Interim Report

as at 30 June 2023

Hamburg
Commercial
Bank

KPIs 2019-H1 2023

Profitability / Efficiency

Net income before taxes (in €mn)

2019	2020	2021	2022	H1 2023
77	257	299	363	230

CIR[1] (in %)

2019	2020	2021	2022	H1 2023
69	42	50	44	39

Net interest margin[2] (in bps)

2019	2020	2021	2022	H1 2023
75	117	145	168	182

Capital

CET1[3] ratio (in %)

2019	2020	2021	2022	H1 2023
18.5	27.0	28.9	20.5	18.5

Asset quality

NPE[4] ratio (in %)

2019	2020	2021	2022	H1 2023
1.8	1.8	1.4	1.2	1.5

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] Cost-income ratio [2] Operating net interest income divided by average total assets. [3] YE 2021 excludes results from FY 2021; YE 2022 post dividend, H1 2023 excl. HY net result [4] Non-performing exposures

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MACROECONOMIC CONDITIONS

Key geopolitical and economic developments

Following Russia's invasion of Ukraine in February 2022, the **war** has continued into the first half of 2023, with no prospect of it ending any time soon. The military conflict has been accompanied **by international sanctions against Russia** in the form of oil import bans imposed by the EU and price caps on Russian oil by the G7 countries. The fact that the oil price fell by more than 12 % in the first six months of the year despite OPEC production cuts may be related to the price cap on Russian oil.

Meanwhile, the situation on the market for **natural gas** has eased significantly, as is evident from a gas price that is lower than the level seen in early 2022, even though prices remain very high by historical standards. The easing of the situation on this market is being bolstered by the high filling level of gas storage facilities, which were 80 % full (an above-average figure) at the end of June.

Another consequence of the Russia-Ukraine war is that the number of **refugees** who have made their way to the EU, and especially to Germany, has increased significantly. On the geopolitical front, another factor that has played an important role is the mounting tension between the US and China. In particular, **China's** more frequent and drastic **threats against Taiwan** have thrust this risk into the spotlight more.

While goods prices have fallen in the wake of lower commodity prices and fewer supply chain problems, the **headline inflation rate** remains relatively high, albeit on a downward trend, especially in the eurozone and the US.

The **global economy** moved in **two directions** in the first half of the year. While the manufacturing sector, according to S&P Global's purchasing managers´ indices, reported little growth in output over this period, the service sector has seen an acceleration in activity growth. The latter is due to catch-up effects associated with the COVID-19 pandemic, which are being expressed, among other things, in a great willingness to spend on tourism. In the manufacturing sector, on the other hand, companies are once again adapting to the shorter delivery periods and ordering fewer goods to be held in stock.

Economic development by region

In the world's three major economic areas, the US, the eurozone and China, the effects of normalisation following the disruption triggered by the pandemic are manifesting themselves differently in terms of magnitude and timing.

In the **US**, GDP grew by only 1.3 % quarter-on-quarter in the first quarter of the year (annualised rate), with similar growth on the horizon for the second quarter. This forecast is supported by the declining ISM purchasing managers´ indices, which are only just in expansionary territory in both the manufacturing and service sectors. The extremely robust growth in employment is still having a stabilising effect. The core PCE inflation rate came in at 4.7 % in April, only just below last year´s peak of 5.4 %.

Eurozone GDP contracted by 0.1 % in the first three months of the year. The EMU area is in a technical recession after what was also negative growth in the fourth quarter of 2022. Germany is the biggest contributor to this trend, as France, Italy and Spain grew at rates of between 0.2 % and 0.6 % in the first quarter of 2023. Inflation in the eurozone came to 6.1 % in May. While this represents a marked decline as against the double-digit inflation level witnessed last autumn, partly due to lower energy prices, it is still well above the ECB´s target of 2 %. Moreover, the core inflation rate of 5.3 % remains close to its all-time high from March 2023.

China´s recovery after the economy was opened back up at the end of last year has been disappointing, especially in the manufacturing sector. Following GDP growth of 2.2 % in the first quarter, monthly economic indicators are pointing towards a marked slowdown in the spring.

German GDP fell for the second time running in the first three months of the year, a trend that is being described as a technical recession. A main cause behind the drop in GDP was initially the end of a large number of government pandemic relief measures, such as the closure of test centres. Private consumption also declined, while investments bounced back. Construction investment played a particular role in this trend, benefiting from a mild winter. The manufacturing sector was also able to grow in the first few months thanks to what were still high order backlogs to be processed. Inflation has fallen in recent months. Headline inflation was 8.7 % at the beginning of the quarter and 6.4 % at the end of the first half of the year. Core inflation, on the other hand, rose from 5.6 % in January to 5.8 % in June.

Monetary policy: significant countermeasures

The US Federal Reserve (Fed) and the European Central Bank (ECB) started raising their **key interest rates** last year. By 30 June, the US Federal Reserve had raised the Fed Funds Rate by 500 basis points to between 5.0 % and 5.25 %. The ECB had raised its key interest rates by a total of 400 basis points to 3.75 % (deposit rate) and 4.0 % (main refinancing rate) by the end of June. In July, both central banks announced a further interest rate hike of 25 basis points. Both central banks are now in the process of reducing their balance sheets. At the ECB, total assets have been reduced mainly because banks have largely repaid the TLTRO long-term refinancing loans. In addition, the amounts from maturing bonds in the APP portfolio have only been partially reinvested since March 2023, and have not been reinvested at all since July. The Fed is also reducing its asset portfolio in general, although the regional bank turmoil this spring prompted it to inject additional liquidity into the system by making renewed asset purchases, meaning that its balance sheet has increased temporarily again.

After **long-term bond yields** rose last year in the wake of key rate hikes, this year has brought more of a sideways movement so far. This could well be related to the expectation that the "terminal rate", at which the cycle of interest rate hikes comes to an end, could soon be reached. Ten-year T-notes were yielding 3.81 % and the corresponding Bunds 2.38 % on 30 June 2023. At the end of 2022, these yields came to 3.88 % (T-notes) and 2.56 % (Bunds).

The **stock markets** made gains in the first half of the year despite higher short-term interest rates. The Dax climbed to a new all-time high in June 2023, closing the month at 16,148 points, some 16 % higher than at the end of 2022, bolstered by strong corporate results. The S&P 500 ended the first half of the year at 4,450 points, which also represents an increase of around 16 % compared with the end of the previous year. Technology companies played a dominant role, with many investors betting on these stocks in view of the expectations surrounding the topic of artificial intelligence.

The **euro** fluctuated between 1.05 and 1.11 US dollars in the course of the first six months and appreciated by 2.25 % in the first half of the year, or appeared not to be moving in any clear direction as both central banks tightened their monetary policy reins in the period under review. The euro was trading at 1.09 US dollars on 30 June 2023.

DEVELOPMENT IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK

Real estate markets

The German real estate markets showed varied development in the investment and rental markets in the first six months of 2023. While transaction volumes on the investment markets plummeted to the lowest level seen in 13 years and property prices fell sharply in some cases, prime rents continued to climb on most rental markets. The investment markets continued to struggle in an environment dominated by investors who were reluctant to invest, and those willing to sell, because they have not yet adapted to the new market environment characterised by higher interest rates. While investors were increasingly able to switch to attractive interest-bearing investments instead of real estate, loan-financing market participants held back unless they were able to negotiate price discounts to allow for debt servicing at higher financing costs. However, not too many sellers were willing or forced to make such concessions. In addition, uncertainty regarding the scope and cost of energy-efficient modernisation for older properties and those in need of refurbishment contributed to a more cautious approach among investors. In light of these foreseeable investments, the prices of these properties, in particular, fell considerably. In this uncertain market environment, the investment volume fell by two thirds compared to the same period last year. No property use type managed escape the downturn unscathed.

This also put a strain on project development. Projects were postponed or shelved entirely, resulting in a marked drop in building permits and construction orders, especially in residential construction. Meanwhile, construction activity remained elevated thanks to the order backlog. Despite the economic slowdown, the rental markets were boosted by fact that labour market developments remain relatively robust, as well as by the increase in population due to the influx of refugees and partial space shortages.

Rents continued to rise in the **housing markets** of the country's major cities in the first half of the year. Demand was stimulated by the need to accommodate refugees, as well as growth in the number of employees and the associated influx. As completions are likely to have declined, supply is likely to have become even shorter. These increased rents have, however, remained affordable for many low-income households because the amount of, and the scope of eligibility for, housing allowance were increased significantly. The higher interest rates, on the other hand, have made buying a home less affordable for owner-occupiers and significantly less attractive for investors. Residential property prices fell significantly as a result, especially for rented apartments.

In the **German office property markets**, demand for space fell significantly year-on-year in the first half of the year. This reflected companies' reluctance to hire staff due to the economic downturn. Lettings for large spaces, in particular, declined as flexible forms of work became increasingly commonplace. Weaker demand was outpaced by completions, meaning that, while vacancy rates continued to rise, they remained relatively low for the most part. In addition, demand in a number of cities was heavily concentrated on high-quality properties in prime locations, pushing rents there up significantly. Market values, on the other hand, generally showed more pronounced drops in an environment dominated by low transaction levels in the pricing phase on the investment markets.

In most **European office property markets**, demand for space also waned and vacancies increased slightly. For the most part, prime rents stagnated, showing a moderate increase in only a handful of cities. There were sometimes marked losses in market values across the board due to the corrections triggered by the turnaround in interest rates.

Retail property markets in Germany continued to grapple with high inflation and poor consumer sentiment in the first six months of 2023. Consumer reluctance to spend led to declining retail sales after adjustments to reflect inflation. Some sectors, however, were less affected and achieved above-average nominal growth, in particular food retail, but also fashion and clothing. This is likely to have had a positive effect on restructuring processes in city centre locations. The reason for this is that shop closures, some of which were caused by insolvency, were followed by repositioning measures in the fashion industry, meaning that demand for space picked up and the downward spiral in prime rents lost significant momentum. Shopping centres continued to stagnate, while retail park and supermarket rents increased. The market values of all retail properties, however, continued to fall considerably amid ongoing risk aversion and investor restraint due to the interest rate turnaround, particularly for commercial buildings.

Industry, trade and logistics, infrastructure and renewable energy

German economic output contracted by 0.3 % (adjusted to reflect price, seasonal and calendar effects) in the first quarter of 2023 compared to the fourth quarter of 2022, following what was already a 0.5 % quarter-on-quarter decline in the fourth quarter of last year. This means that the German economy is in a technical recession in the 2022/2023 winter half-year. The consequences of Russia's invasion of Ukraine, in particular the strong upward pressure on prices, weighed on the German economy at the beginning of 2023, despite the fact that the initial supply shock has clearly receded in many areas (e.g. energy prices). The overall conditions for the German economy remain very challenging. In the **manufacturing sector**, the production volume at the start of the year (January to April) was 2.2 % above the level seen in the same period of the previous year; in the previous year, the production volume in this period – compared to 2021 – was still down by 2 %. Trends varied considerably in the major industries: While output in the metal and mainstream construction industry, as well as the pharmaceutical industry, shrank only slightly (following double-digit growth for the pharmaceutical industry in the same period of the previous year), output in the energy-intensive chemical industry fell by almost one fifth. The food industry showed a slight increase in production. The strongest growth driver in the manufacturing sector was vehicle construction, which was able to expand its production volume by around one fifth, with production in the automotive sector going even further an increasing by more than one third, after having shrunk by about 18 % in the same period of the previous year.

After reporting weak revenue growth of 0.9 % in 2022 as a whole, **wholesale** companies reported a marked contraction of 4.4 % in the first four months of 2023 compared to the same period of the previous year. In view of real income losses due to consumer price inflation that remains high, **retail** showed a decline of as much as almost 5.5 % (in real terms) in the first five months, as against an increase of 4.8 % in the same period of the previous year. While food sales declined by over 10 % in the first five months, retail sales of textiles, clothing, footwear and leather goods, which had reported growth in excess of 130 % in the first five months of 2022, exhibited only weak growth at the beginning of 2023. The tense situation in the (fashion) retail sector due to high inflation, cost burdens and a reluctance to buy is also reflected in the significantly higher number of corporate insolvencies in this segment, also affecting big market names. Non-bricks-and-mortar retail, which had reaped particular benefits from the containment measures during the COVID-19 pandemic and the restrictions on bricks-and-mortar retail, recorded a drop in real sales of around 8 % in the first five months in a year-on-year comparison. At the beginning of 2022, sales in this segment had already contracted by around 11 %.

Revenue in the **logistics sector** showed marked positive development (in real terms) at the start of 2023, increasing by 6 % in the first quarter of the year compared to the same period of 2021, when revenue increased at a similar rate (6.5 %). The measured business climate in the German logistics industry, however, deteriorated in the course of the first half of 2023 and the associated index was sitting at below 90 points in the second quarter. The current business situation was viewed in a positive light less frequently, and the business outlook was considered to have clouded over and was often viewed pessimistically in the survey.

The global **project financing** volume fell very dramatically in the first quarter of 2023 and, according to the financial market data provider "Refinitiv", was 33 % lower than the volume seen in the same period of the previous year, which had, at that time, marked the strongest first quarter in terms of volume since "Refinitiv" started collecting data. Development by region varied considerably. The transaction volume in the Europe/Middle East/Africa region fell particularly sharply (-58 %), with the telecommunications sector proving to be the most active area, as in the same quarter of the previous year, albeit with a volume that was down by one third. The financing volume in Asia also declined very significantly, falling by 51 %. In this region, it was the power generation sector that accounted for the biggest share. In North and South America, on the other hand, project financing volumes showed very dynamic growth, bucking the global trend. They achieved a year-on-year increase of 85 % after a comparatively moderate first quarter in the previous year (+11 %). This growth was driven mainly by projects in the "oil and gas" sector. As a result, this region accounted for almost half of the volume of global project financing activities in the first quarter.

Investment in **transport infrastructure** – measured based on global project financing volumes – fell very sharply across the globe at the start of the year compared to the same period of the previous year (80 % decline), with a rate of contraction that was only exceeded by the decline in the mining sector (–90 %).

The expansion of **renewable energies** made further progress in both Europe as a whole and Germany at the beginning of 2023. The considerable slowdown in onshore wind energy in Germany observed since 2018 has given way to new momentum at the beginning of 2023: by the end of March 2023, a clear upward trend had emerged with regard to both commissioning and permits. in terms of installed and commissioned capacity, new construction in the first three months was 46 % higher than in the same period of 2022. At the end of March, 28,500 wind turbines with a capacity of almost 58,500 MW were in operation nationwide. Almost 8,000 of these plants (8,090 MW) have been connected to the grid for more than twenty years and are operated without any entitlement to remuneration under the German Renewable Energies Act (EEG).

The expansion in the European solar segment proved to be very dynamic in 2022 (newly connected capacity in the EU +23.6 % year-on-year) and this strong development is also expected to continue in 2023 (expected growth of almost one third compared to the previous year): in Germany alone, the country with the largest solar capacity in Europe, new installations in the photovoltaics segment in the first five months of 2023 (according to preliminary figures) totalled almost 4,970 megawatts, higher than in any other year during this period. Compared to the same period of the previous year, the increase was more than 50 %. The need for alternative energy sources following Russia's attack on Ukraine, more ambitious political climate targets and a stronger awareness of climate protection among the population at large are also likely to continue to have a positive effect here in the short and medium term.

Shipping markets

Numerous different influences resulted in mixed developments on the shipping markets in the first half of the year. The impact of the war in Ukraine on trade routes, catch-up effects associated with the pandemic, high inflation, rising interest rates and weak economic activity, however, resulted in slightly lower charter rate levels overall compared to the end of the previous year in all main markets. The margins of fluctuation were less pronounced than in previous years.

Charter rates and prices for **container vessels** stopped declining at high levels in the first half of 2023. At the beginning of the year, weak transport demand was still pushing freight and charter rates downwards. This is because high inflation and rising interest rates were putting pressure on consumer spending. In addition, after the end of the pandemic, a bigger share of private consumption spending started to flow into services again. Furthermore, retailers that had been holding larger stocks due to previous supply problems saw little reason to reorder as a result. The significantly lower cargo volume means that bottlenecks in supply chains have also been resolved, reducing ship waiting times in ports and, as a result, making the fleet much more efficient. As a result, significantly less tonnage was needed overall, which was reflected in declining rates. The tide turned in the second quarter, however, with the recovery in container handling. Since the shipping lines had stocked up on ships during the boom in the wake of the pandemic, or chartered them on a long-term basis, thus taking them off the market, larger ships in particular were again in short supply on the charter market. Noticeably higher rates had to be offered again in order to secure tonnage requirements. Fleet growth has accelerated significantly of late. Due to increasing deliveries of ships ordered during the boom phase and sustained low scrapping activity, total capacity grew significantly.

The earnings situation among **bulkers** was characterised by noticeable ups and downs in the first half of the year, and was consistent with the average for the last ten years. After the usual seasonal weakness at the beginning of the year, a boost came from rising demand, especially for the main commodities of iron ore, coal and grain. The lifting of the COVID restrictions created a positive environment with increased Chinese imports of iron ore, particularly in the largest segment comprising Capesize vessels. The increased demand for coal worldwide in connection with the energy crisis also fuelled the need for transport capacity. Grain, which is less subject to cyclical fluctuations than the other commodities, also provided stable demand. This was supported by successful negotiations between Russia and Ukraine on secure transport corridors. Since May, however, market sentiment has clouded over again. Thwarted expectations regarding Chinese commodity demand, which is still being hit by the ongoing weakness in the construction sector, but also lower coal imports to Europe and less port congestion sent freight and charter rates on a downward trajectory again. Fleet supply has continued to grow at only a very moderate rate in recent months. The impact of more stringent environmental regulations is creating uncertainty regarding which fuels and propulsion systems will prevail in the long term. This was a key reason behind the restraint in placing orders.

In the **oil tanker** market, the situation has stabilised at a very high level after the boom seen in the previous year. At the beginning of the year, further EU sanctions against Russia came into force, cementing longer trade routes for both European imports and Russian exports. At the same time, increasing mobility and economic activity after the lifting of China´s COVID restrictions meant that the country lifted its targets for crude oil imports and oil product exports significantly. This boosted transport demand in all oil tanker segments. Ship prices on the secondary market continued to climb, driven by a persistently positive market outlook and rising costs for newly built vessels. The tanker fleet is still growing at only a moderate rate. Here, too, market participants have been reluctant to place new orders in recent years due to a prolonged period of weak market conditions and new requirements regarding greenhouse gas emissions. This stance has, however, increasingly been abandoned of late due to good earnings prospects. There was hardly any scrapping activity, as even older ships are currently earning well.

BANKING ENVIRONMENT

The overall challenging market environment for banks was characterised by both positive and negative aspects in the first half of 2023. While the ongoing marked geopolitical uncertainty became somewhat less of an issue, stubborn inflation, as well as the turbulence in the US regional banking sector and in connection with Credit Suisse, dealt a blow to the sector which partially offset the positive impact on bank earnings associated with rising central bank interest rates. The highly volatile stock market quotations of banks over the past six months reflected these two poles, with the positive aspects associated with rising interest rates outweighing concerns over the resilience of the banking sector overall at the half-year point.

In general, banks´ net interest income is also likely to have benefited from the rising interest rates in the first half of 2023, despite the inevitable increase in refinancing costs. At the same time, many institutions´ risk costs remained within limits despite the gloomy macroeconomic environment. On the one hand, this was because banks were able to draw on their relatively high reserves. In addition, political support measures for companies and households continued to help keep loan defaults at a comparatively low level so far. The inflation environment, on the other hand, is likely to have a negative impact on bank earnings in the form of rising personnel and operating expenses. The latter is likely to apply in particular to upcoming modernisation projects in the IT sector.

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

Regulatory monitoring focused on the resilience of European banks, not least with the EBA/ECB stress test. The adverse scenario used for the stress test included a significant and prolonged economic downturn, as well as a correction in the capital and asset markets, not least in the real estate asset class, which is also influenced by the current interest rate environment. Hamburg Commercial Bank participated in the SSM stress test. The results published at the end of July 2023 demonstrate the Bank's good capital position, even after the dividend payment, as well as its significantly increased resilience thanks to significantly improved profitability and a solid, resilient portfolio quality. The CET1 capital ratio for the Bank calculated as part of the stress test still came to a very strong 16.5 % even in the adverse scenario – after a discount of 4.0 percentage points. The leverage ratio dropped – after a discount of 1.6 percentage points – to what was still a very good value of 8.2 %. This means that HCOB´s results were considerably better than the average results of all the institutions tested, and provide strong evidence of the progress made in recent years with regard to sustainable profitability and strengthened resilience.

IMPACT OF THE UNDERLYING CONDITIONS ON THE BUSINESS OF HAMBURG COMMERCIAL BANK

The overall macroeconomic and industry-specific conditions described in the sections above have also had an impact on the business performance of Hamburg Commercial Bank AG in the first half of 2023.

In the Shipping segment, the Bank benefited, among other things, from the positive development in the market situation and the medium-term forecasts for charter rates and ship prices. Accordingly, model overlays set up for the tanker portfolio in the past were reversed in the reporting period, which had a positive effect on loan loss provisions (income statement) and, as a result, on the Bank’s earnings situation. In addition, there were significant net reversals of model overlays in the Project Finance segment, which can be attributed to the fact that there is now certainty regarding guaranteed feed-in tariffs in the French energy market.

