have had a positive/negative effect on the fair values of the financial instruments in question in the amount of € 24 million (31 December 2018: € 22 million). Of this amount, € 23 million was recognised in the income statement as income/expense and € 1 million in the revaluation reserve (31 December 2018: € 22 million income statement; € 0 million revaluation reserve).

VI. Day one profit and loss

The day one profit and loss reserve developed as follows:

(€ m)	30.06.2019	31.12.2018
Holdings as at 1 January	2	2
Additions not recognised in profit or loss	1	1
Reversals recognised in profit or loss	–	1
Holdings as at 30 June/31 December	**3**	**2**

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

40. Credit risk analysis of financial assets

I. Credit quality

The following table contains information on the credit quality of all financial instruments held by the Bank. The following table 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.

Credit quality

(€ m) 30.06.2019		1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12-month ECL)	Cash reserve				
	thereof AC assets	870	–	–	–
	Loans and advances to customers				
	thereof AC assets	1,488	5,655	10,400	8,083
	thereof FVOCI Mandatory	1,689	114	–	–
	Loans and advances to banks				
	thereof AC assets	1,125	1,326	390	100
	thereof FVOCI Mandatory	105	–	–	–
	Financial investments				
	thereof AC assets	–	53	57	–
	thereof FVOCI Mandatory	5,425	2,437	530	–
	Other assets				
	thereof AC assets	–	37	–	–
	No holding category				
	Receivables under finance lease transactions	–	60	–	–
	Contingent liabilities	85	150	318	188
	Irrevocable loan commitments	198	573	3,605	2,639
Financial instruments with a significant deterioration in credit quality (LECL level 2)	Loans and advances to customers				
	thereof AC assets	–	–	627	820
	thereof FVOCI Mandatory	–	–	11	–
	Financial investments				
	thereof AC assets	–	–	–	–
	thereof FVOCI Mandatory	–	–	51	–
	No holding category				
	Receivables under finance lease transactions	–	–	–	–
	Contingent liabilities	–	–	1	13
	Irrevocable loan commitments	–	–	78	68
Credit-impaired (LECL level 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
	thereof FVOCI Mandatory	–	–	–	–
	Financial investments				
	thereof AC assets	–	–	–	–
	thereof FVOCI Mandatory	–	–	–	–
	No holding category				
	Contingent liabilities	–	–	–	–
	Irrevocable loan commitments	–	–	–	–
Total		**10,985**	**10,405**	**16,068**	**11,911**

Credit quality

(€ m) 30.06.2019		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12-month ECL)				
	Cash reserve			
	thereof AC assets			
	Loans and advances to customers			
	thereof AC assets	54	82	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Other assets	–	–	–
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	–	–
	Irrevocable loan commitments	34	4	–
Financial instruments with a significant deterioration in credit quality (LECL level 2)	Loans and advances to customers			
	thereof AC assets	1,266	675	4
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	8	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	2	9	–
	Irrevocable loan commitments	37	9	–
Credit-impaired (LECL level 3)	Loans and advances to customers			
	thereof AC assets	–	1	558
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	1	70
	Irrevocable loan commitments	–	2	21
Total		**1,393**	**791**	**653**

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) 31.12.2018		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 (12-month ECL)	Cash reserve				
	thereof AC assets	5,362	–	–	–
	Loans and advances to customers				
	thereof AC assets	1,927	5,051	10,221	8,100
	thereof FVOCI Mandatory	1,874	111	–	–
	Loans and advances to banks				
	thereof AC assets	1,306	1,296	270	101
	thereof FVOCI Mandatory	166	–	–	–
	Financial investments				
	thereof AC assets	–	64	50	–
	thereof FVOCI Mandatory	6,574	2,363	362	–
	Other assets				
	thereof AC assets	–	33	–	–
	No holding category				
	Receivables under finance lease transactions	–	73	–	–
	Contingent liabilities	102	173	326	237
	Irrevocable loan commitments	446	709	3,512	2,493
Financial instruments with a significant deterioration in credit quality (LECL level 2)	Loans and advances to customers				
	thereof AC assets	–	10	757	621
	thereof FVOCI Mandatory	–	–	9	–
	Financial investments				
	thereof FVOCI Mandatory	–	–	47	–
	No holding category				
	Contingent liabilities	–	–	1	22
	Irrevocable loan commitments	–	–	128	127
Credit-impaired (LECL level 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	82
	thereof FVOCI Mandatory	–	–	–	–
	No holding category				
	Contingent liabilities	–	–	–	–
	Irrevocable loan commitments	–	–	–	–
Total		**17,757**	**9,883**	**15,683**	**11,783**