In view of the negative factors described in the information on developments on the real estate markets, the transaction volume on the investment markets decreased significantly compared to the same period of the previous year. These external market conditions, combined with the Bank´s risk-conscious business approach, meant that HCOB only concluded new business in the Real Estate segment on a selective basis in the first half of the year, particularly in the national environment. As a result of the gloomier overall environment, the volume of new defaults in the Real Estate segment exceeded the reduction in risk-weighted assets and led to a moderate net increase in the NPE volume in this segment. Despite the new defaults, the development in loan loss provisions (income statement) in the Real Estate segment was moderate overall at Stage 3. In this context, one positive aspect is the fact that the real estate portfolio has solid average risk parameters (loan-to-value and loan-to-cost ratios, as well as debt service ratios such as debt yield). The fact that HCOB prepared for a turnaround in the real estate markets early on and, among other things, tightened its lending standards in the course of this positioning, significantly reducing its new business, has had an effect here. By contrast, there were net additions at Stages 1 and 2 in the Real Estate segment. The reversals resulting from the reduction of a large exposure and from rating improvements are more than compensated for by the increase in model overlays. The retail property and construction land financing segments are currently being hit particularly hard by the loss of purchasing power and the sharp rise in interest rates. Uncertainty surrounding the possible economic effects on these portfolios has been reflected in model overlays.

Hamburg Commercial Bank had also made timely preparations for changes in the interest rate environment as part of its asset and liability management activities. The further increase in short-term interest rates in the first half of 2023 had a generally positive effect on the Bank´s net interest income, which increased by around 12 % in the first half of 2023 compared to the same period of the previous year. The favourable positioning vis-à-vis the interest rate environment was also reflected in positive valuation effects from interest rate derivatives in the first half of 2023, which were one of the drivers for the very good result from financial instruments categorised as FVPL of € 73 million (same period of the previous year: € 16 million). The FVPL result was also positively affected by the fact that credit spreads narrowed again after they had widened significantly in the first half of 2022 due to the uncertainty triggered by the outbreak of war in Ukraine.

On the refinancing side, the Bank, also supported by the rating upgrade to the A range, was able to successfully implement its issuing activities in what was, at times a volatile market environment by issuing a senior preferred bond and a mortgage Pfandbrief.

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 2023

As explained in greater detail in the previous chapter, the external market environment in the first half of 2023 was characterised by only a slow decline in inflation, further interest rate hikes and persistently pessimistic economic expectations. In addition, triggered by the regional banking crisis in the US, the banking market was hit by periods of turbulence that led to temporary high volatility on the global financial markets.

Faced with these still challenging and uncertain overall conditions, the focus of the Bank´s management, in addition to implementing the moderate growth path and ensuring the maintenance of the positive trend in operating profitability, was on actively managing interest rate, credit, market price and liquidity risk in a volatile environment.

Hamburg Commercial Bank has succeeded in further consolidating its position in the German and European banking market, as is evidenced by the good financial ratios as at 30 June 2023, the improved rating positioning and the good results in the SSM stress test. The confirmation of the positive trend in increasing operating profitability, maintaining a solid capital and liquidity position at the same time, is particularly encouraging. In detail, the following developments and events are worth highlighting in the first half of 2023:

Profitability: Net income before taxes up by almost 30 % year-on-year – further increase in net interest margin – all market segments earn cost of capital

In terms of profitability, the Bank was able to confirm the positive trend seen in the recent past and is ahead of the plan that will allow it to achieve its forecasts for net income before and after taxes for the year as a whole at the half-year point. In the first six months, net income before taxes increased by almost 30 % compared to the same period of the previous year. At the same time, the Bank's sustainable earnings power has been strengthened and the impact of special effects reduced compared to previous years. The increase in total income, which was characterised, in particular, by solid development in net interest income and was also supported by a strong FVPL result, made a significant contribution to this trend.

The increase in net interest income (increase of around 12 %), which was in line with expectations, is based on the renewed expansion of the net interest margin (hereafter referred to as "NIM"; for a definition of NIM, please refer to the comments in the segment report within the notes to the Group financial statements). In addition to rising interest rates, ongoing asset allocation had a positive effect here. In view of the increasing pressure on refinancing costs in the banking market in general, the Bank benefited from the upgrading of its issuer rating to the A range in March, which is likely to expand the investor base in the long run and further strengthen fundraising resilience (see also the separate section below).

Developments in the individual market segments were encouraging. After-tax returns exceeding the cost of capital were recorded in all lending units. For further information on the segment results, please refer to the chapter entitled "Segment results".

New business development ahead of prior-year level – solid margin development

New business development was in line with the Bank's expectations. With a balanced allocation to the individual market segments, the gross new business volume totalled € 3.0 billion in the first six months of 2023, putting it slightly ahead of the figure for the same period of the previous year (€ 2.8 billion). New business profitability, measured by RoE after tax, was also consistent with expectations across all asset classes. Further information on the development of new business in the individual lending units can be found in the "Segment results" section.

Total assets reduced moderately due to scheduled dividend payment – more diversified asset structure

Total assets decreased moderately by € 1 billion or 3 % to € 30.8 billion as a result of the dividend payment of € 1.5 billion made in April (see also the separate section below). In managing the credit and financial investment portfolio in an environment dominated by rising interest rates, the Bank has been adaptive in responding to dynamic changes in market conditions and opportunities, resulting in gradual changes in asset allocation compared to the 2022 year-end plan. These changes relate primarily to the unplanned expansion of the investment portfolio. For example, financial investments increased significantly by 34 % compared to the end of the year, which strengthens the liquidity of the balance sheet structure. By contrast, momentum in the loan book was dampened somewhat.

The degree of diversification in the loan book across the asset classes has increased further, which is reflected in an increasingly balanced allocation of the portfolio across the four lending units. Due to the selective business approach, particularly in national Real Estate, and high principal payments made by Shipping clients, the relative shares attributable to these segments declined in favour of Project Finance and Corporates.

Moody´s upgrades HCOB´s issuer rating to A3

The rating agency Moody´s upgraded key ratings of Hamburg Commercial Bank by one notch on 17 February 2023: the bank´s issuer, senior preferred and deposit ratings were upgraded from "Baa1" to "A3 with a stable outlook", while the stand-alone rating improved from "ba1" to "baa3". The positive rating move follows an upgrade in July 2021 to "Baa1"/"ba1" and represents a further improvement on HCOB´s "Baa2"/"ba2" rating awarded at the time of its privatisation in November 2018.

The rating agency considers HCOB to be well positioned due to its solid capital position, improved portfolio quality and significantly strengthened sustainable profitability.

The Bank expects that the rating upgrade, including the improvement of HCOB´s Pfandbrief ratings by one notch each (Mortgage Pfandbrief to "Aaa", Ship Pfandbrief to "Aa3"), will have a further positive impact on the Bank's sustainable earning power, and in particular, on its refinancing activities, especially in the form of an expansion of the investor base, as well as positive effects on funding costs.

Benchmark issues strengthen refinancing structure

After the rating upgrade, the Bank successfully placed a senior preferred bond rated "A3" by Moody´s on the capital market in March 2023. The bond with a nominal volume of € 750 million has a term of two years. The fact that the issue was significantly oversubscribed led to attractive pricing for the Bank and reflects the further increase in investor confidence. The successful issue marks an important step towards positioning HCOB on the capital market as an A-rated issuer.

This was followed in June by the issue of an "Aaa"-rated mortgage Pfandbrief with a volume of € 500 million, which was also upgraded. The Pfandbrief has a term until February 2028.

Risk: NPE ratio remains at a solid level of 1.5 % despite increase – moderate development in loan loss provisions

In view of the more challenging overall economic conditions and the significant change in the interest rate environment since mid-2022, HCOB has not been able to fully escape the pressure on the NPE ratio in individual market segments. In the first six months of the financial year, there were a number of new defaults in the Real Estate segment, which is particularly sensitive to interest rates, as well as a larger new default in terms of volume in the Project Finance segment, which, however, mostly has ECA (export credit agency) cover. At the same time, the Bank has systematically continued with its NPE management. The increase in the NPE volume was limited thanks to corresponding reduction successes. For example, the Bank reduced the vast majority of the largest NPE exposure in the Real Estate segment. Thanks to the conservative loan loss provisions policy, this was achieved without impacting earnings in the reporting period. Based on the aforementioned developments, the NPE ratio increased from 1.2 % to 1.5 % with a slightly reduced exposure at default (EaD), but remains at a solid level as of the reporting date.

The development in loan loss provisions at the end of the first half of the year was better than predicted in the planning assumptions, with a balanced income statement result. This is mainly because the new defaults only led to moderate specific loan loss provisions (Stage 3 loan loss provisions in accordance with IFRS 9), as the exposures have comfortable collateralisation structures overall (e.g. ECA coverage mentioned above or comfortable LTVs and debt service ratios for individual real estate financing exposures). There was a small net increase at levels 1 and 2.

Annual General Meeting in April approves dividend payment as proposed

In line with the distribution policy adopted in the 2022 financial year, the Management Board and Supervisory Board of Hamburg Commercial Bank AG had proposed to the Bank´s Annual General Meeting in March 2023 to make dividend payments of € 1,500 million (equivalent to € 4.97 per share) from the accumulated HGB profit for the 2022 financial year and to allocate the remaining portion of € 90 million to retained earnings. On 18 April 2023, the Annual General Meeting approved this proposal for the appropriation of profits as proposed. The dividend was paid out to the Bank's shareholders in April 2023.

Hamburg Commercial Bank had already taken the dividend payment into account in advance as part of the calculation of the CET1 ratio at 2022 year-end by way of a deduction from CET1 capital.

IT transformation and "Fast & Accurate" project

On the project side, in addition to regulatory topics, the comprehensive IT transformation process, which is on the home stretch, and the new "Fast & Accurate" project, which was launched at the end of 2022, were the main focal points in the first half of the year.

Key milestones were achieved in the context of IT transformation, with further system components going live.

The Fast & Accurate project aims to further optimise the lending process, as the core process in the Bank's operational business activity, and, in doing so, to ultimately increase operational efficiency even further. Optimisation covers the four aspects of efficiency, transparency, speed and quality. The project addresses the entire value chain, starting with the first customer contact and ending with entry in the systems. In the second half of 2023, the project will focus on implementing improvements/automation at the interface between clients and the Bank, as well as in the financing workflow.

London branch

HCOB has been represented by a branch office in London since 10 May 2023. With the approval granted by the UK Financial Conduct Authority (FCA), the Bank´s existing representative office in London was expanded to give it branch status.

By expanding its presence in one of the world´s most important financial markets, HCOB is strengthening its international positioning and giving its business partners in the UK direct access to the Bank´s financing solutions. The Bank´s expanded presence in London will also allow it to progress further in its quest to diversify its business activities. The focus is on business in the areas of Corporates International, Project Finance and Asset-Based Lending, as well as the international real estate business.

Earnings, net assets and financial position

Key group management indicators

	30.06.2023	31.12.2022 (30.06.2022)
RoE after taxes[1]	16.8%	20.8% (20.5%)
CIR	39%	44% (44%)
NPE ratio	1.5%	1.2%
CET1 capital ratio	18.5[2]	20.5%[3]
LCR	157%	197%

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

[2] The profits for the first half of 2023 have not been taken into account.

[3] The dividend payment made in 2023 was taken into account in advance, reducing the Common Equity Tier 1 capital.

Group performance in line with expectations overall
The following aspects, in particular, contributed to business development that was in line with expectations overall in the first half of 2023:

- The Group net result (net income after taxes), in which the annual contributions for the bank levy and the Deposit Protection Fund have already been recognised in full, amounted to a good € 178 million as at 30 June 2023 (same period of the previous year: € 207 million). Based on standardised regulatory capital backing, the return on equity after taxes (**RoE after taxes**) came to 16.8 % (30 June 2022: 20.5 %). The planned decline in net income after taxes is due to the expected normalisation of income tax expense, which had a negative impact of € 52 million in the first six months of 2023, while in the same period of the previous year, it had still made a very positive contribution of € 29 million to the Group net result. In contrast, net income before taxes for the first six months increased considerably again, namely by almost 30 % to € 230 million (same period of the previous year: € 178 million). Measured against the earnings forecast from the previous year, the development of the earnings base (taking into account the other operating result) was in line with expectations overall. On the cost side, loan loss provisions in particular, but also administrative expenses and regulatory expenses were lower than assumed in the forecast, which ultimately means that HCOB is on track at the half-year point to achieve its target for the full year in terms of net income before taxes (taking into account a continued cautious approach for the rest of the financial year). In detail, the developments were as follows: Total income increased significantly. It amounted to € 375 million for the first six months, which corresponds to an increase of almost one-quarter compared to the same period of the previous year (€ 303 million). Net interest income, as a key component of total income, was up by around 12 % on the previous year´s level (€ 260 million) at € 292 million in line with a further increase in the net operating interest margin. The FVPL result contributed a very good € 73 million (same period of the previous year: € 16 million) to earnings, partly driven by a strong valuation result from interest rate derivatives in what was, at times, a volatile capital market environment. At € 377 million (same period of the previous year: € 334 million), total income after loan loss provisions was slightly higher than expected in view of moderate development in loan loss provisions (net reversal of € 2 million, previous year: € 31 million). The increase in administrative expenses by around 4 % to € 156 million (same period of the previous year: € 150 million) was slower than planned, mainly due to a moderate increase in staff and stringent cost management. The other operating result of € 29 million outstripped expectations. As in the same period of the previous year (€ 40 million), it was characterised by one-off effects. As a result of lower amounts due for the bank levy, regulatory expenses were reduced by almost one third to € 20 million (same period of the previous year: € 29 million). As planned, the result from restructuring and transformation no longer had negative impact on earnings in the first half of 2023 (same period of the previous year: € -17 million). For information on the other individual drivers behind the development of the income statement items, we refer to the explanatory information in the next section of this chapter, the section on "Earnings situation".
- The cost-income ratio (**CIR**) came to a very good level of 39 % on 30 June 2023 (31 December 2022: 44 %). In general, the Bank is on track to achieve the forecast ratio of 45 % for the year as a whole in terms of the development in cost efficiency. Compared to the expectations for the full year, significantly better results in the FVPL result and in the other operating result led to the CIR being around 5 percentage points more positive as at the half-year reporting date. As against the same period of the previous year, the increase in the revenue base outpaced the increase in the cost base.
- The **NPE ratio** increased by 0.3 percentage points to 1.5 % as at 30 June 2023 (31 December 2022: 1.2 %), putting it slightly ahead of the forecast value of 1.3 % at mid-year point. The increase in the ratio is due to an increase in the NPE volume with a simultaneous slight decrease in the exposure at default (EaD). The decrease in EaD by € 0.9 billion from € 34.4 billion to € 33.5 billion is due primarily to the dividend payment of € 1.5 billion made in the reporting period. The NPE volume increased from € 405 million to € 502 million. There was a net increase in the NPE volume in the Real Estate segment, particularly as a result of the significant rise in the interest rates. In addition, the increase is partly due to a new default of a larger, mostly ECA-covered individual exposure in the Project Finance segment.

- The **CET1 ratio** has decreased as expected compared to 31 December 2022 (20.5 %) and stood at 18.5 % as at 30 June 2023. This value means that the ratio remains at a good level that is also comfortably above the forecast value of > 17 %, which also represents the strategic target level. The change in the CET1 ratio was mainly due to the planned increase in aggregate RWA from € 15.4 billion to € 16.5 billion. This development was driven by increased risk-weighted assets for credit risks (incl. other RWA), partly due to rating model recalibrations for corporates. The Common Equity Tier 1 capital (CET1 capital) of € 3.1 billion was slightly below the level seen on 31 December 2022 (€ 3.2 billion) due to higher regulatory deductions. It is important to note that the 2023 half-year profit has not been included in CET1 capital. The dividend payment made in April 2023 had already been reflected in the CET1 capital, with the effect of reducing it, at the end of the previous year.
- The liquidity position was once again managed prudently in the first half of 2023 in view of the highly uncertain market environment. The liquidity ratio **LCR** amounted to 157 % as at 30 June 2023. The planned decrease compared to the very high value seen on 31 December 2022 (197 %) is based on the normalisation of capital resources due to the dividend payment. With what is still a very adequate supply of highly liquid assets, the LCR remains at a relatively high level in relation to the regulatory minimum requirement of 100 % as at the half-year reporting date.

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

Management system and defined management indicators of the IFRS Group

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

Within the management reporting framework, the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. On the one hand, the focus is placed on the change in these key indicators compared to the same period of the previous year and, on the other, on their expected change over the remainder of 2023.

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 2023 as a whole, is set out in Hamburg Commercial Bank's Group Management Report for the 2022 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 2023	January–June 2022	Change in %
Interest income from financial assets categorised as AC and FVOCI	654	307	> 100
Interest income from other financial instruments	25	53[1]	-53
Negative interest on investments categorised as AC and FVOCI	–	-11	-100
Negative interest on other cash investments and derivatives	–	-27	-100
Interest expenses	-388	-98[1]	> 100
Positive interest on borrowings and derivatives	1	36	-97
Net interest income	**292**	**260**	**12**
Net commission income	11	18	-39
Result from hedging	6	7	-14
Result from financial instruments categorised as FVPL	73	16[1]	> 100
Net income from financial investments	–	–	–
Result from the disposal of financial assets classified as AC	-7	2	>-100
Total income	**375**	**303**	**24**
Loan loss provisions	2	31[1]	94
Total income after loan loss provisions	**377**	**334**	**13**
Administrative expenses	-156	-150	4
Other operating result	29	40	-28
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-20	-29	-31
Net income before restructuring and transformation	**230**	**195**	**18**
Result from restructuring and transformation	–	-17	100
Net income before taxes	**230**	**178**	**29**
Income tax expense	-52	29	> 100
Group net result	**178**	**207**	**-14**
Group net result attributable to Hamburg Commercial Bank shareholders	178	207	-14

[1] The previous year's figures have been restated; further explanatory information can be found in the notes to the Group financial statements (Note 2).

Total income increased significantly as planned
Hamburg Commercial Bank generated total income of € 375 million in the first half of 2023. This means that the earnings figure was almost one-quarter higher than the level reported for the same period of the previous year (€ 303 million). Total income is dominated by net interest income, which at € 292 million was € 32 million (or 12 %) higher than in the same period of the previous year due to the further increase in the net operating interest margin. The strongest driver behind the significant increase in total income was the significantly improved FVPL result compared to the same period of the previous year. This amounted to € 73 million in the first six months of 2023 (same period of the previous year: € 16 million), supported by favourable development on the financial markets for the Bank and its positioning in the face of rising interest rates. The other items within total income made a slightly positive contribution to total income, albeit to a moderately lesser extent than in the first six months of 2022. Developments in the individual items making up total income and their main causes are presented below:

In the first half of 2023, **net interest income** amounted to € 292 million, up by around 12 % on the value for the same period of the previous year (€ 260 million). This marked the continuation of the growth trend in net interest income, which also sees the Bank benefit from the rising interest rate environment in line with the general development in the banking environment. The increase in net interest income is due to the expansion of the net interest margin (NIM) in the lending units. In the Shipping and Project Finance segments, the significant margin expansion led to a year-on-year increase in net interest income in spite of lower average segment assets. In the Corporates segment, too, the net interest margin and net interest income were up year-on-year, not least due to ongoing asset allocation to the higher-margin international area, while in Real Estate, there was a slight decline in net interest income with stable margin development due to lower volumes. At the level of the Group, the NIM has increased from 164 basis points to 182 basis points.

Net commission income, which was still in line with expectations, amounted to € 11 million as at 30 June 2023. The decrease compared to the same period of the previous year (€ 18 million) is due primarily to higher other commission expenses and lower commission income in the lending business. Other commission expenses were almost exclusively attributable to expenses for fees paid to portfolio managers of the fully consolidated fund subsidiaries (loan funds), which the Bank is using to strengthen the diversification of net interest income.

In the **result from financial instruments categorised as FVPL**, which came to what the Bank considers to be a very good € 73 million (same period of the previous year: € 16 million), the Bank benefited from the development of those valuation parameters that are most relevant for the FVPL result during the year, namely interest rates, credit spreads and exchange rates (FX) on what were, at times, volatile financial markets. The main contributing factors to the result were positive effects from interest rate derivatives used to manage the banking book, which materialised in an interest rate environment characterised by high volatility, especially in the first quarter. The narrowing of credit spreads, which had increased significantly in the prior-year period due to the outbreak of war in Ukraine, also had a positive effect on the measurement of FVPL assets. There were also moderate positive effects on earnings from FX management (hedges) as a result of the slight appreciation of the euro against the USD.

The **result from the disposal of financial assets classified as AC** was in slightly negative territory at € -7 million (same period of the previous year: € 2 million) and mainly includes the negative disposal result from the winding-down of a larger exposure in the Real Estate segment.

Balanced loan loss provisions

The change in loan loss provisions amounted to a net reversal of € 2 million as at the reporting date (same period of the previous year: net reversal of € 31 million).

At Stage 3, moderate net additions in the Real Estate segment (€ -11 million) and net reversals in the Corporates segment (€ 9 million) more or less balanced each other out. In the other segments, there were no significant effects at this stage. The addition to the Real Estate segment relates to two real estate financing transactions that defaulted during the reporting period. The additions recorded for these financing transactions were offset by partial reversals from the partial disposal of an NPE exposure. In the Corporates segment, the net reversal is essentially attributable to the improved economic outlook for two loan exposures (hotel operating companies) in the wake of the recovery from pandemic-related impacts.

At Stages 1 and 2, a net addition was recorded in the Real Estate segment (€ -31 million). The reversals resulting from the winding down of a large exposure and from rating improvements are more than compensated by the increase in model overlays for the Real Estate segment. The retail property (Retail) and building land financing sectors are currently particularly affected by the loss of purchasing power and the sharp rise in interest rates. The uncertainties regarding the potential macroeconomic effects on these portfolios were mapped using model overlays. The net reversals at Stages 1 and 2 recorded in the Project Finance (€ 24 million) and Shipping (€ 8 million) segments offset the net additions to the Real Estate segment. In the Energy (Project Finance) sector, there is now certainty in France with regard to guaranteed feed-in tariffs for customers, and thus also certainty for the Bank, so that both the loan loss provisions and the corresponding model overlays have largely been reversed. In the Shipping segment, the model overlays for the tankers sub-portfolio in particular were reversed, due to the positive development in the market situation and the medium-term forecasts for charter rates and ship prices.