Credit quality

(€ m) 31.12.2018		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12-month ECL)	Cash reserve			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory			
	Loans and advances to customers			
	thereof AC assets	547	248	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to banks			
	thereof AC assets	27	–	–
	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	6	–	–
	Irrevocable loan commitments	39	66	–
Financial instruments with a significant deterioration in credit quality (LECL level 2)	Loans and advances to customers			
	thereof AC assets	855	760	5
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof FVOCI Mandatory	8	–	–
	No holding category			
	Contingent liabilities	12	1	–
	Irrevocable loan commitments	38	58	–
Credit-impaired (LECL level 3)	Loans and advances to customers			
	thereof AC assets	184	115	575
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	–	65
	Irrevocable loan commitments	–	–	11
Total		**1,716**	**1,248**	**656**

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 43.

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		
30.06.2019	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	131	–	–	–
Financial investments	103	–	–	–
FVPL Other				
Loans and advances to customers	546	179	–	36
Financial investments	573	–	–	12
Non-current assets held for sale and disposal groups	8	–	–	–
FVPL Held For Trading				
Trading assets	4,079	83	19	236
No holding category				
Positive fair values of hedging derivatives	127	–	–	–
Value adjustments from the portfolio fair value hedge	279	–	–	–
Total assets	**5,846**	**262**	**19**	**284**

Financial assets and associated collateral

(€ m)		Value of collateral received		
31.12.2018	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	120	–	–	–
Financial investments	96	–	–	–
FVPL Other				
Loans and advances to customers	547	370	–	–
Financial investments	541	–	–	–
Non-current assets held for sale and disposal groups	8	8	–	–
FVPL Held For Trading				
Trading assets	3,094	367	16	302
No holding category				
Positive fair values of hedging derivatives	175	–	–	–
Value adjustments from the portfolio fair value hedge	200	–	–	–
Total assets	**4,781**	**745**	**16**	**302**

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		
30.06.2019	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	559	130	4	31
No holding category				
Contingent liabilities	70	–	2	7
Irrevocable loan commitments	24	1	–	1
Total assets	**653**	**131**	**6**	**39**

Impaired financial assets and associated collateral

(€ m)		Value of collateral received		
31.12.2018	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	955	282	4	12
No holding category				
Contingent liabilities	65	1	2	8
Irrevocable loan commitments	11	2	–	–
Total assets	**1,031**	**285**	**6**	**20**

For loans and advances to customers amounting to € 34 million (31 December 2018: € 199 million), no impairment losses were recognised despite default due to the collateral available.

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

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

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

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

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

Hamburg Commercial Bank received collateral from counterparties with a total fair value of € 352 Million (31 December 2018: € 271 million). The collateral received is split up as follows: € 352 million (31 December 2018: € 271 million) relates to OTC derivatives and structured transactions. The Group did not receive any collateral either as at the reporting date or as at 31 December 2018 within the framework of genuine repo transactions where it acted as the lender Collateral received includes cash collateral in the amount of € 352 million (31 December 2018: € 271 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 € 11 million (31 December 2018: € 99 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) 30.06.2019	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	1,112	728	1,840
Irrevocable and revocable loan commitments	27	16	44
Total	**1,139**	**745**	**1,884**

Forbearance exposure

(€ m) 31.12.2018	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	1,520	736	2,256
Irrevocable and revocable loan commitments	40	2	42
Total	**1,560**	**738**	**2,298**

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 523 million have already been set up for the portfolios measured at amortised cost (31 December 2018: € 618 million).

42. Contingent liabilities and irrevocable loan commitments

Contingent liabilities

(€ m)	30.06.2019	31.12.2018
Contingent liabilities	1,598	1,748
Loan commitments	7,270	7,627
Total	**8,868**	**9,375**

In addition to the values shown in the table, there are other contingent liabilities arising from litigation. These mainly relate to litigation risks explained under provisions in the Group financial statements as at 31 December 2018. The legal disputes giving rise to these litigation risks comprise several claims. Provisions have been set up for litigation risks for some of these disputes, while contingent liabilities are in place for others. The Bank does not present the information required under IAS 37 as this could adversely affect the Bank's position in the underlying legal disputes.

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

Other disclosures

43. Related parties

Hamburg Commercial Bank does business with related parties and companies.

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

Furthermore, business relations exist with subsidiaries which are controlled but not included in the Group financial statements for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of Hamburg Commercial Bank AG.

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. Entities with a significant influence over the Bank

The Bank is still providing servicing services for some of the transactions sold as part of the portfolio transaction in 2018. In addition, there are cash sub-participations and back-to-back transactions in connection with transactions executed as part of the portfolio transaction for which the legal transfer has not yet been completed.

There are also business relationships with a business partner within the scope of payment transaction services on a nostro account basis to a small extent. There were no other significant transactions as at the balance sheet date.

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

Subsidiaries – assets

(€ m)	30.06.2019	31.12.2018
Loans and advances to customers	1	1
Loan loss provisions	-1	-1
Total	**–**	**–**

Subsidiaries – liabilities

(€ m)	30.06.2019	31.12.2018
Other liabilities	1	9
Total	**1**	**9**

Subsidiaries – income statement

(€ m)	January – June 2019	January – June 2018
Result from financial instruments categorised as FVPL	–	-1
Other operating result	–	1
Total	**–**	**–**

III. Associates

The transactions with unconsolidated subsidiaries are shown below:

Associates - liabilities

(€ m)	30.06.2019	31.12.2018
Liabilities to customers	1	–
Total	**1**	**–**

IV. Joint ventures

The following tables show the transactions with joint ventures:

Joint ventures – assets

(€ m)	30.06.2019	31.12.2018
Loans and advances to customers	16	15
Total	**16**	**15**

Joint ventures – liabilities

(€ m)	30.06.2019	31.12.2018
Liabilities to customers	2	2
Total	**2**	**2**

Joint ventures – income statement

(€ m)	January – June 2019	January – June 2018
Result from financial instruments categorised as FVPL	2	9
Total	**2**	**9**

V. Other related parties and companies

The following transactions had 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 balance sheet date:

Other related companies and parties – liabilities

(€ m)	30.06.2019	31.12.2018
Liabilities to customers	1	1
Total	**1**	**1**

Management Board members

STEFAN ERMISCH
Born in 1966
Chief Executive Officer (CEO)

ULRIK LACKSCHEWITZ
Born in 1968
Chief Risk Officer (CRO)
Deputy CEO

IAN BANWELL
Born in 1963
(since 1 April 2019)
Chief Operation Officer (COO)

DR NICOLAS BLANCHARD
Born in 1968
Chief Clients and Products Officer (CCO)

CHRISTOPHER BRODY
Born in 1968
(since 1 July 2019)
Chief Investment Officer (CIO)

OLIVER GATZKE
Born in 1968
Chief Financial Officer (CFO) and
Chief Technical Officer (CTO)

Hamburg, 15 August 2019

Stefan Ermisch Ulrik Lackschewitz

Ian Banwell Dr Nicolas Blanchard

Christopher Brody Oliver Gatzke

Review Report

To Hamburg Commercial Bank AG, Hamburg
We have reviewed the condensed consolidated interim financial statements - 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 condensed group statement of cash flows, as well as selected explanatory notes - and the interim group management report of Hamburg Commercial Bank AG, Hamburg, for the period from 1 January to 30 June 2019 which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). 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 provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. 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 Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (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 nor 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 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber	ppa. Tim Brücken
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 the Hamburg Commercial Bank Group. Furthermore, the interim management report of the Group provides a true and fair view of the business development and performance of the Hamburg Commercial Bank Group, including the business results and situation of the Hamburg Commercial Bank Group, together with a description of the principal opportunities and risks associated with the expected development of the Hamburg Commercial Bank Group for the rest of the financial year.

Hamburg, 15 August 2019

Stefan Ermisch

Ulrik Lackschewitz

Ian Banwell

Dr Nicolas Blanchard

Christopher Brody

Oliver Gatzke

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Notice

If at times only the masculine form is used for certain terms relating to groups of people, this is not meant in a gender-specific manner, but occurs exclusively for the sake of better readability.

This Financial Report was published on 29 August 2019 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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