Moderate increase in administrative expenses

Administrative expenses amounted to € 156 million as at 30 June 2023 (same period of the previous year: € 150 million). However, as the Bank remains cautious in its ongoing efforts to expand its workforce in light of the uncertain economic environment and continues to employ effective cost management to counter what remain high inflationary pressures, the increase of 4 % was lower than assumed in the 2022 year-end projections.

Personnel expenses amounted to € 69 million, putting them exactly on a par with the same period of the previous year, as salary increases and slightly lower expenses for variable remuneration more or less balanced each other out. Information on the development of the number of employees in the Group, as well as other key employee figures can be found in the chapter "Employees of Hamburg Commercial Bank".

Operating expenses (including depreciation of property, plant and equipment and amortisation of intangible assets) amounted to € 87 million (same period of the previous year: € 80 million). The costs of ongoing operations ("run the bank" costs) increased moderately from € 56 million to € 61 million in the wake of higher expenses for legal advice and marketing, among other things. In the other expense categories, cost development was stable. The forward-looking "change the bank" costs increased only slightly. These amounted to € 26 million, up from the € 24 million incurred in the first six months of 2022. Once again, the "change the bank" costs were largely attributable to the IT transformation projects of Hamburg Commercial Bank.

Other operating result characterised by one-off effects as in the same period of the previous year
At € 29 million, the other operating result once again made a positive contribution to the Group net result, albeit to a lesser extent than in the same period of the previous year (€ 40 million). As in the previous year, one-off effects were a significant component of the result item. These related in particular to income from earn-out agreements in connection with subsidiaries sold in previous years (€ 18 million) and income from the reversal of provisions for litigation risks (€ 11 million).

Annual contributions for bank levy and deposit guarantee fund already recognised in full – lower bank levy
Expenses for regulatory affairs, the Deposit Protection Fund and banking associations amounted to € 20 million on the basis of the fixed (bank levy) or expected (Deposit Protection Fund) annual contributions, putting them down by almost one-third on the same period of the previous year, in which expenses of € 29 million were incurred, due to lower contributions for the bank levy (€ 12 million; same period of the previous year: € 20 million). The comparatively significant decrease in the bank levy is due, among other things, to the fact that the annual target resources and basic contribution for the institution have decreased compared to the corresponding assessment bases for the 2022 bank levy.

As expected, no more burdens from transformation expenses
The result from restructuring and transformation was balanced at € 0 million in the reporting period (same period of the previous year: € -17 million).

As assumed in the planning, no more transformation expenses were incurred in the reporting period. In the first six months of 2022, transformation expenses in the amount of € 14 million had still been recorded (mainly for project activities related to the payment transaction system changeover).

The result from restructuring amounted to € 0 million (same period of the previous year: € -3 million).

Net income before taxes up by almost 30 % year-on-year – income tax expense returns to normal as planned
Against the backdrop of the above-mentioned developments in the individual items, net income before taxes as at 30 June 2023 amounted to € 230 million, up by almost 30 % on the level witnessed in the same period of the previous year (€ 178 million).

As assumed in the forecast, income tax expense has returned to normal. It amounted to € -52 million, after having made a marked positive contribution to the Group net result in the same period of the previous year at € 29 million. Income tax include income from current taxes (€ 15 million) and expenses from deferred taxes (€ 67 million). Based on the updated tax planning for 2023, deferred tax expense comprises an expense from the reversal of deferred tax assets on temporary differences (€ 99 million) and, in the opposite direction, income from the increase in deferred tax assets on loss carryforwards (€ 31 million).

Group net result as at 30 June 2023 higher than expected
After income tax expense, Hamburg Commercial Bank reported a Group net result of € 178 million as at the reporting date (same period of the previous year: € 207 million).

This means that Hamburg Commercial Bank is on track at the mid-point of the year to achieve its earnings targets for the year as a whole. The earnings trend was characterised by development in the earnings base that was consistent with the Bank's plans, while loan loss provisions and costs were lower than planned. All in all, the aforementioned developments led to a result that was slightly higher than expected for the first six months.

Compared to the first half of 2022, the decrease in the Group net result by € 29 million results from the normalisation of income tax expense (decrease of € 81 million). As a result, net income before taxes increased by € 52 million. The decisive factor here was the € 72 million increase in total income, which significantly overcompensated for the decline in loan loss provisions (€ -29 million). A slight decline in other operating result was more than offset, in a year-on-year comparison, by the absence of additional transformation expenses.

Net assets and financial position

Material items on the statement of financial position

(€ m)	30.06.2023	31.12.2022	Change in %
Assets			
Cash reserve	3,353	4,974	-33
Loans and advances to banks	828	777	7
Loans and advances to customers	18,388	19,592	-6
Loan loss provisions	-318	-414	-23
Trading assets	228	441	-48
Financial investments	7,353	5,490	34
Deferred tax assets	640	697	-8
Other assets	340	261	30
Total assets	**30,812**	**31,818**	**-3**
Liabilities			
Liabilities to banks	4,437	4,606	-4
Liabilities to customers	13,455	13,243	2
Securitised liabilities	7,429	7,065	5
Trading liabilities	311	335	-7
Provisions	328	361	-9
Subordinated capital	923	930	-1
Equity	3,823	5,165	-26
Other liabilities	106	113	-6
Total liabilities	**30,812**	**31,818**	**-3**

Moderate balance sheet development characterised by dividend payment
The consolidated statement of financial position showed a slight decrease in the first six months of the 2023 financial year. Consolidated total assets amounted to € 30,812 million at the end of the first six months, around 3 % lower than the level at 31 December 2022 (€ 31,818 million). The balance sheet development was characterised by the dividend payment in the amount of € 1.5 billion that was adopted and completed in April 2023. The cash reserve on the assets side and reported equity on the liabilities side decreased accordingly. In addition, the assets side was characterised by a moderate decline in loans and advances to customers, which was slightly overcompensated by an increase in financial investments. On the liabilities side, there were no significant structural changes apart from the change in equity. In detail, the developments, which were moderate overall, were as follows:

The cash reserve, which was comparatively high at € 4,974 million at the end of 2022 in anticipation of the dividend payment, had been significantly reduced to € 3,353 million by the end of the first half of the year after the distribution (31 December 2022), as planned. To maintain the solid liquidity position, the portfolio of highly liquid securities ("Financial investments" item in the statement of financial position) was increased to partially compensate for this.

In contrast, there was a slight increase in loans and advances to banks. These amounted to € 828 million as at 30 June 2023, up from € 777 million as at 31 December 2022.

The development of the loan book, reflected by the item in the statement of financial position loans and advances to customers, was characterised by the further implementation of the diversification strategy, but also by the risk-conscious and selective business approach in a partly difficult market environment. As at 30 June 2023, the carrying amount of loans and advances to customers was € 18,388 million (31 December 2022: € 19,592 million). The diversification strategy is reflected in the increasingly more balanced portfolio allocation across the lending units: the relative shares of loans and advances in the Real Estate and Shipping segments have decreased, while the shares of the loan book in the Corporates and Project Finance segments have increased.

Total loan loss provisions (for items in the statement of financial position) amounted to € -318 million (31 December 2022: € -414 million). The reduction is due primarily to the utilisation of loan loss provisions as part of the partial disposal of a larger NPE exposure in the Real Estate segment. As the heightened geopolitical and macroeconomic uncertainty remains, the Bank continues to have a comparatively high level of model overlays. As at the half-year reporting date, these amounted to € 129 million (31 December 2022: € 144 million). As at the reporting date, Hamburg Commercial Bank has solid coverage ratios for the overall AC portfolio (1.7 %, 31 December 2022: 2.1 %) and for the NPE portfolio (NPE Coverage Ratio AC: 37.0 %, 31 December: 68.9 %) from the Bank's point of view. The decline in the NPE Coverage Ratio AC can be traced back to structural changes in the composition of the NPE portfolio. For the largest addition in terms of volume (a single exposure in the Project Finance segment), only comparatively low loan loss provisions had to be set up due to existing ECA coverage, whereas the partial disposal mentioned above had an above-average coverage ratio.

Trading assets were down on the end of the prior-year reporting period, falling by almost half to € 228 million (31 December 2022: € 441 million). The decrease is mainly due to the lower carrying amount of the positive fair values of FX derivatives, as well as to the reduced portfolio of promissory note loans.

Financial investments were increased further as the Bank continued to implement its strategy of diversifying the balance sheet, as well as in the context of liquidity management. As at 30 June 2023, their carrying amount came to € 7,353 million, a noticeable increase of 34 % compared to the prior-year reporting date (31 December 2022: € 5,490 million). The increase is due to the increase in highly liquid securities, as well as further investments in securitisation structures with investment grade ratings (mainly collateralised loan obligations and agency mortgage-backed securities).

Deferred tax assets fell by 8 % to € 640 million (31 December 2022: € 697 million). They consist of deferred taxes on loss carryforwards in the amount of € 349 million and deferred taxes on temporary differences in the amount of € 291 million.

Other assets increased by € 79 million compared to the end of the previous year to € 340 million as at 30 June 2023. This was mainly due to the change in the reimbursement claim from plan assets and an increase in other receivables from equity holdings and affiliated companies.

On the liabilities side, liabilities to banks fell slightly by 4 % to € 4,437 million (31 December 2022: € 4,606 million). This item includes borrowings from the ECB under the TLTRO III programmes. After the further repayments of € 0.55 billion in the reporting period, the utilisation of these programmes amounted to only € 1.0 billion (nominal amount) as at the half-year reporting date. By contrast, the portfolio of liabilities from repo transactions increased.

In line with the Bank´s funding strategy, which aims to further increase the share of organic funding, liabilities to customers account for an increasing share of refinancing. These were up by 2 % year-on-year from € 13,243 million to € 13,455 billion. The increase is due to the marked increase in deposits from € 9.2 billion to € 9.9 billion. Not least this development demonstrates the stability of Hamburg Commercial Bank´s refinancing structure in what is, at times, a turbulent market environment.

Securitised liabilities amounted to € 7,429 million as at the half-year reporting date, 5 % higher than the carrying amount at the end of 2022 (€ 7,065 million). The development of this item was characterised by the benchmark issues in the first half of the year (senior preferred bond in the amount of € 0.75 billion and mortgage Pfandbrief in the amount of € 0.5 billion), which replaced maturing bonds.

In tandem with the development on the assets side, trading liabilities also decreased. However, the reduction was noticeably less pronounced, namely 7 % or € 24 million to € 311 million. The development is due first and foremost to the reduction in the negative market values of interest and currency-related as well as other derivative financial instruments.

Provisions showed a moderate drop and amounted to € 328 million (31 December 2022: € 361 million). The drop was attributable to lower early retirement obligations due to utilisation, as well as lower provisions for litigation risks and personnel expenses.

The structural composition of subordinated capital has not changed. As at 30 June 2023, the carrying amount came to € 923 million (31 December 2022: € 930 million).

Despite the positive net result for the period, reported equity decreased significantly, as planned, compared to the end of the previous year and totalled € 3,823 million as at 30 June 2023 (31 December 2022: € 5,165 million). The aforementioned dividend payment made in April 2023 in the amount of € 1,500 million was the decisive factor in this development.

Business volume also down

The business volume (total assets plus off-balance sheet business) amounted to € 35,488 million as at 30 June 2023 (31 December 2022: € 35,943 million). The decline of 1 % was less pronounced than the reduction in total assets, as off-balance sheet business increased compared to the end of the previous year. This was mainly due to the increase in irrevocable loan commitments, in particular in the Project Finance and Shipping segments, which rose by a total of € 678 million to € 3,972 million in the first half of 2023 (31 December 2022: € 3,294 million). The reduction in sureties and guarantees, which decreased by € 127 million compared to the end of the previous year to € 704 million (31 December 2022: € 831 million), had a slight opposite effect.

Structure of liabilities by financial instruments

(€ m)	30.06.2023		31.12.2022	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Pfandbriefe and asset-based funding	**7,399**	**5,515**	**7,383**	**5,753**
Covered bonds (Pfandbriefe)	4,312	3,452	4,705	3,141
Other secured funding	3,087	2,063	2,678	2,612
Unsecured liabilities (senior preferred)	**15,605**	**3,884**	**15,040**	**4,252**
Unsecured liabilities (senior non-preferred)	**2,317**	**1,910**	**2,491**	**2,011**
Profit participation certificates and other subordinated liabilities	**923**	**917**	**930**	**930**
Hybrid instruments	**–**	**–**	**–**	**–**
Total	**26,244**	**12,226**	**25,844**	**12,946**

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

One focal point within the context of long-term refinancing relates to securitised debt instruments (Pfandbriefe, 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 € 7,399 million as at 30 June 2023 (31 December 2022: € 7,383 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. They totalled € 17,922 million as at the reporting date (31 December 2022: € 17,531 million). Call and time deposits are shown together with structured unsecured financial instruments in the "Senior Preferred" category and amount to € 15,605 million in total (31 December 2022: € 15,040 million). The "senior non-preferred" category consists primarily of bearer and registered bonds that do not have any structured elements and amounted to € 2,317 million as at 30 June 2023 (31 December 2022: € 2,491 million).

Profit participation rights and other subordinated liabilities (€ 923 million, 31 December 2022: € 930 million) make up the subordinated capital.

Capital and funding
RWA, regulatory capital and capital ratios

	30.06.2023[1]	31.12.2022[2]
Risk-weighted assets (RWA) (€ bn)	16.5	15.4
Regulatory capital (€ bn)	4.0	4.1
thereof: CET1 capital (€ bn)	3.1	3.2
Overall capital ratio (%)	24.4	26.8
Tier 1 capital ratio (%)	18.5	20.5
CET1 capital ratio (%)	18.5	20.5
Leverage ratio (%)[3]	9.4	9.5

[1] The profits for the first half of 2023 have not been taken into account.

[2] The dividend payment of € 1.5 billion made in 2023 was taken into account in advance in the Common Equity Tier 1 capital as at 31 December 2022.

[3] Restated comparative figure as at 31.12.2022.

Capital ratios at a high level

As expected, the CET1 ratio of 18.5 % is down compared to 31 December 2022 (20.5 %). This development results, on the one hand, from the increase in RWA for credit risks (incl. other RWA), which is due, among other things, to rating model recalibrations, the effects of which are anticipated in the additional risk position in accordance with Article 3 CRR. On the other hand, the CET1 capital amounted to € 3.1 billion as at 30 June 2023, which is slightly below the previous year´s level (€ 3.2 billion) due to higher regulatory deductions. It is important to note at this point that the capital ratios – in anticipation of a possible dividend payment for the 2023 financial year – are shown before taking the interim profit achieved in the first six months of 2023 into account. The Tier 1 capital ratio and the overall capital ratio developed in line with the Common Equity Tier 1 ratio compared with 31 December 2022.

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

The leverage ratio dropped slightly to 9.4 % compared to 31 December 2022 (9.5 %) due to the lower Tier 1 capital. This means that the leverage ratio is still significantly higher than the regulatory requirement of 3 % and, together with the high capital ratios, pays testimony to the Bank´s very robust capital position.

Distribution policy

In April 2023, the Bank started making dividend payments, paying a total dividend of € 1.5 billion for the 2022 financial year based on the distribution policy adopted by the Management Board and the Supervisory Board.

Going forward, the Bank aims to normalise its capital buffers in the context of its distribution policy, initially to a target of at least 17 % CET1, while achieving business growth at the same time, as assumed in the current business plan.

In its corporate planning, the Bank takes into account specific and measurable financial and non-financial objectives, always aiming to improve profitability as well as to maintain capital buffers so that the business model allows the company to continue as a going concern even under adverse circumstances and creates sustainable value for the Bank's shareholders.

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

Refinancing strengthened significantly after rating upgrade with benchmark issues and increased volume of client deposits

The refinancing situation in the reporting period was characterised by very volatile and difficult capital markets. The sharp rise in interest rates combined with a global decline in deposits led to temporary turbulence in the banking environment in the first half of 2023, triggered by difficulties faced by individual US regional banks (including: Silicon Valley Bank insolvency) and the forced takeover of Credit Suisse by UBS in Switzerland. Towards the end of the first half of the year, the financial markets stabilised significantly.

Fundraising is in line with the Bank's expectations. In total, the Bank raised around € 1.3 billion in long-term funds in the first half of 2023. During the reporting period, the Bank issued another € 750 million senior preferred benchmark transaction following its rating upgrade, following this up with a € 500 million mortgage Pfandbrief in June. These bonds will strengthen the Bank´s funding base in the long term. For further details on these issues, please refer to the comments in the chapter entitled "Business development – significant developments and events in the 2023 reporting year". The Bank is planning further benchmark issues in the unsecured segment as well as Pfandbrief issues in the coming years.

The strong refinancing structure enabled the payment of a dividend of € 1.5 billion in the first half of 2023, as well as the repayment of a further € 550 million from the refinancing via the TLTRO programme. At the end of the reporting period, the TLTRO portfolio still amounts to € 1.0 billion.

In addition to long-term refinancing, the increase in the deposit position by € 0.7 billion from the Bank´s client business also contributed to the implementation of the funding strategy.

Key liquidity ratios

	30.06.2023	31.12.2022[1)]
Total deposits (€ bn)	9.9	9.2
LCR (%)	157	197
NSFR (%)	113	113

[1)] NSFR (%): The dividend payment of € 1.5 billion made in 2023 was taken into account in advance in the Common Equity Tier 1 capital as at 31 December 2022.

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

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

Rating

Rating overview as at 30.06.2023

	Moody's
Issuer rating (long-term)	A3, stable
Current liabilities	P-2
Stand-alone rating (financial strength)	baa3
Deposit rating	A3
"Preferred" Senior Unsecured Debt	A3
"Non-Preferred" Senior Unsecured Debt	Baa2
Mortgage Pfandbrief	Aaa
Ship Pfandbrief	Aa3

The table above provides an overview of Hamburg Commercial Bank AG´s ratings awarded by Moody´s as at 30 June 2023. With regard to the upgrade of HCOB´s issuer and stand-alone ratings, as well as key instrument ratings, on 17 February 2023, we refer to the comments in the section "Moody´s upgrades HCOB´s issuer rating to A3" within the chapter "Business development – Significant developments and events in the first half of 2023".

Segment results

Segment overview January to June 2023

(€ m)		Real Estate	Shipping	Project Finance	Corpo-rates	Lending Units	Treasury & Group Functions	Reconcil-iation	Group (income state-ment/ balance sheet)
Total income	**2023**	**94**	**87**	**45**	**96**	**322**	**7**	**46**	**375**
	2022	90	82	30	46	248	177	-122	303
Loan loss provisions (expected loss)	**2023**	**-5**	**-2**	**-4**	**-6**	**-17**	**-**	**19**	**2[1)]**
	2022	-4	-3	-3	-11	-21	-	52	31[1)]
Administrative expenses & regulatory costs	**2023**	**-46**	**-44**	**-23**	**-41**	**-154**	**-24**	**2**	**-176**
	2022	-39	-35	-15	-24	-113	-66	-	-179
Earnings after taxes	**2023**	**34**	**32**	**14**	**39**	**119**	**9**	**50**	**178**
	2022	37	35	9	9	90	106	11	207
RoE after taxes (%)	**2023**	**11.0**	**17.2**	**9.4**	**13.3**	**12.6**	**8.3**		**16.8**
	2022	11.8	18.2	6.4	3.6	10.0	101.1		20.5
Segment assets (€ bn)	**30.06.2023**	**7.5**	**2.9**	**3.5**	**5.1**	**19.0**	**11.8**	**-**	**30.8**
	31.12.2022	8.1	3.5	3.4	4.6	19.6	12.2	-	31.8
Loan loss provisions (income statement)	**2023**	**-41**	**8**	**25**	**9**	**1**	**1**	**-**	**2**
	2022	43	4	-15	-3	29	1	1	31

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

Structure of segment reporting

The management of the Group comprises four market-related segments (“Real Estate”, “Shipping”, “Project Finance” and “Corporates”), which are also summarised as “Lending Units” and the segment "Treasury & Group Functions". The “Reconciliation” column is used to express all of the management indicators in line with the IFRS perspective. For further, more detailed information on segment reporting, including the adjustments made to the prior-year values for comparison purposes, please refer to note 37 "Segment reporting” in the notes to the Group financial statements.

Further information on the segments and their strategic orientation can be found in Hamburg Commercial Bank’s Group Management Report for the 2022 financial year in the "Strategic direction for the business areas” section of the chapter entitled "Basis of the Group".

Business development in the segments

Across all segments, profitability in the first half of 2023 was above the level seen in the same period of last year. The increase in RoE after tax in the lending units segments from 10.0 % to 12.6 % reflected the successful alignment of the portfolio, which is receiving additional tailwind from the changes in the interest rate environment. Both a selective approach to new business and an overall change in asset allocation, in which higher-margin business in new areas is helping to diversify the Bank’s portfolio, contributed to this trend. Overall, all lending units were able to expand their net interest margin (NIM) compared to the previous year.

The **Real Estate segment** generated net income after taxes of € 34 million in the first half of 2023 (same period of the previous year: € 37 million). The operating business continued to be characterised by the risk-conscious further development of the portfolio, the aim being to optimise earnings, in a challenging market environment, with less of a focus on new business and more on portfolio management. Two larger legacy exposures, for example, were reduced successfully. Compared to the segment assets, which fell to € 7.5 billion (31 December 2022: € 8.1 billion), net interest and commission income from the operating business nevertheless remained virtually constant, while risk costs and administrative expenses increased. Gross new business remained subdued due to the low demand for loans in view of the interest rate environment and the risk-conscious business approach in the first half of the year at a total of € 0.7 billion (same period of the previous year: € 0.7 billion). With a margin situation that remains positive, the risk-conscious and selective approach to new business is particularly evident. The slight decline in the segment´s

RoE to 11.0 % (same period of the previous year: 11.8 %) is due to the slightly lower result than in the previous year.

In the **Shipping segment**, net income after taxes amounted to € 32 million (same period of the previous year: € 35 million). This means that operating profitability, measured in terms of RoE, dropped to 17.2 % (same period of the previous year: 18.2 %). The focused gross new business with national and international shipping companies with good credit ratings was slightly above the level seen in the same period in the previous year at € 0.7 billion (€ 0.6 billion). At the same time, the good liquidity position of shipping companies with early loan repayments and the weakening of the US dollar exchange rate led to a further decline in segment assets to € 2.9 billion (31 December 2022: € 3.5 billion). Nevertheless, the net interest result from the operating business was still up in a year-on-year comparison. Administrative expenses, which also increased, nevertheless led to a slight decline in earnings.

The **Project Finance segment** reported net income after taxes of € 14 million (same period of the previous year: € 9 million). Total income rose to € 45 million (same period of the previous year: € 30 million), with risk costs that remained virtually constant at € -4 million (same period of the previous year: € -3 million). Segment assets as at 30 June 2023 came to € 3.5 billion (31 December 2022: € 3.4 billion). New business increased year-on-year (€ 0.6 billion; same period of the previous year: € 0.5 billion), with the weighting, both in new and existing business, shifting towards infrastructure, and first and foremost towards projects aimed at the expansion of digital infrastructure. The volume of renewable energies fell slightly in a very competitive market. At 9.4 %, the segment's profitability was up on the previous year (6.4 %).

Net income after taxes in the **Corporates segment** came to € 39 million (same period of the previous year: € 9 million) and includes positive earnings development both in Germany and internationally. With gross new business of € 0.9 billion, the value seen in the same period of the previous year (€ 1.0 billion) was almost reached. Segment assets as at 30 June 2023 came to € 5.1 billion (31 December 2022: € 4.6 billion). Margin development was positive, not least also thanks to the new business in the Corporates International unit, which contributed to the further diversification of the Bank's portfolio, meaning that the segment's operating profitability, measured in terms of RoE, rose to 13.3 % in total (same period of the previous year: 3.6 %).

The **Treasury & Group Functions** segment generated net income after taxes of € 9 million (same period of the previous year: € 106 million). Among other things, total income in the strategic investment portfolio contributed to the slightly positive result. The previous year´s figure included substantial positive valuation effects in the management of pension obligations which were not repeated this year. In addition, the segment result also shows special effects in the other operating result, in particular resulting from the reversal of provisions for legal risks and the earn-out agreement in connection with a subsidiary sold in previous years.

"**Reconciliation**" also comprises valuation and reporting differences that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. Differences result from the reporting of effects within OCI in the total income of the segments. Further reconciliation effects in total income result from the different presentation of capital market transactions and hedge accounting effects in internal reporting and IFRS accounting. In addition, loan loss provisions reflect the difference between the expected loss on transactions in the segments and loan loss provisions based on the Group statement of income in accordance with the IFRS. The difference between the taxation recognised in the segments based on a uniform tax rate and actual income taxes at Group level is also shown in the Reconciliation item.

Detailed information on the methodology and included effects can be found in note 37 "Segment reporting" in the notes to the Group financial statements.

Final assessment of the situation of Hamburg Commercial Bank

Overall, the Management Board considers the Bank's development in the first half of 2023 to be in line with expectations in an environment that remains challenging overall. While the robust capital position and solid liquidity ratios developed according to plan, the slight increase in the NPE ratio (with a moderate development in loan loss provisions) is offset in this overall assessment by operating business development that was slightly better than expected.

In terms of **profitability**, the Bank was once again able to confirm the positive trend seen in the recent past. This is primarily reflected in an ongoing interest in the net operating interest margin, good overall operating performance in the lending units and an adequate development in the cost base. The Bank also considers itself well positioned for the remainder of the year, as it will continue with its proven strategy for asset allocation and liability management and will continuously optimise its positioning in relation to the current interest rate environment. On the asset side, the diversification of the loan book has increased further. The Bank also has a well-diversified financial investment portfolio. This is almost exclusively measured at fair value through OCI, meaning that temporary changes in value are reflected in the balance sheet. Irrespective of this, the performance of the corresponding assets was stable in the first half of the year, i.e. no significant changes in fair value were reflected in OCI. This is because the Bank waited until interest rates were already on the rise before expanding its portfolio. The refinancing structure remained stable even in a volatile market environment and was strengthened further in particular by the increase in client deposits and the two benchmark issues. Despite the good cost/income ratios confirmed at the end of the first half of the year, the Bank has implemented measures as part of its stringent cost management strategy to further increase operating efficiency in its core business ("Fast & Accurate" project) and to cushion the below of the existing inflationary pressure and create resources for value-driving growth investments. The pace of staff expansion is being synchronised with the slightly adjusted expectations for balance sheet development. On this basis, HCOB aims to increase staff capacity from the current 863 FTE to between 900 and 920 FTE by the end of the year. Taking the aforementioned aspects into account, the Bank considers itself well positioned to achieve the year-end target for the cost-income ratio of 45 %. Looking ahead, the CIR should fall to a value below the 40 % mark as the finalisation of the IT transformation process draws closer, in conjunction with the Bank's planned earnings growth.

Currently, the most significant challenge facing the Bank is maintaining solid **asset quality and volumes**. With regard to the NPE volume, Hamburg Commercial Bank has not been able to escape the deterioration in the macroeconomic environment and the consequences of the ECB's interest rate policy entirely, despite its stringent risk management. The net increase, however, is mainly due to a larger individual case where the default risks are limited by ECA cover. Accordingly, the NPE ratio had increased only moderately by the end of the first half of the year. With balance sheet coverage ratios that remain comfortable (including model overlays of € 129 million) and its existing NPE action plan, the Bank is optimistic at this point in time that it will be able to moderately reduce the NPE volume from the current level by the end of 2023.

With the **capital ratios** reported at the end of the first half of the year, the Bank remains one of the best-capitalised banks in the European banking market, despite the planned drop compared to the values seen at the end of 2022; in particular, the leverage ratio is well above the sector average. The results of the EBA stress test published in July 2023, in which Hamburg Commercial Bank showed above-average performance, demonstrate the resilience of the Bank´s business model in the face of adverse macroeconomic scenarios.

Even after the dividend payment and the scheduled repayment of further TLTRO holdings, the Bank has solid **liquidity ratios**.

In view of the developments and positioning outlined above, Hamburg Commercial Bank considers itself well positioned overall as at the reporting date to achieve its objectives, even in the current difficult environment. Details regarding the continuing challenges, as well as opportunities and risks of future development, can be found in the "Forecast, opportunities and risks report".

Employees of Hamburg Commercial Bank

Recruitment initiative to strengthen the team, new employer branding campaign and expansion of the corporate benefits landscape

Human resources work in the first half of 2023 remained dominated by increased recruitment activities, as well as investments in our employees, including moves to expand the corporate benefits landscape. Another focal point was the launch of the new employer branding campaign.

Recruitment activities to strengthen resources in both quantitative and qualitative terms at all stages in the value chain are already clearly bearing fruit. Although the number of employees within the Hamburg Commercial Bank Group decreased by five to 863 full-time equivalents (FTEs) as at 30 June 2023 compared to 31 December 2022, taking into account the employees who left as planned with effect from the turn of the year 2022/2023, the workforce increased by 14 FTEs in the first half of the 2023 financial year. An employer branding campaign was launched in June 2023 to support our recruitment activities. This ties in directly with the brand strategy, which was also revamped in June. Since 2019, HCOB has stood for "clarity" as its brand promise. With the new brand strategy and its leitmotif "Clarity as a service", HCOB is emphasising the importance of clarity even more by explicitly activating "clarity" as a service promise that is to be expressed in the Bank´s services. As part of the modern and internationally focused employer branding campaign that ties in with the Bank's brand strategy, HCOB is using external advertising measures to showcase itself as an attractive employer. The campaign slogan "Clarity is Capital" expresses the Bank´s strong and clear market position, also with regard to the highly competitive labour market. With a new colour scheme reflecting both HCOB´s clarity and its maritime roots, the external campaign ran for a period of six weeks. Conventional (advertisements in magazines and in outdoor advertisements) and digital formats were used as the presentation media. The introduction of the "Employees Recruit Employees" programme called "PEARL" at the beginning of the year is also being addressed as part of the campaign and has already translated into the first few success stories. The HR strategy for 2022-2024, adopted in 2022, was also operationalised and pursued further during the period under review. The Long-Term Incentive Programme (LTIP) for managers and selected senior experts, which was launched back in 2022, meets the expectations associated with further dovetailing the interests of our owners and employees.

Employees in the Group

	30.06.2023	31.12.2022
Full-time employees (FTE) in the Group[1]	**863**	**868**
thereof: Women	299	303
thereof: Men	564	565
thereof: Employees in Germany	811	825
thereof: Employees abroad	52	43
Total number of employees in the Group ("headcount")	**972**	**975**
Key employee figures		
Part-time employees (%)	17.8	17.6
Average age in years	45.4	45.7
Average period of employment (years)	13.2	13.7

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

In addition, 2023 will see employees benefit for the first time from the benefits that were revised or launched as new benefits at the end of 2022. Benefits worthy of particular mention include the full assumption of the costs of the "Deutschland-ticket" nationwide local public transport ticket, financial support for team-building measures and initiatives allowing employees to take up to three working days off per year to do their bit in social and ecological projects ("Volunteering Days"). Through the cooperation with "Hansefit", employees have also been able to take advantage of a wide range of sports programmes throughout Germany at attractive conditions since June. Another focal point within the first half of the year was the revision of the regulations on mobile working. A new employer/works council agreement in favour of 20 % mobile work has been in force at HCOB since July 2023. HCOB was keen to find a regulation early on that would combine the advantages of mobile working with those of employees coming into the office: new virtual collaboration skills gleaned during the coronavirus pandemic and face-to-face collaboration both within and across teams to increasingly exploit the benefits of working on site in the office again. As, however, the Bank wanted to continue to allow its employees the necessary degree of flexibility, mobile work remains an option. It is up to the managers to make diligent decisions on any exceptions and to allow employees to spend more time working from home, for example to allow them to balance family and work commitments.

Corporate culture and further development

Continuous development of the corporate culture is a central factor for companies that want to remain successful in this fast-changing world of work.

The HR department is actively involved in the "Move 2 Elbtower" project in order to support employees from day one with the changes associated with the move to the Elbtower building and to help shape this change. "CoZones", which have already been set up in the current office building, are workspaces featuring a state-of-the-art design with different elements to promote collaboration, concentration and a cosy atmosphere for dialogue. The CoZones are located on four floors and opened in May 2023.

In addition to the organisation's development in the context of New Work, personal and professional development of all employees within the Bank is at the forefront of its HR work. This is why HCOB does its very best to develop and promote its employees and talents through a variety of development opportunities. The Bank still uses a mentoring programme to specifically support exceptional employees, for example. This programme has been launched for what is already the third time. Cross-business unit networking and increasing talent visibility within the Bank is designed to foster further career development.

The internal seminar programme is being replaced by a new e-learning platform to which all employees will have access to facilitate flexible professional and personal development. The offering will be supplemented by language training, offering more employees the opportunity to improve on their own language skills in English, German, Spanish or French.

For employees working in sales and credit analysis units, the Bank offers a "cash flow" training course organised by an external specialised company that is geared towards the HCOB business model. All employees in these areas already completed this training in 2021/2022 and it will also be offered to new hires on an ongoing basis.

This sees the Bank further expand its digital development offering. In addition, all business units have a decentralised budget to fund needs-based and function-specific development programmes for their employees.

Four trainees joined the bank in April 2023, the first start date for the trainee programme. A total of 18 trainees will start work at HCOB in the 2023 financial year, the second start date being 1 October of this year.

In addition, the number of students on sandwich programmes who will start their hands-on studies at HCOB will double to ten. Further training is top priority for HCOB, especially for young professionals, which is why the Bank offers a seminar lasting several days over the entire training period with external support. In addition, trainees have an individual training budget at their disposal and sandwich programme students who have been taken on by the Bank can follow up on their sandwich degree by embarking on further long-term training (e.g. A Master´s degree or CFA) as part of the "education@work" programme.

Equal opportunities and targets for the proportion of women

Hamburg Commercial Bank is continuing to promote diversity and equal opportunities with the assistance of its equal opportunities officer. The topics are a particular priority at Hamburg Commercial Bank because they increase employer attractiveness and allow the Bank to live up to its social responsibility.

This is why, in December 2022, the Bank made a commitment to further measures to actively promote the issue of diversity within the Bank.

Measures include targeted recruitment activities to increase the pool of female talent and targets to ensure that female employees are given systematic consideration in succession planning. These will help the Bank achieve the defined average target quota of 33 % for the underrepresented gender (predominantly women) in management and/or senior expert functions. The quota adopted in November 2020 is to be achieved by 31 December 2025. This also applies explicitly to the BU level.

In 2023, the Bank's top female talents, in particular, will receive support in the form of individual development measures and will meet the Management Board at regular intervals thanks to various dialogue formats.

A "Code of Diversity" was also actively addressed in the first half of 2023 with external support. This will be published both internally and externally at the end of the year.

In order to promote stronger networks among women within the Bank, the women´s network #networkingwomen organises regular lectures with internal and external experts providing food for thought, and offers the opportunity for the open exchange of knowledge and experience within this network.

In the first half of 2023, HCOB again actively organised Girls' and Boys' Day 2023 and offered pupils a hands-on insight into the working world of a commercial enterprise.

Statistics on equal opportunities as at 30 June 2023[1)]

	Number			Quota	
	Women	Men	Total	Women	Men
BU heads	3	11	14	21%	79%
Heads of depart-ment	14	40	54	26%	74%
Senior positions[2)]	99	238	337	29%	71%
Total	**113**	**289**	**405**	**29%**	**71%**

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

Pursuant to Section 111 (5) of the German Stock Corporation Act (AktG), the supervisory board of unlisted companies, if they are subject to co-determination, also has to set targets for the proportion of women on the supervisory board and the management board. In June 2022, the Supervisory Board set the following target quotas: 25 % for the Management Board and 33 % for the Supervisory Board. Wherever possible, these target quotas are to be achieved by 30 June 2027 at the latest. For further details, including information on the current target achievement level, please refer to the combined management report for 2022 as at 31 December 2022, as the current target achievement level is the same as at the end of the previous year due to the unchanged composition of the Management Board and Supervisory Board.

Forecast, opportunities and risks report

Forecast, opportunities and risks report

The following section should be read in conjunction with the other sections in this interim management report. The forward-looking statements contained in this forecast report are based on assumptions and conclusions based on information available to the Bank at the time this interim management report was prepared. The statements are based on a series of assumptions that relate to future events and are incorporated in Hamburg Commercial Bank's corporate planning. The occurrence of future events is subject to uncertainty, risks and other factors, many of which are beyond Hamburg Commercial Bank's control. Actual events may therefore differ considerably from the following forward-looking statements below.

Anticipated underlying conditions
Forecasts on economic growth and inflation come from national and international institutions (Germany: Bundesbank, eurozone: ECB, USA: Fed, China: OECD, world: calculation of Hamburg Commercial Bank on the basis of IMF weights and growth forecasts specified above, as well as IMF forecasts for the rest of the world). The interest rate forecasts are based on the corresponding forward rates. The forecast euro to US dollar exchange rate is also derived from the futures markets. Unless otherwise stated, the statements on the overall conditions for relevant markets are based on internal estimates, also taking account of external sources of information such as research companies that are established on the market (real estate markets: e.g. bulwiengesa and PMA, shipping markets: e.g. Marsoft and MSI).

GLOBAL ECONOMY: Further slowdown in growth
In economic terms, the global economy is navigating waters that are difficult to define. The eurozone has already entered a technical recession, with many indicators suggesting that weak growth or stagnation is on the cards for the second half of the year. The US is proving surprisingly resilient, as is evident most notably from the strong labour market. Nevertheless, high growth is not expected. China, on the other hand, is grappling with structural problems that were only briefly masked by the upswing that followed the country's move to open back up after the pandemic. All in all, the global economy will grow by only 3.0 % this year.

The **US** is showing a surprising degree of resilience to the interest rate hikes seen in recent months. This is particularly evident from the country's continued strong employment growth. At the same time, the first few signals are emerging to suggest that the slump in the manufacturing sector could also come to an end soon. The economy is expected to grow by 1.0 % for the year as a whole.

In the second half of the year, **China** is likely to continue the macroeconomic slowdown that was observed at the end of the first half. We expect to see economic growth of only 5.2 % this year.

In the **eurozone**, the slump in manufacturing is gradually spilling over to the services sector. This trend will continue in the second half of the year, while the construction sector remains locked on a weak phase. GDP in the EMU region is likely to increase by 0.9 % this year.

Germany´s GDP is expected to contract by 0.3 % this year, partly due to the slump in the manufacturing sector. Inflation should nevertheless remain high at 6.0 % on average.

Downside risks to the global economic forecasts also come in the form of possible climate risks that could materialise, for example, in the form of heat waves and heavy rainfall. This could result in higher energy and food prices, among other things. In geopolitical terms, both a further escalation of the war in Ukraine and a military intervention by China in Taiwan could weigh heavily on growth and trigger turbulence on the financial markets. With regard to individual countries, there are further risks to growth in the US if the Federal Reserve continues to tighten the monetary reins for longer than expected, which would have a greater negative impact on consumption and investment. China´s growth would be even weaker if the trade dispute with the US and the EU were to translate into a decline in exports. In the eurozone and Germany, an escalation of the trade dispute with China would leave its mark first and foremost on exports. The risk also remains that gas supplies will not be sufficient in the event of an extremely cold winter, triggering another energy crisis. This would also have implications for inflation and monetary policy, which would then be tightened for longer than is expected at present.

MONETARY POLICY: End of the rate hike cycle draws nearer
Headline inflation **has** fallen significantly in both the eurozone and the US, dropping to 5.5 % (eurozone) and 3.0 % (US) in June 2023. The core rate, however, has fallen at a slower pace and the inflation target of 2 %, which is what the major central banks are aiming for, will probably be missed by a wide margin this year.

Nevertheless, the **end of the rate hike cycle** may now be drawing nearer, after the European Central Bank and the US

Federal Reserve raised their key interest rates by 400 basis points and 500 basis points respectively in the period from last year until June 2023. After the further hike of 25 basis points each in July, we expect to see one more interest rate step by each central bank as the second half of the year progresses, meaning that the ECB´s main refinancing rate will then come in at 4.50 % and the Fed Funds Rate in the range of 5.50 % to 5.75 %. We do not predict any interest rate cuts in the second half of the year. The **ECB** already started to wind down its **asset portfolio** in March. Since July, the amount from maturing bonds in the APP portfolio has no longer been reinvested, meaning that the portfolio of currently € 3.2 trillion should decline by an average of around € 25 billion a month. At the same time, the ECB is sticking to its strategy of reinvesting the PEPP portfolio bonds at maturity at least until the end of 2024, meaning that the volume of € 1.67 billion should remain more or less constant until then. In the US, the **Fed** is generally remaining true to its policy of reinvesting only part of the maturing amounts from the bond portfolio, meaning that its volume of currently 8.36 trillion US dollars should continue to decline.

Long-term **government bond yields** will probably move moderately upwards in the second half of the year compared to the level at the end of June 2023; this applies to both ten-year T-notes and the corresponding Bunds. This has to do with the reduction of central bank balance sheets and the continued failure to meet the inflation target, which could lead to an adjustment of inflation expectations.

The appreciation of the **euro** against the US dollar in the first half of the year could continue in the second half, also because investors expect more interest rate cuts in the US than in the eurozone.

OUTLOOK IN THE MARKETS/SECTORS RELEVANT FOR HAMBURG COMMERCIAL BANK

Following developments in the first half of 2023, the Bank is making moderate downward adjustments to the forecast statements made in the combined management report for the 2022 financial year with regard to the development of the relevant markets/sectors for sub-sectors of the real estate market and industry, while it is lifting its forecasts for renewable energy slightly. The forecasts for the shipping markets can largely be confirmed. In detail, the Bank now expects to see the following development:

Real estate markets

As far as the German real estate markets are concerned, the Bank is making moderate downward adjustments to its forecasts from the end of 2022 in some areas. The pricing phase on the investment markets will continue until the end of the year with only a small number of transactions. Market participants need more time to anticipate the higher interest rates, the increased construction costs and the loss of value that has already occurred in respect of their projects. In particular, market players that are making extensive use of short-term loans for financing are now likely to be forced to make price concessions. Even more project developers are likely to postpone or put a halt to further projects, also for longer periods. Overall, the decline in values, especially for commercial properties, is expected to be more pronounced than assumed at the end of 2022.

The forecasts for the **housing markets** can largely be confirmed. The increase and expansion of housing allowance and the nominal increase in collective pay-scale incomes are, however, likely to have a more positive effect on rent growth than previously expected. House prices should nevertheless fall more sharply in the course of the prolonged pricing phase, in particular when it comes to properties in need of extensive energy efficiency refurbishments.

Less demand for space is now expected on the **office property markets** as companies slow their recruitment activity. Demand is, however, concentrated on high-quality, centrally located prime properties to a greater degree than previously expected, meaning that prime rents are expected to increase somewhat more strongly. Prolonged investor restraint is likely to result in significantly more substantial market value losses than the Bank was still expecting at the end of 2022.

The **retail property** forecasts from the end of 2022 can be largely confirmed. As with other commercial properties, however, somewhat more substantial value losses are to be expected here as well.

Industry, trade and logistics, infrastructure and renewable energy

As far as industry and the other relevant sectors (with the exception of renewable energies) are concerned, the Bank is moderately adjusting its 2022 year-end forecasts downwards. Due to the continued negative impact of the war in Ukraine and its implications, coupled with weak global growth, these sectors are likely to show rather subdued development for the remainder of the year. In contrast, the expectations for the development of renewable energies have been raised moderately in view of the success of political efforts to drive "green transformation" observed in the first half of the year and the implementation of the pressure to take action resulting from the need to rethink energy sources following the Russian war of aggression on Ukraine. As such, the Bank now expects the expansion of renewable energies to also be more positive in the second half of the year than it had assumed at the end of 2022.

Shipping markets

The forecasts for the development of the shipping markets set out in the combined management report as at 31 December 2022 can be largely confirmed. Container vessels should continue to normalise in an environment of mounting supply pressure, bulkers are likely to trend sideways in the absence of stronger demand impetus, and oil tankers should continue to benefit from the longer trade routes created by sanctions, although the level of rates and prices could nevertheless taper off slightly due to adjustment effects.

BANKING ENVIRONMENT

Given what remains a volatile market environment, the banking environment will also remain challenging. As things stand at the moment, it appears that the need for loan loss provisions will increase in view of the weaker economic momentum in an environment that is dominated by continued high inflation and interest rates at the same time, as the number of problem cases and insolvencies in the corporate sector is likely to increase. Consequently, banks will be tasked with holding their own in this complex environment and actively managing their loan portfolios in order to cushion the blow of negative effects from the macro-environment, and in particular the impact of higher interest rates, as much as possible. In this context, those institutions whose portfolio composition is comparatively less vulnerable in geographical and sectoral terms should generally find themselves in a more favourable starting position.

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

Expected business development of Hamburg Commercial Bank and outlook

At present, Hamburg Commercial Bank is generally optimistic that business development in the second half of the year will see a continuation of the positive trend witnessed in the reporting period.

In the client business, HCOB will continue to focus on profitable and risk-commensurate deals in its core business areas, on further strengthening its client relationships and on implementing its strategic initiatives to diversify and expand its sources of income. In addition to further planned investments in product diversification (including loan funds and the investment portfolio), the establishment of the Aviation business area, for which the organisational foundation was laid in the first half of the year, should also contribute to the latter. However, no significant volumes are planned in the Aviation business area in the 2023 financial year.

When it comes to its gross new business volume, HCOB expects to see dynamic development in the second half of the year. Accordingly, taking into account the business already contracted in the first half of the year (€ 3.0 billion), the forecast for 2023 as a whole (higher volumes than in the 2022 financial year in the amount of € 5.6 billion) should be achieved. With regard to the composition of its new business, the Bank has made moderate downward adjustments to its volume targets for the national real estate business. Consequently, the Bank will continue to focus on stringent risk management as well as conservative lending in this area in the second six months. This should be compensated for by higher volumes in other divisions compared to the original plan, especially in Shipping, as well as by the international asset-based lending activities.

Based on the value of € 30.8 billion reported at the half-year reporting date, the Group’s total assets should increase moderately in the second half of the year. On the basis of the planned growth in the loan and financial investment portfolio, which is to be refinanced on the liabilities side through a further expansion of client deposits and funding activities on the capital markets, the Bank is aiming for consolidated total assets of just under € 32 billion at the end of 2023. In view of the restrained momentum in the loan book in the first half of the year, the value is slightly below the forecast value from the end of 2022 (around € 33 billion).

With regard to the Group statement of income, the Bank essentially expects to see the following developments for the second half of the year:

- In net interest income, growth momentum should continue at a comparable level to that seen in the first half of the year and further increase the net operating interest margin;
- In addition to net interest income, total income in 2023 as a whole should be characterised by a good FVPL result, although the development in this earnings item in the second half of the year – assuming less volatility on the financial markets – should be much more moderate than in the first half of the year, when net earnings were significantly higher than expected.
- In the context of the projections for loan loss provisions, the Bank remains cautious despite the positive development in the first half of the year and continues to assume net additions on a full-year basis.
- Administrative expenses are expected to increase in line with business growth in the second half of the year.
- For the earnings items "Other operating result", "Expenses for regulatory affairs, the Deposit Protection Fund and banking associations" as well as "Result from restructuring and transformation", the Bank predicts that the main effects have already been realised in the first half of the year;
- The normalisation of income tax expense will continue in the second half of the year.

Forecast for development in key performance indicators in the financial year 2023

Based on the satisfactory business performance in the first half of 2023 and the expected business development for the third and fourth quarters described above, Hamburg Commercial Bank is generally confirming its forecasts for the development of key performance indicators in the 2023 financial year as published in the combined management report for 2022. In detail, this means in brief:

With regard to net income before taxes, Hamburg Commercial Bank is confirming its forecast that it will achieve a target of around € 350 million for the 2023 financial year, despite the challenging environment. Taking into account the unchanged expectation of normalising income tax expense, the Bank is also confirming its earnings forecast for the Group net result (above € 250 million), which should lead to an **RoE after taxes** in excess of 11 % (calculated on the basis of a normalised regulatory capital commitment).

As the assumptions for the development in the calculation parameters for the **cost-income ratio (CIR),** total income, other operating result and administrative expenses can be confirmed overall from today´s perspective at the level of the projections from the end of 2022, the Bank logically continues to assume that it will report a CIR of 45 % for 2023 as a whole. The expected increase compared to the value as at 30 June 2023 (39 %) results from the fact that the half-year results in the FVPL result and in the other operating result were disproportionately good compared to the expectations for the full year.

In view of the capital-generating business model, planned measures to further improve the RWA profile and a half-year ratio of 18.5 %, the Bank is confirming its forecast that it will report a **CET1 ratio** above the strategic target level (> 17 %) at the end of 2023, too. It is important to note at this point that the capital ratios - in anticipation of a possible dividend payment for the 2023 financial year - are shown before taking the interim profit achieved in the first six months of 2023 into account.

Based on the NPE volume, which increased to € 502 million at the mid-year point, the Bank is aiming to reduce its NPE exposures in the second half of the year to an extent that slightly exceeds the level of planned new defaults. Proactive risk management, which includes early constructive interaction with the clients affected, as well as the high balance sheet risk shielding of the portfolio should have a positive effect on the planned reduction of NPE exposures. Based on a planned lower NPE volume and an assumed increase in EaD in the second half of the year, the Bank expects the **NPE ratio** to decline to < 1.5 % by 31 December 2023.

The Bank is also confirming its forecasts published in the combined management report for the 2022 financial year with regard to the **LCR** (above 140 % as at 31 December 2023) and its **rating** position (stable at the level of the improvement achieved in the reporting year).

When considering the forecast set out above, it is important to remember that the current economic environment remains challenging and characterised by high levels of volatility despite the slightly improved outlook in some areas compared to the end of 2022. The ultimate impact of geopolitical and macroeconomic uncertainties remains difficult to predict and could affect Hamburg Commercial Bank´s ability to meet its financial targets.

Overall appraisal and net income forecast

Hamburg Commercial Bank got off to a good start in the 2023 financial year and has been able to confirm the trend of positive development in its key financial ratios. The external environment was characterised in part by difficult underlying conditions, in particular by weak economic momentum, what were, at times, high levels of volatility on the financial markets and the ongoing challenges on the real estate markets. In this environment, HCOB was able to boost its operating profitability further while maintaining solid capital and liquidity ratios, not least due to its favourable positioning with regard to the development of the earnings base in the face of the rising interest rate environment. In addition, asset diversification and the increase in client deposits has progressed further. External evidence of the strength and resilience of HCOB´s focused and clear business model is provided by the rating upgrade in the reporting period, the good performance in the SSM stress test and the renewed award by the financial magazine "The Banker". HCOB took the top spot in the magazine's "Best Performing Bank -Germany" ranking for the third time in a row in July 2023.

Looking ahead to the second half of the year, the Bank is confident that the positive momentum in the development of operating profitability will continue, with the interest rate environment continuing to provide tailwind overall. The main focus in the second half of the year will be on implementing the targeted (risk-conscious) balance sheet growth and on systematic NPE management.

Taking into account the aforementioned aspects and based on the business development witnessed in the first six months, the Bank is confirming its earnings forecast set out in the combined management report for the 2022 financial year, and continues to assume that it will achieve net income after taxes of more than € 250 million for the 2023 financial year as a whole.

This earnings forecast rests on the assumption that the economic effects of the current geopolitical and economic trouble spots do not turn out to be significantly more adverse than can reasonably be expected from today´s perspective. The determining factors in this regard include further developments in the war in Ukraine, inflation trends and the momentum in interest rate hikes, as well as overall economic growth. For information on the Bank´s forecasts in this regard, please also refer to the corresponding sections within this chapter on the expected development of the global economy/financial markets, as well as the industries relevant to Hamburg Commercial Bank.

The earnings forecast and future development of Hamburg Commercial Bank are associated with major challenges overall which are described in detail in the combined management report as at 31 December 2022.

Risk Report

Risk management system

Active risk management represents a core component of the Overall Bank management at Hamburg Commercial Bank. The methods, instruments and processes used to manage the risks are explained in detail in the risk report contained in the combined management report for the 2022 financial year.

Determination of risk appetite and risk guidelines

As the strategic guideline for the Overall Bank, the Strategic Risk Framework (SRF) serves as the foundation of the risk culture, sets out the focus of the Bank's risk management activities and defines the objectives of risk management based on the planned development of key business activities, as well as the measures taken to achieve these objectives.

The focus is on securing and allocating the scarce resources of capital and liquidity and on optimising earnings in the long term, taking into account the risk appetite, business strategy objectives, the market environment and both the existing and planned portfolio. Through its guidelines, the SRF supports implementation of the business strategy objectives and ensures compliance with the regulatory requirements.

The SRF contains the risk strategy principles ("tone from the top") as the key guidelines for risk-conscious action and cornerstone of a sustainable risk culture. These provide the framework for the development of the Risk Appetite Statement (RAS) and the risk strategy. The objectives of the business strategy and the Bank planning are aligned with the requirements of the SRF.

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

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

Key risk indicators of the Group

A functional limit system requires a strict derivation of the risk appetite. Based on the Bank's risk capacity, the risk appetite is defined separately for three scarce resources: regulatory and economic capital and liquidity. The Bank has established a system of risk limits and guidelines for all three resources, which serves to identify adverse developments at an early stage, to avert them with appropriate countermeasures and to achieve the risk strategy objectives.

Key risk indicators of the Group

	30.06.2023		Limit		Guideline
ICAAP utilisation from an economic perspective/RBC (%)	64	<	95		–
Overall economic risk (€ bn)	2.1	<	2.8		–
for default risks	0.8	<	1.1		–
for market risks	1.0	<	1.5		–
for liquidity risks	0.2	<	0.3		–
NPE ratio (%)	1.5		–	<	2.5
CET1 ratio – in-period calculation (%)[1]	19.7	>	13.0		–
T1 ratio – in-period calculation (%)[1]	19.7	>	13.0		–
Overall capital ratio – in-period calculation (%)[1]	25.5	>	15.5		–
Liquidity coverage ratio (LCR) (%)	157	>	107		–
Net stable funding ratio (NSFR) (%)	113	>	102		–
Net liquidity position in normal case up to 1 month (€ bn)	5.3			>	4.2

[1] In contrast with the disclosure of capital ratios in the other sections of this interim management report, the capital ratios shown here are in-period calculation; i.e. calcula-tion taking fully into account the balance sheet carrying amounts as at the reporting date, all else being equal.

ICAAP/risk-bearing capacity

Hamburg Commercial Bank assesses capital adequacy from both a normative and an economic perspective in accordance with the ECB Guide to the internal capital adequacy assessment process (ICAAP). The Bank defines capital adequacy as the ongoing safeguarding of financial stability, in the sense that risks are adequately covered by capital in order to ensure the implementation of the objectives of the business model. By determining it on a regular basis, capital adequacy forms part of the internal reporting and is closely managed and reported to the Bank's supervisory authorities.

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

In addition to the IFRS equity modified for economic purposes, the risk coverage potential includes, inter alia, a negative balance comprising unrealised gains and losses on all assets and liabilities reported at amortised cost (AC), less the net present value of the operating costs associated with these transactions and any positive effects associated with the Bank's own credit rating. Positive balances are not taken into account, in accordance with the requirements of the ICAAP guide.

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

Utilisation of risk coverage potential decreased compared to the end of the previous year and amounted to 64 % as at the reporting date (31 December 2022: 68 %). The overall economic risk was € 2.1 billion, which is on a par with the level seen at the end of the previous year (31 December 2022: € 2.1 billion). The risk coverage potential during the report-ing period amounted to € 3.3 billion (31 December 2022: € 3.1 billion). The increase is primarily due to the Bank's half-year result.

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

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

(€ bn)	30.06.2023	31.12.2022
Economic risk coverage potential	**3.3**	**3.1**
Overall economic risk	**2.1**	**2.1**
thereof: Default risks	0.8	0.8
thereof: Market risks	1.0	1.0
thereof: Liquidity risks	0.2	0.2
thereof: Operational risks	0.1	0.1
Risk coverage potential buffer	**1.2**	**1.0**
Utilisation of risk coverage potential (%)	**64**	**68**

[1] Total differences are rounding differences.

In addition to the above-described economic perspective, compliance with the regulatory capital requirements over a medium-term horizon (at least a 3-year perspective in the base and stress case) under the internal normative perspective is also assessed in accordance with the ECB Guide to the internal capital adequacy assessment process (ICAAP). The normative approach is not limited to the Pillar 1 risks covered by the regulatory capital requirements, but also takes account of economic effects on the key regulatory ratios through reciprocal relationships.

Adherence to the regulatory capital requirements including an internal management buffer is checked by means of the quarterly calculation of the regulatory capital ratios as at the reporting date and over a multi-year scenario horizon.

Further information on the Bank's scenario analyses is presented in detail in the combined management report for the 2022 financial year.

Requirements under the Supervisory Review and Evaluation Process

The Bank's business model, governance, risk situation, capital and liquidity position are reviewed as part of the Supervisory Review and Evaluation Process (SREP). Based on the analyses, the supervisory authorities may specify requirements for capital and liquidity utilisation that exceed the existing minimum regulatory requirements. The minimum capital ratios assigned to the Bank by the ECB and reviewed annually as part of the SREP process were adhered to at all times during the reporting period.

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

Minimum capital requirements[1)]

(%)	30.06.2023	31.12.2022
Pillar 1		
Minimum capital requirement	8.0	8.0
to be supported by CET1 capital	4.5	4.5
to be supported by additional Tier 1 (AT1) capital	1.5	1.5
to be supported by Tier 2 capital	2.0	2.0
Combined buffer requirement - to be supported by CET1 capital	3.1	2.7
Pillar 2		
Pillar 2 requirements (P2R)	1.8	2.1
to be supported by CET1 capital	1.0	1.2
to be supported by additional Tier 1 (AT1) capital	0.3	0.4
to be supported by Tier 2 capital	0.5	0.5
Overall capital requirements		
CET1 capital	8.6	8.4
Tier 1 capital	10.4	10.3
Total capital	12.9	12.8

[1)] Total differences are rounding differences.

In addition to the existing capital buffer requirement at 2022 year-end, there are new requirements which must be met from 2023 onwards, including a countercyclical capital buffer (CCyB) of 0.75 % of risk-weighted assets (RWA) on domestic risk positions and a sectoral systemic risk buffer (SyRB) of 2.0 % of RWA on domestic loans collateralised by residential property.

Regulatory capital ratios[1) 2)]

(%)	30.06.2023	31.12.2022[2)]
Overall capital ratio	24.4	26.8
Tier 1 capital ratio	18.5	20.5
CET1 capital ratio	18.5	20.5

[1)] Regulatory Group according to CRR.
[2)] The dividend payment of € 1.5 billion in 2023 was taken into account in the Common Equity Tier 1 capital.

Regulatory capital[1) 2) 3)]

(€ bn)	30.06.2023	31.12.2022[3)]
Regulatory capital	4.0	4.1
thereof: Tier 1 capital	3.1	3.2
thereof: CET1 capital	3.1	3.2
thereof: additional Tier 1 capital	–	–
thereof: Tier 2 capital	1.0	1.0

[1)] Regulatory Group according to CRR.
[2)] Total differences are rounding differences.
[3)] The dividend payment of € 1.5 billion in 2023 was taken into account in the Common Equity Tier 1 capital.

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

(€ bn)	30.06.2023	31.12.2022
Credit risks	14.4	13.6
Market risks	0.4	0.3
Operational risks	1.2	1.1
Other RWA	0.5	0.3
Total RWA	**16.5**	**15.4**

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

As expected, the CET1 ratio fell compared to 31 December 2022 (20.5 %) due to increased RWA and a slight decrease in Common Equity Tier 1 capital, but it remains significantly above regulatory requirements at 18.5 %. Among other things, the increase in RWA is due to the recalibration of rating models, the effects of which are anticipated in adjustment items pursuant to Article 3 CRR. As at 30 June 2023, the CET1 capital amounted to € 3.1 billion, which is slightly below the previous year's level (€ 3.2 billion) due to higher regulatory deductions. It should be noted that capital ratios are shown before taking the half-year profit achieved in 2023 into account. The dividend payment of € 1.5 billion for the 2022 financial year was already included in Common Equity Tier 1 capital at the end of the previous year.

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 18.5 % as at 30 June 2023 (31 December 2022: 20.2 %). The corresponding Tier 1 ratio reached 18.5 % (31 December 2022: 20.2 %), the corresponding overall capital ratio amounted to 24.3 % (31 December 2022: 26.7 %). The capital ratios for the single entity as at 30 June 2023 are also reported before taking the half-year profit for the period into account. The capital ratios for the single entity as at 31 December 2022 are also shown after taking the dividend payment of € 1.5 billion into account. The single entity (HGB) regulatory requirements for capital ratios were adhered to at all times during the reporting period.

The BRRD (EU Bank Recovery and Resolution Directive) requires banks in EU member states to maintain sufficient loss absorption and recapitalisation capacity in the form of regulatory capital and defined liabilities. To this end, institution-specific MREL (Minimum Requirement for Own Funds and Eligible Liabilities) requirements for Hamburg Commercial Bank have been defined by the European Single Resolution Board (SRB), the resolution authority responsible for the Bank. The Bank has complied with the requirements at all times during the reporting period. Hamburg Commercial Bank must comply with minimum requirements of 8 % of the total risk exposure amount (TREA) for 2023. Taking into account other regulatory requirements, the figure is approximately 11.6 %. At the same time, the requirement of 3 % of the leverage ratio exposure (LRE) measure must be met. As at 30 June 2023, the MREL ratio was 41.1 % of the total risk exposure amount (TREA).

Risks for the capital ratio trend

Risks may arise from the regulatory environment, for instance from interpretation decisions or audits, in addition to the macroeconomic and industry-specific risks for the capital ratios.

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

Under CRR III, further burdens for the capital ratios could result from the proposed changes to the regulatory requirements – partly referred to as "Basel IV". Mandatory initial application is expected in 2025. With the implementation of Basel IV, the advantages of internal models are significantly restricted in some cases. Nevertheless, Hamburg Commercial Bank expects that the implementation of Basel IV will tend to reduce the RWA for credit risks, since it has successfully implemented the simplification of its model landscape for the risk classification procedures in 2022 from the advanced internal ratings-based (A-IRB) approach to the foundation internal ratings-based (F-IRB) approach along with the Credit Risk Standardised Approach (CRSA).

Default risk

In line with Hamburg Commercial Bank's business strategy focus as a commercial bank and specialist finance provider, default risk represents a significant risk.

Hamburg Commercial Bank continuously and systematically monitors potential effects of the macroeconomic and political environment at the level of sub-portfolios and individual clients.

During the reporting period, as the pandemic has ended and supply chain problems have continued to recede, the focus of macroeconomic risks has shifted to the consequences of the ongoing war in Ukraine and the resulting increased geopolitical risks – especially in Asia. As before, the main impact is on sectors and clients that are directly affected by the war as well as by the knock-on effects in the areas of energy and raw materials supply, inflation and the changing interest rate landscape, which are expected to have adverse effects on their business models. These clients are closely managed and the need for measures to manage credit risk is continuously reviewed.

The EaD of the total exposure amounted to € 33,519 million as at 30 June 2023 (31 December 2022: € 34,429 million). The EaD broken down by internal rating categories is presented in the following table. EaD with an investment grade rating (rating category 1 to 5) remains high at 72 % of the total exposure at the Group level (31 December 2022: 74 %).

The NPE ratio remains at a solid level of 1.5 % as at 30 June 2023, despite an increase compared to 31 December 2022 (1.2 %). In addition to a slight decrease in the EaD, the NPE portfolio increased in the first half of the financial year. This is primarily due to the new default of a larger, predominantly ECA -covered individual exposure in the Project Finance segment as well as a moderate net increase in the NPE volume in the Real Estate segment, which is particularly sensitive to interest rates.

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

	30.06.2023		31.12.2022	
	EaD (€ m)	relative share (%)	EaD (€ m)	relative share (%)
1 (AAAA) to 1 (AA+)	6,286	18.8	8,801	25.6
1 (AA) to 1 (A–)	8,238	24.6	6,369	18.5
2 to 5	9,580	28.6	10,445	30.3
6 to 9	8,020	23.9	7,702	22.4
10 to 12	525	1.6	474	1.4
13 to 15	173	0.5	114	0.3
16 to 18 (default categories)	502	1.5	405	1.2
Other[3)]	195	0.6	119	0.3
Total	**33,519**	**100**	**34,429**	**100**

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

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

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

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

Default risk structure by sector[1)]

	30.06.2023		31.12.2022	
	EaD (€ m)	relative share (%)	EaD (€ m)	relative share (%)
Industry	3,085	9.2	3,604	10.5
Shipping	2,868	8.6	3,225	9.4
Trade and transport	1,739	5.2	1,731	5.0
Credit institutions	4,746	14.2	3,744	10.9
Other financial institutions	4,810	14.4	4,054	11.8
Land and buildings	5,306	15.8	5,962	17.3
Other services	4,502	13.4	4,346	12.6
Public sector	6,327	18.9	7,615	22.1
Private households	136	0.4	147	0.4
Other	–	–	–	–
Total	**33,519**	**100**	**34,429**	**100**

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

The following table shows EaD broken down by residual maturities:

Default risk structure by residual maturity[1)]

	30.06.2023		31.12.2022	
	EaD (€ m)	relative share (%)	EaD (€ m)	relative share (%)
Up to 3 months	4,482	13.4	6,516	18.9
> 3 months to 6 months	1,017	3.0	826	2.4
> 6 months to 1 year	2,678	8.0	2,056	6.0
> 1 year to 5 years	12,950	38.6	13,758	40.0
> 5 years to 10 years	7,366	22.0	6,400	18.6
> 10 years	5,026	15.0	4,873	14.2
Total	**33,519**	**100**	**34,429**	**100**

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

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

Default risk structure by region[1)]

	30.06.2023		31.12.2022	
	EaD (€ m)	relative share (%)	EaD (€ m)	relative share (%)
Eurozone	23,865	71.2	25,283	73.4
thereof: Germany	13,259	39.6	15,814	45.9
thereof: Greece	–	–	–	–
thereof: Italy	239	0.7	226	0.7
thereof: Portugal	198	0.6	207	0.6
thereof: Spain	411	1.2	427	1.2
Western Europe	3,117	9.3	3,006	8.7
Eastern Europe[2)]	42	0.1	41	0.1
African countries[3)]	440	1.3	511	1.5
North America	4,183	12.5	3,220	9.4
Latin America	204	0.6	415	1.2
Middle East	45	0.1	48	0.1
Asia Pacific region[4)]	1,611	4.8	1,842	5.4
International organisations	12	–	63	0.2
Total	**33,519**	**100**	**34,429**	**100**

1) No separate disclosure of the "Reconciliation" segment due to low materiality (< € 100 million).
2) Hamburg Commercial Bank has a gross exposure in the following Eastern European countries which were not members of the eurozone as at the reporting date: Bulgaria, Poland, Romania, Czech Republic, Turkey and Hungary.
3) The exposure in African countries mainly consists of Liberia, which is relevant as a country of registration for the shipping business.
4) The exposure in Asia Pacific region mainly consists of Marshall Islands, which are relevant as a country of registration for the shipping business.

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

In the course of the geographical diversification of the Hamburg Commercial Bank portfolio, the exposure in North America was increased in particular.

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

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

Due to their unfavourable fiscal and economic data, a number of countries have long been subject to increased monitoring and partially also to stricter limits. These include Greece and Italy in particular.

Loan loss provisions

The change in loan loss provisions amounted to a net reversal of € 2 million as at the reporting date (same period of the previous year: net reversal of € 31 million).

At Stage 3, moderate net additions in the Real Estate segment (€ -11 million) and net reversals in the Corporates segment (€ 9 million) more or less balanced each other out. In the other segments, there were no significant effects at this stage. The addition to the Real Estate segment relates to two real estate financing transactions that defaulted during the reporting peri-od. The additions recorded for these financing transactions were partially offset by reversals from the partial disposal of an NPE exposure. In the Corporates segment, the net reversal is primarily attributable to the improved economic outlook for two loan exposures (hotel operating companies) in the wake of the recov-ery from pandemic-related impacts.

At Stages 1 and 2, a net addition was recorded in the Real Es-tate segment (€ -31 million). The reversals resulting from the winding down of a large exposure and from rating improvements are more than compensated by the increase in model overlays for the Real Estate segment. The retail property (Retail) and building land financing sectors are currently particularly affected by the loss of purchasing power and the sharp rise in interest rates. The uncertainties regarding the potential macroeconomic effects on these portfolios were mapped using model overlays. The net reversals at Stages 1 and 2 recorded in the Project Finance (€ 24 million) and Shipping (€ 8 million) segments offset the net addi-tions to the Real Estate segment. In the energy (Project Finance) sector, there is now certainty in France with regard to guaran-teed feed-in tariffs for customers, and thus also certainty for the Bank, so that both the loan loss provisions and the corre-spond-ing model overlays have largely been reversed. In the Shipping segment, the model overlays for the tankers subportfolio in particular were reversed, due to the positive development in the market situation and the medium-term forecasts for charter rates and ship prices.

The following table provides an overview broken down by segment. Further information on the individual business units is set out in the "Segment" section.

Changes in loan loss provisions in the lending business

(€ m)	January–June 2023			
	Stage 3 loan loss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Other[1]	Total
Corporates	9	– 1	1	9
Project Finance	1	24	–	25
Real Estate	– 11	– 31	1	– 41
Shipping	–	8	–	8
Treasury & Group Functions	–	–	1	1
Reconciliation	1	-1	–	–
Group	**–**	**– 1**	**3**	**2**

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

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

(€ m)	January–June 2022			
	Stage 3 loan loss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Other[2]	Total
Corporates	– 11	7	1	– 3
Project Finance	–	– 15	–	– 15
Real Estate	–	43	–	43
Shipping	5	–	-1	4
Treasury & Group Functions	–	–	1	1
Reconciliation	– 1	1	1	1
Group	**– 7**	**36**	**2**	**31**

[1] The prior-year figures have been restated; details are set out in Note 2 to the Group financial statements.
[2] The "Other" item includes the result of other changes in loan loss provisions (direct write-downs, recoveries on loans and advances previously written off, result of non-substantial modifications).

Total loan loss provisions

(€ m)	30.06.2023	31.12.2022
Volume of receivables AC	**18,301**	**19,430**
thereof: volume of impaired loans (gross carrying amount Stage 3)[1]	498	387
Gross carrying amount (Stage 2)	1,718	1,573
Gross carrying amount (Stage 1)	16,085	17,470
Total loan loss provisions for balance sheet items	**-318**	**-414**
thereof: Total loan loss provisions (Stage 3)[1]	-153	-238
Total loan loss provisions (Stage 2)	-84	-101
Total loan loss provisions (Stage 1)	-81	-75

[1] Stage 3 including POCI

Hamburg Commercial Bank's conservative loan loss provisions policy is reflected in the Bank's continued solid total loan loss provisions.

Total loan loss provisions for balance sheet items determined under IFRS 9 as at 30 June 2023 amounted to € -318 million (31 December 2022: € -414 million). In addition, provisions for off-balance sheet items amounted to € -34 million as at the reporting date (31 December 2022: € -35 million).

The NPE coverage ratio AC decreased from the level of 31 December 2022 (68.9 %) to 37 % as at 30 June 2023. The decrease is due to structural changes in the composition of the NPE portfolio. During the reporting period, the partial disposal of an NPE exposure was recorded, for which a high level of coverage with loan loss provisions was required, whereas for the biggest acquisition in terms of volume, the default risks are predominantly limited by ECA cover and therefore require no coverage with loan loss provisions.

The relatively high total loan loss provisions at Stages 1 and 2 - compared to the European banking average - mitigate the im-pact of potential future negative influences.

The coverage ratio of the total volume of receivables AC was at an above average level of 1.7 % as at 30 June 2023 (31 Decem-ber 2022: 2.1 %).

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

Market risk

The system for measuring and managing market risks at Hamburg Commercial Bank is based on the economic daily profit and loss and on a value-at-risk (VaR) approach. For the purposes of the same day measurement and management of market risks, the Bank applies a VaR model using a historical simulation, with a holding period of one day, a historical observation period of 250 days and a 99.0 % confidence level. Due to its structure that differs significantly from the rest of the Group, the Contractual Trust Agreement (CTA) implemented to diversify assets and hedge long-term pension obligations uses a Cornish-Fisher VaR approach with a holding period of one year and a confidence level of 99.9 %. In line with the long-term investment horizon, the approach is based on market data history going right back to 2008, and it thus also takes into account the period of the financial crisis. The value is included as an add-on in the Group risk with appropriate scaling.

As at 30 June 2023, the daily market risk of the trading book positions was € 5.0 million and that of the banking book positions was € 41.7 million. The aggregated market risk, which cannot be derived from the total VaR of the trading and banking book positions due to risk-mitigating correlation effects, amounted to € 41.9 million. The daily interest rate risk in the banking book (IRRBB) was € 21.4 million, the funds/equity risk was € 13.0 million, the credit spread risk was € 9.6 million and the foreign exchange risk was € 3.4 million.

In addition to the risk determined by the system, the VaR of Hamburg Commercial Bank at Group level as at 30 June 2023 includes a VaR add-on of € 4.3 million for residual risks (valuation risks from securities) as well as a backtesting add-on of € 1.1 million. The VaR add-on calculated for the CTA amounted to € 12.5 million as at 30 June 2023.

Developments with respect to the daily VaR for individual market risk types during the first six months of 2023 are presented in the table below.

The main drivers of the increase in VaR as at 30 June 2023 compared to the 2022 year-end were, on the one hand, an increase in the credit spread risk item in the investment grade area and, on the other hand, an adjustment in the accounting for the fund risks of the CTA. The reporting of the CTA add-on until the end of 2022, which was split equally between market risk and default risk, has been replaced by full reporting under market risk.

The market risk appetite formulated by the Management Board is converted into limits, which are further broken down by the Asset Liability Committee. Limit compliance is monitored on a daily basis by means of a VaR limit for the Bank's overall market risk, by VaR limits for specific risk types/portfolios as well as a stop loss limit for the economic result. On a monthly basis, the annualised economic capital required for market risks is calculated and compared with the economic capital allocated to market risks by the Management Board.

In the framework of stress testing, the potential net present value losses are limited, which would result from the six interest rate shock scenarios specified in the EBA guideline EBA/GL/2018/02. The perspective is expanded through monthly stress test calculations across all risk types, in which the net present value effects of various historical and hypothetical stress scenarios are analysed.

The limiting of net interest income risk was adjusted at the beginning of 2023 in line with the new EBA standard (EBA/RTS/2022/10 Introduction of the Supervisory Outlier Test for Net Interest Income Risk).

Daily Value at Risk of the Group

(€ m)	Interest rate risk[1]		Credit spread risk		Foreign exchange risk		Equity/ funds risk		Total[2]	
	Jan. – June 2023	Jan. – Dec. 2022	Jan. – June 2023	Jan. – Dec. 2022	Jan. – June 2023	Jan. – Dec. 2022	Jan. – June 2023	Jan. – Dec. 2022	Jan. – June 2023	Jan. – Dec. 2022
Average	25.6	16.8	8.6	5.6	1.8	1.7	12.2	10.8	42.5	27.3
Maximum	32.7	28.7	10.2	7.4	4.9	4.9	14.0	13.7	49.0	43.2
Minimum	20.8	9.3	6.6	3.7	0.6	0.3	7.0	7.0	34.3	18.3
Period end value	22.0	22.4	9.5	7.0	3.0	2.6	13.0	7.1	41.9	34.3

[1] Interest rate risk excluding credit spread risk.
[2] Due to correlations the VaR does not result from adding up individual values.

Liquidity risk

Hamburg Commercial Bank assesses liquidity adequacy from both a normative and an economic perspective in accordance with the ECB Guide to the internal liquidity adequacy assessment process (ILAAP). The normative perspective covers a multi-year assessment period, and thereby focusses on the ability to fulfil all regulatory, supervisory and in part internal liquidity requirements and guidelines at all times. The objective is the forward-looking assessment of liquidity adequacy. In addition to a baseline scenario, adverse scenarios are also taken into account in forecasting the parameters.

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

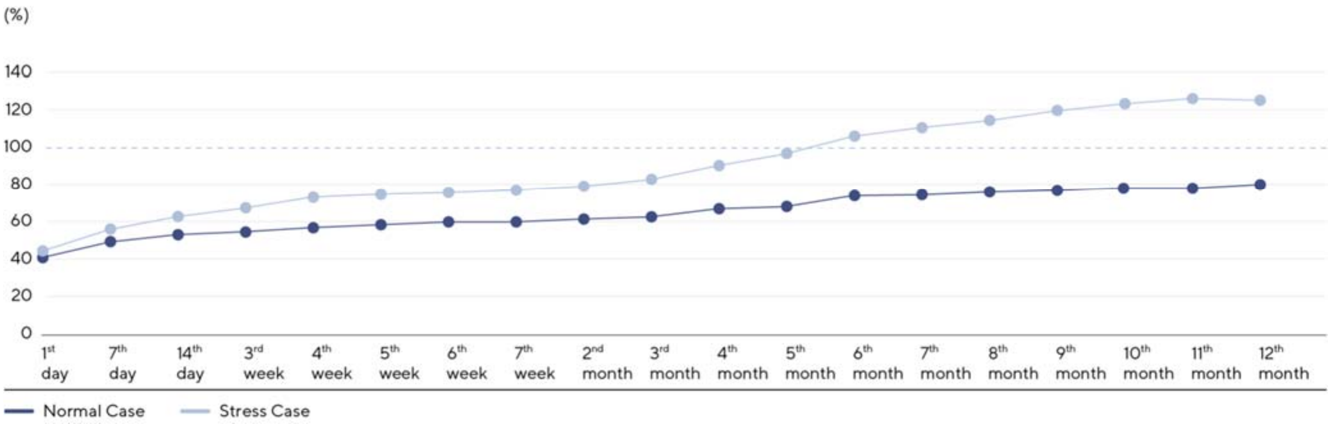
For the liquidity risk, a distinction is made between risk of illiquidity and liquidity maturity transformation risk. Liquidity maturity transformation risk refers to the risk that a pending loss will result from a mismatch in the contractual maturities of assets and liabilities, the so-called liquidity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

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

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

The following chart shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case liquidity maturity profiles as at 30 June 2023.

Utilisation of Liquidity Potential as at 30 June 2023



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 stress cases for the risk of illiquidity.

The utilisation is 80 % in the twelfth month in the normal case assessment, which is based on the assumption of business development in a normal market environment. This means that all limits were complied with in the 12-month period under review. In the scenario that is relevant from a management perspective, the stress case liquidity maturity profile shows that the Bank will not fall short of the minimum survival period of one month defined in MaRisk. Instead, the minimum survival period as at 30 June 2023 stood at over five months. Compared to the 2022 year end, utilisation levels have increased slightly in the normal case and stress case in virtually all maturity bands. Critical limit utilisation levels were not reported in the normal case nor in the stress case liquidity maturity profile during the period under review.

The regulatory indicator for liquidity risks is the liquidity coverage ratio (LCR), the purpose of which is to ensure that liquidity is safeguarded in an acute stress period of 30 days. When calculating the LCR, the amount of highly liquid assets is compared to the net outflows over the next 30 days. The minimum threshold of 100 % pursuant to CRR was maintained at all times in the reporting period. As at 30 June 2023, it amounted to 157 % (31 December 2022: 197 %).

The net stable funding ratio (NSFR), as a structural liquidity ratio, is calculated as the ratio of available stable funding resources across all maturities to the stable funding required. As at 30 June 2023, the NSFR amounted to 113 % under the CRR (31 December 2022: 113 %) and thus lies above the minimum ratio of 100 % required by the supervisory authorities. The NSFR for 2022 is shown after taking the dividend payment of € 1.5 billion into account.

Hamburg Commercial Bank also calculates the additional liquidity monitoring metrics (AMM) including the preparation of the stipulated liquidity maturity profile. By means of the AMM, the LCP (liquidity capacity period) is determined by the supervisory authorities. In so doing, inflows and outflows from a contractual point of view excluding any prolongation or new business assumptions are compared to the unencumbered liquid funds of the counterbalancing capacity less any haircuts The LCP is no longer maintained from the date on which the cumulative cash flows give rise to a need for liquid funds, which exceeds the liquidity position. This figure is determined by the Bank on a daily basis and stood at four months as at 30 June 2023.

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

Hamburg Commercial Bank successfully implemented its funding strategy in the first half of the 2023 financial year. During the reporting period, the refinancing situation was characterised by very volatile and difficult capital markets, driven by the turbulence in the international banking market and the ongoing difficult geopolitical crisis. Despite the tense capital market environment, Hamburg Commercial Bank successfully executed two benchmark issues – a senior preferred benchmark bond for € 750 million and a mortgage Pfandbrief for € 500 million – during the first half of the year. In addition to the refinancing via the capital market, deposits from corporates in particular contributed to the refinancing of the business. The volume of short-term deposits rose by more than 7 % in the first half of 2023, despite the difficult market environment. In order to further strengthen the deposit structure, the focus is on diversifying and expanding the deposits from corporates.

A worsening of the current geopolitical tensions and a deterioration in the macroeconomic environment could make execution of funding measures in the market more difficult. In addition, a more restrictive than expected monetary policy adopted by the central banks could limit the refinancing options and further increase funding costs..

The Association of German Banks (BdB) has implemented a reform of the protection of the Deposit Protection Fund (ESF) from 2023 (including transitional periods), which affects all members. Given the changed scope of protection provided in future by the guarantee scheme, there is a fundamental risk of increased liquidity outflows. The depositor behaviour has not yet exhibited any abnormalities in this regard. As at 30 June 2023, 81 % of eligible protected deposits are covered by the ESF.

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

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

As part of the regular SREP process carried out within the Banking Union, it is possible that additional requirements in various areas of prudential regulation, such as liquidity, could arise as a result of discretionary decisions made by the banking supervisory authorities.

Non-financial risk

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

The reporting period was characterised by the ongoing implementation of the comprehensive transformation of IT into a modern, cost-effective, cloud-based IT architecture. The IT risks that may arise during this IT transformation process are reduced through a step-by-step approach with parallel phases of the old and new system environment, as well as by sustainable partnerships, effective management and independent quality assurance.

As a result of the war of aggression by Russia against Ukraine, the sanctions situation tightened significantly. Hamburg Commercial Bank fully implements all sanctions and has continued the increased monitoring of current developments.

The threat of cybercrime remains high, with ransomware being the most common threat. Attacks are highly professional and increasingly automated. The banking industry as a whole is also in the focus of the attackers, although there is currently no specific threat situation facing Hamburg Commercial Bank. The threat in the context of the war in Ukraine is further manifested by various campaigns against different industries and authorities and in different countries. The further development of artificial intelligence and the associated new possibilities for manipulative actions continue to pose major challenges to cybersecurity. The Bank follows cybercrime developments on a regular basis and continuously works to mitigate cybersecurity risks.

As at the reporting date, Hamburg Commercial Bank recognised provisions for the legal risk category, which is a component of operational risk, in particular for litigation risks and costs, amounting to € 97 million (31 December 2022: € 110 million). In addition, there are also contingent liabilities arising from legal disputes. A significant portion of the provisions is due to complaints and litigation that investors and former borrowers are pursuing against the Bank.

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

As a component of legal risks, tax risks mainly result from the fact that the binding interpretation of rules that can be interpreted may sometimes only be known after several years. At present, the assessment periods from 2011 onwards can still be changed under procedural law. In connection with the tax audits that are currently being conducted, the new and/or amended publications by the tax authorities, as well as the case law on tax matters that has meanwhile come into effect, appropriate provisions are recognised for the resulting tax risks where necessary. As at the reporting date, the provisions made for expected back taxes as well as the interest payable attributable to these amounts was € 10 million (31 December 2022: € 13 million). In contrast, appropriate tax receivables have been capitalised for expected tax refunds.

Further information on non-financial risks can be found in the combined management report for the 2022 financial year.

Hamburg, 15. August 2023

Ian Banwell	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 2023

(€ m)	Note	January–June 2023	January–June 2022	Change %
Interest income from financial assets categorised as AC and FVOCI		654	307	>100
Interest income from other financial instruments		25	53[1]	-53
Negative interest on investments categorised as AC and FVOCI		–	-11	-100
Negative interest on other cash investments and derivatives		–	-27	-100
Interest expenses		-388	-98[1]	>100
Positive interest on borrowings and derivatives		1	36	-97
Net interest income	(5)	**292**	**260**	**12**
Net commission income	(6)	11	18	-39
Result from hedging	(7)	6	7	-14
Result from financial instruments categorised as FVPL	(8)	73	16[1]	>100
Net income from financial investments	(9)	–	–	–
Result from the disposal of financial assets classified as AC	(10)	-7	2	>-100
Total income		**375**	**303**	**24**
Loan loss provisions	(11)	2	31[1]	94
Total income after loan loss provisions		**377**	**334**	**13**
Administrative expenses	(12)	-156	-150	4
Other operating result	(13)	29	40	-28
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(14)	-20	-29	-31
Net income before restructuring and transformation		**230**	**195**	**18**
Result from restructuring and transformation	(15)	–	-17	100
Net income before taxes		**230**	**178**	**29**
Income tax expense		-52	29	>100
Group net result		**178**	**207**	**-14**
Group net result attributable to Hamburg Commercial Bank shareholders		178	207	-14

[1] The previous year's amount was adjusted; for more details please refer to Note 2.

Earnings per share

(€)	Note	January–June 2023	January–June 2022
Undiluted	(16)	0.59	0.69
Diluted	(16)	0.59	0.69
Number of shares (millions)		**302**	**302**

Group statement of comprehensive income

for the period from 1 January to 30 June 2023

Reconciliation with total comprehensive income/loss

(€ m)	January–June 2023	January–June 2022
Group net result	**178**	**207**
Income and expenses that have been reclassified to the statement of income or may be reclassified at a later date		
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement (before taxes)		
Unrealised gains and loss (before taxes)	-30	-62
Gains and losses (before taxes) reclassified to the statement of income	-1	1
Income taxes recognised	10	19
	-21	**-42**
Differences resulting from currency translation	–	–
	–	**–**
Subtotal	**-21**	**-42**
Income and expenses that will not be reclassified to the statement of income at a later date		
Credit risk-induced changes in the value of liabilities designated at fair value (before taxes)	–	4
Income taxes recognised	–	-1
	–	**3**
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	-2	175
Income taxes recognised	–	-56
	-2	**119**
Subtotal	**-2**	**122**
Other comprehensive income for the period	**-23**	**80**
Total comprehensive income	**155**	**287**
Total comprehensive income attributable to Hamburg Commercial Bank shareholders	155	287

Group statement of financial position

as at 30 June 2023

Assets

(€ m)	Note	30.06.2023	31.12.2022	Change %
Cash reserve	(17)	3,353	4,974	-33
Loans and advances to banks	(18)	828	777	7
Loans and advances to customers	(19)	18,388	19,592	-6
Loan loss provisions	(20)	-318	-414	-23
Positive fair values of hedging derivatives	(21)	-	-	-
Positive adjustment item from portfolio fair value hedges		-134	-152	-12
Trading assets	(22)	228	441	-48
Financial investments	(23)	7,353	5,490	34
Intangible assets	(24)	68	55	24
Property, plant and equipment	(25)	17	16	6
Investment property	(25)	1	1	-
Non-current assets held for sale and disposal groups	(26)	11	-	-
Current tax assets		47	81	-42
Deferred tax assets	(27)	640	697	-8
Other assets	(28)	330	260	27
Total assets		**30,812**	**31,818**	**-3**

Liabilities

(€ m)	Note	30.06.2023	31.12.2022	Change %
Liabilities to banks	(29)	4,437	4,606	–4
Liabilities to customers	(30)	13,455	13,243	2
Securitised liabilities	(31)	7,429	7,065	5
Negative fair value of hedging derivatives		61	65	–6
Negative adjustment item from portfolio fair value hedges		–183	–192	–5
Trading liabilities	(32)	311	335	–7
Provisions	(33)	328	361	–9
Current tax liabilities		73	90	–19
Other liabilities	(34)	155	150	3
Subordinated capital	(35)	923	930	–1
Equity	(36)	3,823	5,165	–26
Share capital		302	302	–
Capital reserve		1,531	1,529	0
Retained earnings		1,838	2,915	–37
Revaluation reserve		–27	–6	> 100
Group net result		178	425	–58
Total before non-controlling interests		3,822	5,165	–26
Non-controlling interests		1	–	–
Total liabilities		**30,812**	**31,818**	**–3**

Group statement of changes in equity

(€ m)	Note	Share capital	Capital reserve
As at 1 January 2022		**302**	**1,524**
Group net result		-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-
Credit risk-induced changes in the value of liabilities designated at fair value		-	-
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		-	-
Other comprehensive income		-	-
Comprehensive income as at 30 June 2022		**-**	**-**
Compensation for the Group net loss for the previous year		-	-
Share-based remuneration		-	3
As at 30 June 2022		**302**	**1,527**
As at 1 January 2023		**302**	**1,529**
Group net result		-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		-	-
Other comprehensive income		-	-
Comprehensive income as at 30 June 2023		**-**	**-**
Dividend distributions to the shareholders of Hamburg Commercial Bank AG		-	-
Compensation for the Group net loss for the previous year		-	-
Changes in scope of consolidation		-	-
Share-based remuneration		-	2
As at 30 June 2023	(36)	**302**	**1,531**

Retained earnings	Currency conversion reserve	Revaluation reserve	Group net result	Total before non-control-ling interests	Non -controlling interests	Total
2,437	**-**	**103**	**351**	**4,717**	**-**	**4,717**
-	-	-	207	207	-	207
119	-	-	-	119	-	119
-	-	3	-	3	-	3
-	-	-42	-	-42	-	-42
119	-	-39	-	80	-	80
119	**-**	**-39**	**207**	**287**	**-**	**287**
351	-	-	-351	-	-	-
-	-	-	-	3	-	3
2,907	**-**	**64**	**207**	**5,007**	**-**	**5,007**
2,915	**-**	**-6**	**425**	**5,165**	**-**	**5,165**
-	-	-	178	178	-	178
- 2	-	-	-	-2	-	-2
-	-	-21	-	-21	-	-21
- 2	-	-21	-	-23	-	-23
- 2	**-**	**-21**	**178**	**155**	**-**	**155**
- 1,500	-	-	-	-1,500	-	-1,500
425	-	-	-425	-	-	-
-	-	-	-	-	1	1
-	-	-	-	2	-	2
1,838	**-**	**-27**	**178**	**3,822**	**1**	**3,823**

Group cash flow statement

Condensed cash flow statement

(€ m)	January–June 2023	January–June 2022
Cash and cash equivalents as at 1 January	**4,974**	**3,261**
Cash flow from operating activities	1,873	495
Cash flow from investing activities	-1,994	49
Cash flow from financing activities	-1,500	-1
Cash and cash equivalents as at 30 June	**3,353**	**3,804**

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

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

In the reporting period, significant new issues with a volume of € 2,374 million were made (previous year: € 3,089 million). The volume of repayments/repurchases in this period amounted to € 562 million (previous year: € 632 million) and the volume of maturing issues came to € 1,514 million (previous year: € 2,611 million).

The cash flow from financing activities was burdened by the dividend of € 1,500 million distributed in the reporting period.

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

Group notes

(selected explanatory notes)

General information

1. Accounting principles

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

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

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

The interim Group financial statements as at 30 June 2023 were prepared in accordance with IFRS as published by the International Accounting Standards Board (IASB) and adopted as European law by the European Union (EU). They take into account in particular the requirements set out in IAS 34 (Interim Financial Reporting).

In the interim Group financial statements, the same accounting policies have been applied as in the Group financial statements of Hamburg Commercial Bank AG as at 31 December 2022.

In accordance with IAS 34.C4, Hamburg Commercial Bank does not prepare further expert opinions to define the present value of defined benefit obligations during the year and takes the data from the last expert opinion as at 31 December 2022 as a basis. Every quarter, pension provisions are reviewed for changes in key parameters, which are then adjusted if necessary and taken into account for accounting purposes (in particular changes in the discount rate). Plan assets are measured at fair value and netted with the pension provisions.

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

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies

The amendments to IAS 1 clarify that an entity is required to disclose its material accounting policy information in the notes instead of its significant accounting policies. Whether or not the accounting policy information can be classed as material is determined based on whether a user of the entity's financial statements needs this information to make decisions. The accounting policy information must therefore be related to material transactions or other events, and there must be a reason for its disclosure. The amendments to IAS 1 were included in the IFRS Practice Statements 2 and examples were added.

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

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

The amendments to IAS 8 clarify the difference between accounting policies and accounting estimates. Accounting estimates are now defined as monetary amounts in financial statements that are subject to measurement uncertainty.

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

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
The amendments limit the initial recognition exemption of deferred taxes on assets or liabilities in accordance with IAS 12 to the extent that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This pertains in particular to deferred taxes on transactions such as leases and decommissioning obligations. In these cases, entities are now obliged to recognise deferred taxes upon initial recognition.

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

IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information
IFRS 17 covers the accounting treatment of assets and liabilities arising from insurance contracts. The amendments concern transitional provisions for the simultaneous application of IFRS 17 and IFRS 9. As at the reporting date, this has no impact on the Group financial statements of Hamburg Commercial Bank, as the contracts for financial guarantees and performance guarantees that could be relevant for IFRS 17 are essentially accounted for in accordance with IFRS 9 in the Group financial statements.

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules
The amendments concern the inclusion of a temporary exemption from accounting for deferred tax arising from the implementation of Pillar Two model rules. In addition, they require certain disclosures on the part of the companies concerned.

The above-stated temporary exemption from the obligation to account for deferred taxes and the obligation to disclose that the mandatory exemption is being used need to be applied immediately after the publication of the amendments to IAS 12. The other new mandatory disclosures need to be applied for the first time in the first reporting period in a financial year starting on or after 1 January 2023. In interim reports ending in 2023, these disclosures are not yet mandatory. The impact of the amendments on the Group financial statements of Hamburg Commercial Bank are currently being reviewed.

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 2023 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. Changes to prior-year figures

The presentation of the Group statement of income and the Group statement of financial position were amended as follows during the reporting period:

I. Current payments from interest rate derivatives

Starting this financial year, Hamburg Commercial Bank reports the current cash flow from interest rate derivatives in the result from financial instruments categorised as FVPL.

In the past, all interest cash flows from interest rate derivatives were reported in net interest income. However, the corresponding valuation effects of these interest rate derivatives are reported in the result from financial instruments categorised as FVPL. This applies in particular to interest rate swaps, which is why this has led in the past to a mismatch between net interest income and the result from financial instruments categorised as FVPL. In order to reduce the resulting complexity in the Group income statement, the reporting of current cash flow from interest rate derivatives was adjusted. Since 1 January 2023, the disclosure on the basis of IFRS 7.B5(e) is made in the result from financial instruments categorised as FVPL and not in net interest income. The uniform presentation of valuation effects and current cash flow from interest rate derivatives in the same item of the Group income statement provides the users of the financial statements with a more accurate overview of the Group's earnings situation.

The aforementioned adjustment affects the presentation in the Group income statement and the related disclosures in the notes.

For the current reporting period from 1 January 2023 to 30 June 2023, the shift from net interest income to the result from financial instruments categorised as FVPL that results from this adjustment amounts to € 49 million (result from financial instruments categorised as FVPL: plus € 49 million, net interest income: minus € 49 million).

For the previous year's period from 1 January 2022 to 30 June 2022, the aforementioned change in presentation results in a shift of € 26 million (result from financial instruments categorised as FVPL: plus € 26 million, net interest income: minus € 26 million). The reduction of €26 million in net interest expense is made up of a €67 million reduction in interest income from derivative financial instruments and a €41 million reduction in interest expense from derivative financial instruments. The previous year's figures in the Group income statement and notes were adjusted accordingly (cf. Group income statement and Note 5 and Note 8).

II. Currency translation effect from loan loss provisions

For monetary items, currency translation differences are generally recognised in profit or loss in accordance with IAS 21.28ff. At Hamburg Commercial Bank, these differences are reported for all items in the statement of financial position in the result from financial instruments categorised as FVPL. The only exception so far were the currency translation differences from loan loss provisions on foreign currency items, which were previously reported under loan loss provisions. With the above-stated change in presentation, this exception has been abolished. All currency translation differences are therefore from now on recognised uniformly in the result from financial instruments categorised as FVPL. This means that the effects from credit ratings and the currency effects are no longer blended in the loan loss provisions.

The uniform presentation of currency translation effects in the same item of the Group income statement provides the users of the financial statements with a more accurate overview of the Group's earnings situation.

The aforementioned adjustment affects the presentation in the Group income statement and the related disclosures in the notes.

For the current reporting period from 1 January 2023 to 30 June 2023, the shift from loan loss provisions to the result from financial instruments categorised as FVPL that results from this adjustment is marginal (below € 500 thousand).

For the previous year's period from 1 January 2022 to 30 June 2022, the aforementioned change in presentation results in a shift of € 1 million (result from financial instruments categorised as FVPL: minus € 1 million, loan loss provisions: plus € 1 million). The previous year's figures in the Group income statement and notes were adjusted accordingly (cf. Group income statement and Note 8 and Note 11).

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

Due to the COVID-19 pandemic and the war in Ukraine, which started with the Russian attack on Ukraine in February 2022, the previous years were characterised by increased uncertainty with regard to future market developments, which had an impact on the estimates required in line with the impairment provisions according to IFRS 9.

In the reporting year 2023, however, these two factors only hand an insignificant direct impact on the Bank's business activities.

For more information on the change in loan loss provisions and a description of the underlying estimates for the reporting year, please refer to Note 20.

Other effects resulting from the current macroeconomic situation on HCOB's business performance are described in the management report.

4. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg, the scope of consolidation includes 15 fully consolidated subsidiaries (31 December 2022: 14).

As in the previous financial statements of 31 December 2022, 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 2023 relate to the subsidiaries listed below.

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

A) ADDITIONS

The following companies are fully consolidated and included for the first time as subsidiaries in the Group financial statements as at 30 June 2023:

- Elbe CA Holdings, LLC, Delaware
- Elbe CA Subsidiary, SCSp, Luxembourg

These two companies are directly associated with the subsidiary HPS Elbe Unlevered Direct Lending Fund, SCSp, Luxembourg, a special fund (loan fund) the primary business purpose of which is the acquisition of receivables from third-party customers, which has already been fully consolidated since 31 December 2021. One of these receivables was not acquired via the special fund itself, but via its above-mentioned subsidiaries. These subsidiaries do not have any significant assets or liabilities beyond this receivable.

For reasons of transparency and on the basis of the indirect possibility of a transfer of control, Elbe CA Holdings and Elbe CA Subsidiary were included as subsidiaries for the first time as at 30 June. Since the receivable held via these subsidiaries has already been indirectly reported in the Group financial statements because of the full consolidation of the special fund, the further inclusion of the two entities has no effect on the net assets, financial position and results of operations of the Hamburg Commercial Bank Group.

B) DISPOSALS

In contrast to 31 December 2022, RESPARCS Funding Limited Partnership, St. Helier, is no longer included in the group of fully consolidated companies.

The company was originally used as a refinancing vehicle for a capital market transaction.

II. Information on consolidated structured entities

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

Notes on the Group statement of income

5. Net interest income

Net interest income

(€ m)	January–June 2023	January–June 2022
Interest income from		
lending and money market transactions categorised as AC and FVOCI	563	284
fixed-interest securities categorised as AC and FVOCI	80	17
other non-fixed-interest securities categorised as AC and FVOCI	1	–
impaired financial assets	7	3
discounting of provisions	3	3
Interest income from financial assets categorised as AC and FVOCI	**654**	**307**
thereof attributable to financial assets measured at AC	542	285
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	111	23
Interest income from		
other lending and money market transactions	–	4
other fixed-interest securities	11	8
other miscellaneous non-fixed-interest securities	–	7
trading transactions	3	1
derivative financial instruments	11	33
Interest income from other financial instruments	**25**	**53**
Negative interest on lending and money market transactions categorised as AC and FVOCI	–	-11
Negative interest on investments categorised as AC and FVOCI	**–**	**-11**
thereof attributable to financial assets measured at AC	–	-11
Negative interest from derivative financial instruments	–	-27
Negative interest on other cash investments and derivatives	**–**	**-27**
Interest expenses for		
Liabilities to banks	51	12
Liabilities to customers	169	54
Securitised liabilities	61	17
Subordinated capital	16	4
other liabilities	–	–
Derivative financial instruments	91	11
Interest expenses	**388**	**98**
thereof attributable to financial liabilities not measured at fair value through profit or loss	337	31
Positive interest on		
Liabilities to banks	-1	-5
Liabilities to customers	–	-8
Derivative financial instruments	–	-23
Positive interest on borrowings and derivatives	**-1**	**-36**
thereof attributable to financial liabilities not measured at fair value through profit or loss	-1	-13
Total	**292**	**260**

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.

6. Net commission income

Net commission income

(€ m)	January–June 2023	January–June 2022
Commission income from		
lending business	6	10
securities business	1	1
guarantee business	2	2
payments and account transactions as well as documentary business	9	9
Other commission income	1	1
Commission income	**19**	**23**
Commission expense from		
lending business	1	1
payments and account transactions as well as documentary business	1	1
Other commission expenses	6	3
Commission expenses	**8**	**5**
Total	**11**	**18**

Net commission income relates entirely to financial instruments not measured at fair value through profit or loss.

7. Result from hedging

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

Result from hedging

(€ m)	January–June 2023	January–June 2022
Fair value changes from hedging transactions	-27	200
Micro fair value hedge	1	128
Portfolio fair value hedge	-27	72
Fair value changes from heeding transactions	33	-193
Micro fair value hedge	-1	-126
Portfolio fair value hedge	34	-67
Total	**6**	**7**

8. Result from financial instruments categorised as FVPL

The result from financial instruments categorised as FVPL includes the realised result and the valuation result of financial instruments in the FVPL Trading, FVPL Designated and FVPL Other categories.

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

Result from financial instruments categorised as FVPL

(€ m)	January–June 2023	January–June 2022
Bonds and interest rate derivatives		
FVPL Held For Trading	54	89
FVPL Designated	1	12
FVPL Other	-1	-71
Total	**54**	**30**
Equities and equity derivatives		
FVPL Held For Trading	1	-3
FVPL Designated	-	-
FVPL Other	-2	4
Total	**-1**	**1**
Other products		
FVPL Held For Trading	10	-7
FVPL Other	10	-8
Total	**20**	**-15**
Total	**73**	**16**

The result from financial instruments categorised as FVPL includes net income from foreign currency of € 10 Million (previous year: €-8 Million).

During the reporting period, € 0 Million (previous year: €-3 Million) of the changes in fair value of the financial assets categorised as FVPL Designated relate to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € 2 Million (previous year: € 0 Million) is attributable to changes in the credit spread.

9. Net income from financial investments

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

As in the first half of the previous year, no net income from financial investments was realised in the reporting period.

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

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

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

The disposals of receivables in the first half of 2023 were almost exclusively carried out at par; as a result, they had no significant effect on the "Result from the disposal of financial assets classified as AC". In accordance with IFRS 9.B4.1.3 A and B, all disposals were carried out in line with the exceptions applicable to the "Hold" business model.

Result from the disposal of financial assets classified as AC

(€ m)	January - June 2023	January - June 2022
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	2	2
Total gains	**2**	**2**
Losses from the disposal of financial assets classified as AC		
Loans and advances to customers	9	-
Total losses	**9**	**-**
Total	**-7**	**2**

11. Loan loss provisions

This item shows the change in loan loss provisions for all loans and advances to banks, loans and advances to customers and financial investments, as well as leasing receivables, categorised as AC and FVOCI and for off-balance-sheet business.

Loan loss provisions

(€ m)	January–June 2023	January–June 2022
Loans and advances to customers		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	13	13
thereof AC	13	13
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-11	27
thereof AC	-11	27
Impaired credit rating (Stage 3/lifetime ECL)	-6	-12
thereof AC	-6	-12
Loans that are purchased or originated credit-impaired (POCI)	-1	-
thereof AC	-1	-
Result from the change in loan loss provisions on loans and advances to customers	**-5**	**28**
Off-balance-sheet business		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	-1	-
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-2	-3
Impaired credit rating (Stage 3/lifetime ECL)	3	5
Provisions in lending business in accordance with IAS 37	4	-1
Result from changes in provisions in the lending business	**4**	**1**
+ Recoveries on loans and advances previously written off	2	2
+ Result of non-substantial modifications	1	-
Result from other changes to loan loss provisions	**3**	**2**
Total loan loss provisions	**2**	**31**

The value adjustments changed moderately in the first half of 2023 and had a positive effect of € 2 million on the earnings situation. This was mainly driven by the strong performance in the Project Finance segment and the improved forecasts in the Shipping segment, which were partly offset by the net additions due to uncertainties about macroeconomic effects in the Real Estate segment and the moderate net increase due to new defaults.

The other components of the loan loss provisions model were slightly positive overall.

12. Administrative expenses

Administrative expenses

(€ m)	January–June 2023	January–June 2022
Personnel expenses	69	70
Operating expenses	84	78
Depreciation of property, plant and equipment, leased assets and investment properties and amortisation of intangible assets	3	2
Total	**156**	**150**

13. Other operating result

Other operating result

(€ m)	January–June 2023	January–June 2022
Other operating income	39	56
Other operating expenses	10	16
Total	**29**	**40**

Other operating income includes income from the reversal of provisions in the amount of € 15 million (previous year: € 34 million), mainly for legal risks in the amount of € 11 million.

Another special effect results from an earn-out agreement in connection with a subsidiary sold in previous years (€ 18 million).

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

Expenses for regulatory affairs, deposit guarantee fund and banking associations

(€ m)	January–June 2023	January–June 2022
Expenses for European bank levy	12	20
Expenses for Deposit Protection Fund	6	7
Expenses for banking supervisory authority	2	2
Total	**20**	**29**

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

15. Result from restructuring and transformation

Result from restructuring and transformation

(€ m)	January–June 2023	January–June 2022
Operating expenses due to restructuring	-	3
Result from restructuring	**-**	**3**
Expenses from transformation	-	14
Result from restructuring and transformation	**-**	**17**

In the previous year, transformation expenses amounted to € 14 million. These resulted mainly from measures introduced to achieve the Bank's strategic goals, in particular the successful transition to the Deposit Protection Fund of private banks, which was achieved on 1 January 2022.

HCOB's restructuring and transformation programme has been completed.

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

The calculation was based on non-rounded values.

Earnings per share

	January–June 2023	January–June 2022
Attributable Group net result (€ m) – undiluted/diluted	178	207
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.59	0.69
Diluted	0.59	0.69

Notes on the Group statement of financial position

17. Cash reserve

Cash reserve

(€ m)	30.06.2023	31.12.2022
Balances with central banks	3,353	4,974
thereof at the Deutsche Bundesbank	3,353	4,974
Total	**3,353**	**4,974**

18. Loans and advances to banks

Loans and advances to banks

(€ m)	30.06.2023	31.12.2022
Payable on demand	436	452
Other loans and advances	392	325
Total	**828**	**777**

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

19. Loans and advances to customers

Loans and advances to customers

(€ m)	30.06.2023	31.12.2022
Retail customers	128	152
Corporate clients	17,491	18,733
Public authorities	769	707
Total	**18,388**	**19,592**

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)	30.06.2023	31.12.2022
Loan loss provisions for loans and advances to customers classified as AC, incl. leasing	318	414
Loan loss provisions in the lending business	**318**	**414**
Loan loss provisions for items in the statement of financial position	**318**	**414**
Provisions in the lending business	34	35
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	**352**	**449**

In accordance with IFRS 9, the Loan loss provisions item is only set up for transactions categorised as AC and FVOCI. As at 30 June 2023, loan loss provisions mainly refer to transactions categorised as AC.

Out of the total loan loss provisions of € 352 Million as at 30 June 2023 (31 December 2022: € 449 Million), € 129 million (31 December 2022: € 144 million) pertain to the adjustment of loan loss provisions because of model overlays. Here, € 64 million are allocated to Stage 1 loan loss provisions and € 65 million to Stage 2 loan loss provisions. No model overlays have been formed for Stage 3 loan loss provisions. For explanations regarding the need for these adjustments and details with regard to their composition, please refer to the next section of this Note ("Model Overlays").

As at the reporting date, € 154 million of the loan loss provisions for items in the statement of financial position are allocated to credit exposures classified as Stage 3 (incl. POCI) of the IFRS 9 risk provisioning model (31 December 2022: € 238 million) and € 165 million to exposures classified as Stage 1 or 2 (31 December 2022: € 176 million).

For off-balance sheet items classified as Stage 3, loan loss provisions of € 28 million (31 December 2022: € 31 million) were created and for off-balance sheet items classified as Stage 1 or 2, the corresponding provisions amount to € 6 million (31 December 2022: € 4 million).

The development of loan loss provisions over time is shown separately in Note 38 in connection with the development of the gross carrying amounts by item in the statement of financial position.

In addition, the Bank forms loan loss provisions in accordance with IAS 37 for the off-balance sheet lending business, which totalled € 3 million as at the reporting date (31 December 2022: € 7 million) and is reported in Note 33 under provisions in the lending business.

I. Model Overlays

The impact of forward-looking information on the credit risk parameters Probability of default (PD) and Loss given default (LGD) is generally determined using statistical procedures and is taken into account when calculating the expected credit losses. In this process, various macroeconomic forecasts (cf. table on "Macroeconomic forecasts for 2023") are taken into account and regular checks are performed to analyse whether alternative macroeconomic developments have a material non-linear impact on the amount of loan loss provisions.

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

As at the reporting date, the model overlays are structured as follows:

Composition of model overlays

(€ m)	30.06.2023	31.12.2022
Effect of macroeconomic forecasts	43	47
Address and portfolio related adjustments		
Individual cases (watch list)	36	27
Individual cases of borrowers potentially impacted by the war in Ukraine	9	21
Sub-portfolio Land financing	18	-
Sub-portfolio Retail	16	12
Sub-portfolio Tankers	-	29
Additions to ECL method	7	8
Total	**129**	**144**

II. Effect of macroeconomic forecasts

The impact of forward-looking information on the macroeconomic environment of Hamburg Commercial Bank's business activities is calculated in separate scenarios. For this purpose, the Bank takes into account two weighted scenarios (basis and stress scenario). These scenarios are based on the following macroeconomic forecasts:

Macroeconomic forecasts for 2023 (as at 30 June 2023)

	Base scenario	Stress Scenario
GDP USA (%)	1.00	0.00
GDP eurozone (%)	0.90	-0.50
GDP Germany (%)	-0.30	-1.00
Fed Funds rate (%)	5.38	5.38
ECB MRO rate (%)	4.25	4.25
3M EURIBOR (%)	3.96	3.80
10Y Bunds (%)	2.66	2.00
EUR/USD exchange rate	1.10	1.00
Unemployment rate Germany (%)	5.60	5.80
Inflation rate Germany (%)	6.00	6.20

The base scenario (60% probability of occurrence) represents the expected development, while the stress scenario (40% probability of occurrence) takes into account the additional uncertainties due to the economic and geopolitical developments, in particular the currently still high inflation and the increased interest rate level. Depending on the macroeconomic scenarios for determining the model overlays, the risk parameters (PD and LGD) are adjusted for the entire portfolio. The difference between the result of the calculation with the adjusted risk parameters and the original loan loss provisions is included in the loan loss provisions as a model overlay.

The loan loss provisions required as a result of the two scenarios amounts to € 43 million (31 December 2022: € 47 million). The effects deriving from macroeconomic forecasts were also taken into account for exposures of HCOB's special credit funds. As at the reporting date, € 2 million (31 December 2022: € 2 million) of the model overlays in this category are attributable to these exposures.

III. Address and portfolio related adjustments

In addition to the macroeconomic forecasts, the model overlays also take into account potential adverse macroeconomic effects on individual borrowers in the Bank portfolio as well as in sub-portfolios. If these exposures were not yet allocated to Stage 2 or have not already migrated due to the macroeconomic assumptions, they are now moved to Stage 2. The difference between the result of this calculation and the original loan loss provisions is included in the loan loss provisions as a model overlay.

The analysis of individual cases concerns borrowers that are monitored closely by way of a watch list that enables risk management measures to be initiated at an early stage. This pertains to a total exposure at default (EAD) of € 3,200 million (31 December 2022: € 3,039 million). As at 30 June 2023, € 2,665 million out of this amount relate to Stages 1 and 2 (31 December 2022: € 2,496 million). These form the basis for the calculation of the model overlays in the assessment of individual cases. The respective risk parameters (PD and LGD) for the identified customers are adjusted by the relevant experts to determine the model overlay. The model overlays for individual borrower risks that are determined in this way amounted to € 36 million as at the reporting date (31 December 2022: € 27 million).

In addition, model overlays are also created for individual borrowers who may potentially be impacted by the war in Ukraine. The reduction of such overlays to € 9 million (31 December 2022: € 21 million) results from the significant decrease in EAD to € 171 million (31 December 2022: € 279 million) and a slight improvement in the quality of the corresponding portfolio.

At the portfolio level, retail properties (especially department stores and shopping centres) as well as land financing in the Real Estate segment were identified as particularly affected by the high inflation rate, the rise in construction costs and especially the rise in interest rates. In total, this pertains to EAD of € 1,351 million (31 December 2022: € 1,634 million) for the sub-portfolio of retail properties and an EAD of € 541 million for the land financing sub-portfolio. The corresponding model overlays amount to € 16 million for retail properties (31 December 2022: € 12 million) and to € 18 million for land financing (31 December 2022: € 0 million).

Due to the positive development of the market situation and the medium-term forecasts for charter rates and ship prices in the tankers portfolio of the Shipping segment, the overlays in this segment were released in full (31 December 2022: € 29 million).

IV. Additions to ECL method

Independently of adjustments to loan loss provisions because of macroeconomic developments as well as borrower or portfolio risks, the Bank determines mark-ups for pending adjustments to internal models. As at 30 June 2023, these amount to € 7 million (previous year: € 8 million).

V. Sensitivity analyses

The sensitivity of Hamburg Commercial Bank's ECL model to expert adjustments of borrower and portfolio related risk parameters is shown by an upward and downward shift in the forecast assumptions.

To simulate the potential effects on the loan loss provisions a rating shift of two notches and one notch respectively was simulated.

A rating downgrade for the borrowers and portfolios affected by two notches would result in an increase in the model overlays of € 96 million, while a downgrade by one notch would result in an increase of € 41 million. A rating upgrade by two notches would reduce the model overlays by € 45 million, while an upgrade by one notch would lead to a reduction of € 30 million.

A change in the weighting between the base and the stress scenario of ten percent would result in an increase or decrease in the macroeconomic model overlays of € 3 million.

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.

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

The following section provides a description of the hedging and underlying transactions used for hedging purposes, including the risk management strategy, the impact on cash flows and the effects on the net assets, statement of comprehensive income and statement of changes in equity.

I. Risk management strategy

In order to avoid distortions in the statement of income resulting from interest-bearing financial instruments, micro and portfolio fair value hedge accounting is used to hedge the market price risk interest.

For micro fair value hedges, structured euro swaps are designated as hedging instruments for structured euro underlying transactions. These designated hedges correspond to economic back-to-back hedges which neutralise the market price risks associated with the underlying transactions. The effectiveness of these hedges is ensured by a critical term match and ineffectiveness is expected from model adjustments, measurement mismatches and the inclusion of tenor basis spreads. In portfolio fair value hedges on interest rate risks, the underlying transactions as a whole are hedged by means of interest rate swaps. Effectiveness is measured in accordance with the rules set out in IAS 39 and the hedge ratio is calculated using the dollar offset method. Ineffectiveness can result from maturities of assets and liabilities that do not match, and from the reference interest rate of the hedging transactions.

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

II. Effects on cash flows

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

Micro fair value hedges

(€ m)	Maturity date	
	2037	2038
Nominal value of hedging instruments	250	200
Average swap rate	3.752	3.633

III. Effects on net assets and statement of comprehensive income

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

HEDGING INSTRUMENTS

This section presents the nominal values, hedge adjustment and the positive and negative fair values of derivatives used in hedge accounting. At present, only interest rate swaps are taken into account as hedging instruments for interest rate risks. If a derivative is only designated pro rata in hedge accounting, the Positive/negative fair value of hedging derivatives item contains the corresponding share of the derivative’s fair value, nominal value and hedge adjustment. The remaining balance is reported under trading assets/liabilities or in the result from financial instruments categorised as FVPL.

Bearer bonds and time deposits are taken into account as hedging instruments for the hedging of net investments in foreign operations in accordance with IFRS 9.6.5.13.

Hedging instruments

(€ m)		30.06.2023			31.12.2022		
Hedge type/type of risk	Balance sheet item	Nominal value	Carrying amount	Hedge adjustment (ytd)	Nominal value	Carrying amount	Hedge adjustment (ytd)
air value hedge/interest rate risk							
Interest rate derivatives (assets side)	Positive fair values of hedging derivatives	2,680	–	–	588	-	34
Interest rate derivatives (liabilities side)	Negative fair value of hedging derivatives	5,977	61	-27	5,771	65	96
Hedging of net investments in foreign operations/foreign exchange risk							
Time deposits (liabilities side)	Liabilities due to customers	359	359	-5	278	278	-7
Debentures	Subordinated capital	192	193	-4	196	197	11

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

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

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

UNDERLYING TRANSACTIONS

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

Underlying transactions[1)]

(€ m)		30.06.2023			31.12.2022		
Hedge type/type of risk	Balance sheet item	Carrying amount	Cum. hedge adjustment (ltd)	Hedge adjustment (ytd)	Carrying amount	Cum. hedge adjustment (ltd)	Hedge adjustment (ytd)
Fair value hedge/interest rate risk							
Portfolio fair value hedge: Fixed-interest rate loans, debentures, securities	Positive adjustment item from portfolio fair value hedges	5,796	-134	18	5,163	-152	-182
Micro fair value hedge	Loans and advances to customers	492	90	-	508	90	31
Portfolio fair value hedge: Fixed-interest issues	Negative adjustment item from portfolio fair value hedges	7,272	-183	9	7,101	-192	-373
Portfolio fair value hedge (inactive)	Positive adjustment item from portfolio fair value hedges	55	-	-	53	-	-3
Micro fair value hedge (inactive)	Loans and advances to customers	67	2	-1	68	3	-1
Micro fair value hedge (inactive)	Liabilities due to customers, subordinated capital	24	4	-2	25	6	-1
Hedging of net investments in foreign operations/foreign exchange risk							
USD hedging	Equity (currency conversion reserve)	-	1	-	475	-7	-4

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

22. Trading assets

Only financial assets in the FVPL Trading category are reported under the Trading assets item. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value 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)	30.06.2023	31.12.2022
Positive fair value of financial derivatives	187	322
Other, including promissory notes held for trading	41	87
Receivables from syndication transactions	-	32
Total	**228**	**441**

23. Financial investments

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

Financial investments

(€ m)	30.06.2023	31.12.2022
Debentures and other fixed-interest securities	7,237	5,479
Shares and other non-fixed-interest securities	106	1
Long-term equity investments	10	10
Total	**7,353**	**5,490**

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

24. Intangible assets

Intangible assets

(€ m)	30.06.2023	31.12.2022
Software	12	13
developed in-house	1	2
acquired	11	11
Software in development	56	42
developed in-house	4	2
acquired	52	40
Total	**68**	**55**

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

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

25. Property, plant and equipment and investment property

Property, plant and equipment

(€ m)	30.06.2023	31.12.2022
Land and buildings	8	8
Plant and equipment	2	2
Right-of-use assets from leasing	7	6
Total	**17**	**16**

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

Investment property

(€ m)	30.06.2023	31.12.2022
Investment property	1	1
Total	**1**	**1**

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

Non-current assets held for sale and disposal groups

(€ m)	30.06.2023	31.12.2022
Loans and advances to customers	11	-
Total before loan loss provisions	11	-
Total	**11**	**-**

The Bank has decided to sell loans and advances to customers in the amount of € 11 million. The sale of the receivables measured at amortised cost (AC), which are allocated to the Project Finance segment, is most likely to be completed in Q3 2023. No risk provisions have been formed for the non-current assets held for sale.

27. Deferred tax assets

Of the deferred tax assets in the amount of € 640 Million (31 December 2022: € 697 million), € 349 million (31 December 2021: € 318 million) relate to tax loss carry-forwards.

As at 30 June 2023, € 216 million of this amount is attributable to the head office (31 December 2022: € 197 million) and € 133 million attributable to the Luxembourg branch (31 December 2022: € 121 million).

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

28. Other assets

Other assets

(€ m)	30.06.2023	31.12.2022
Prepaid expenses	13	12
Receivables from other taxes	2	2
Capitalised plan assets	139	141
Reimbursement right from plan assets	107	91
Other assets	69	14
Total	**330**	**260**

€ 152 Million of the assets disclosed in the table relate to financial instruments (31 December 2022: € 111 Million). The fair value of the plan assets exceeds the hedged pension obligations by € 139 million. The surplus amount was capitalised. In addition, the Bank has a contractual reimbursement right in the amount of the pension benefits already paid out. The pension benefits paid out in the period from 1 January 2020 to 30 June 2023 have not yet been repaid to the Bank and are therefore recognised as other assets in the amount of € 107 million (31 December 2022: € 91 million).

29. Liabilities to banks

Liabilities to banks

(€ m)	30.06.2023	31.12.2022
Payable on demand	95	191
Other term liabilities	4,342	4,415
Total	**4,437**	**4,606**

As at 30 June 2023, the liabilities to banks include liabilities from a TLTRO III transaction (TLTRO: “targeted longer-term refinancing operations”) with the ECB in the amount of € 1 billion (previous year: € 1,75 billion). The transaction was entered in 2021 with a term of three years (due in 2024). Since 23 November 2022, this liability has been in the so-called “final interest period” that lasts until its maturity. Since then, the interest has been based on the average interest rate for main refinancing operations of the Euro system. As at 30 June 2023, the TLTRO III liabilities account for € 17 million in interest expense.

As Hamburg Commercial Bank has failed to meet the lending conditions required to receive a premium in the so-called “special interest period” that expired in June 2022 in previous years, the Bank did not receive a premium.

30. Liabilities to customers

Liabilities to customers

(€ m)	30.06.2023	31.12.2022
Other liabilities		
Payable on demand	4,307	4,742
Term liabilities	9,148	8,501
Total	**13,455**	**13,243**

31. Securitised liabilities

Securitised liabilities

(€ m)	30.06.2023	31.12.2022
Debentures issued	7,429	7,065
Total	**7,429**	**7,065**

In the Securitised liabilities item, repurchased own debentures in the amount of € 1.349 Million (31 December 2022: € 1.270 Million) were deducted.

32. Trading liabilities

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

Trading liabilities

(€ m)	30.06.2023	31.12.2022
Negative fair value from derivative financial instruments		
Interest-related business	209	222
Currency-related business	18	25
Other business	41	48
Other	43	40
Total	**311**	**335**

33. Provisions

Provisions

(€ m)	30.06.2023	31.12.2022
Provisions for pension obligations and similar obligations	75	87
Other provisions		
Provisions for personnel expenses	44	57
Provisions in the lending business	37	42
Provisions for restructuring	16	20
Provisions for litigation risks and costs	97	110
Other provisions	59	45
Total	**328**	**361**

A contractual trust agreement has been arranged between HCOB AG and HCOB Trust e.V. to provide an independent legal structure for pension liabilities. HCOB Trust e.V. takes on the role of a trustee towards the beneficiaries. The assets transferred to HCOB Trust e.V. are plan assets under IAS 19. As at 30 June 2023, plan assets amount to € 660 million (31 December 2022: € 789 million), which is netted with the pension liabilities. The net change in pension provisions in the amount of € 12 million refers mainly to payments for pension liabilities in the amount of € 27 million and transfers of early retirement obligations from the restructuring provisions in the amount of € 2 million as well as service and interest expenses of € 15 million. Because of the reduction in the discount rate, pension liabilities increase by € 15 million. The fair value of plan assets has increased by € 16 million in the reporting period and is netted against the defined benefit liabilities as at 30 June 2023. Plan assets exceed the defined benefit liabilities covered by € 139 million (31 December 2022: € 141 million). This is reported as capitalised plan assets under other assets.

Provisions for restructuring decreased compared to 31 December 2022 due to transfers to liabilities and the utilisation of the current restructuring programme.

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

34. Other liabilities

Other liabilities

(€ m)	30.06.2023	31.12.2022
Security deposits for assumption of debts	48	47
Liabilities for outstanding invoices	45	50
Other tax liabilities	20	5
Personnel liabilities	12	12
Deferred income	1	2
Liabilities from leases (lessee)	13	14
Liabilities for restructuring	4	7
Other	12	13
Total	**155**	**150**

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

€ 148 Million of the liabilities reported here relate to financial instruments (31 December 2022: € 118 Million).

35. Subordinated capital

Subordinated capital

(€ m)	30.06.2023	31.12.2022
Subordinated debt	923	930
Total	**923**	**930**

36. Equity

Equity

(€ m)	30.06.2023	31.12.2022
Share capital	302	302
Capital reserve	1,531	1,529
Retained earnings	1,838	2,915
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-6	-5
thereof: deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	2	2
Revaluation reserve	-27	-6
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	2	2
thereof: valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	-29	-8
Currency conversion reserve	-	-
Group net result	178	425
Total before non-controlling interests	**3.822**	**5,165**
Non-controlling interests	1	-
Total	**3,823**	**5,165**

Changes in ordinary shares

(Number of shares)	30.06.2023	31.12.2022
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**

By resolution of the Annual General Meeting of 18 April 2023, a dividend of € 1,500,057,591.41 or € 4.97 per no-par share was approved for distribution. The distribution was made from retained earnings.

Segment reporting

37. Segment reporting

Segment report January – June 2023 (€ m/%)	Real Estate	Shipping	Project Finance	Corporates	Lending Units	Treasury & Group Functions	Reconcilia-tion	Group (income statement/ balance sheet)
Net interest income	89	75	40	81	285	6	1	292
Net commission income	2	5	2	2	11	1	-1	11
Other income[1]	3	7	3	13	26	–	46	72
Total income	**94**	**87**	**45**	**96**	**322**	**7**	**46**	**375**
Loan loss provisions (expected loss)	-5	-2	-4	-6	-17	–	19	2[2]
Administrative expenses & regulatory costs	-46	-44	-23	-41	-154	-24	2	-176
Other operating result	–	–	–	–	–	29	–	29
Result from restructuring and transfor-mation	–	–	–	–	–	–	–	–
Net income before taxes	**43**	**41**	**18**	**49**	**151**	**12**	**67**	**230**
Income tax	-9	-9	-4	-10	-32	-3	-17	-52
Earnings after taxes	**34**	**32**	**14**	**39**	**119**	**9**	**50**	**178**
NIM – Net interest margin (%)	2.27	4.99	2.37	3.24	2.97	0.05	–	1.82
Cost/income ratio (CIR – %)	43	48	48	39	44	44	–	39
RoE after taxes (%)	**11.0**	**17.2**	**9.4**	**13.3**	**12.6**	**8.3**	**–**	**16.8**
Loan loss provisions (expected loss – %)	0.14	0.15	0.22	0.25	0.18	–	–	-0.01[2]
Average segment assets (€ bn)	7.8	3.0	3.4	4.8	19.0	12.2	–	31.2
Average risk weighted assets (€ bn)	4.8	2.9	2.3	4.5	14.5	1.8	–	16.3
Loan loss provisions (income statement)	-41	8	25	9	1	1	–	2

30 June 2023 (€ bn/%)	Real Estate	Shipping	Project Finance	Corporates	Lending Units	Treasury & Group Functions	Reconcilia-tion	Group (income statement/ balance sheet)
Segment assets	**7.5**	**2.9**	**3.5**	**5.1**	**19.0**	**11.8**	**–**	**30.8**
Risk Weighted Assets (RWA)	4.9	2.8	2.5	4.6	14.8	1.7	–	16.5
Loan loss provisions (balance sheet)	0.1	–	0.1	0.1	0.3	–	–	0.3
NPE ratio (%)	3.1	0.3	3.2	1.8	2.3	–	–	1.5

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

January - June 2022 (€ m/%)	Real Estate	Shipping	Project Finance	Corporates	Lending Units	Treasury & Group Functions	Reconcilia-tion	Group (income statement/ balance sheet)
Net interest income	89	67	29	61	246	13	1	260
Net commission income	3	6	4	5	18	-	-	18
Other income[1]	-2	9	-3	-20	-16	164	-123	25
Total income	**90**	**82**	**30**	**46**	**248**	**177**	**-122**	**303**
Loan loss provisions (expected loss)	-4	-3	-3	-11	-21	-	52	31[2]
Administrative expenses & regulatory costs	-39	-35	-15	-24	-113	-66	-	-179
Other operating result	-	-	-	-	-	40	-	40
Result from restructuring and transfor-mation	-	-	-	-	-	-17	-	-17
Net income before taxes	**47**	**44**	**12**	**11**	**114**	**134**	**-70**	**178**
Income tax	-10	-9	-3	-2	-24	-28	81	29
Earnings after taxes	**37**	**35**	**9**	**9**	**90**	**106**	**11**	**207**
NIM - Net interest margin (%)	2.25	3.49	1.60	3.03	2.53	0.09	-	1.64
Cost/income ratio (CIR - %)	38	39	42	46	41	23	-	44
RoE after taxes (%)	**11.8**	**18.2**	**6.4**	**3.6**	**10.0**	**101.1**	**-**	**20.5**
Loan loss provisions (expected loss - %)	0.10	0.16	0.17	0.54	0.22	-	-	-0.20[2]
Average segment assets (€ bn)	7.9	3.8	3.7	4.0	19.4	11.2	-	30.6
Average risk weighted assets (€ bn)	4.8	3.0	2.3	3.8	13.9	1.6	-	15.5
Loan loss provisions (income statement)	43	4	-15	-3	29	1	1	31
31 December 2022 (€ bn/%)	Real Estate	Shipping	Project Finance	Corporates	Lending Units	Treasury & Group Functions	Reconcilia-tion	Group (income statement/ balance sheet)
Segment assets	**8.1**	**3.5**	**3.4**	**4.6**	**19.6**	**12.2**	**-**	**31.8**
Risk Weighted Assets (RWA)	4.8	2.9	2.1	4.0	13.8	1.6	-	15.4
Loan loss provisions (balance sheet)	0.2	-	0.1	0.1	0.4	-	-	0.4
NPE ratio (%)	2.1	1.0	1.2	2.3	1.8	-	-	1.2

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

General information

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

Total income reported for the segments was exclusively generated with customer transactions. Geographical information and information on income with external clients for each product and service is not collected for management reporting purposes due to a lack of management relevance and disproportionately high costs, which means that a disclosure in accordance with IFRS 8.32 and 8.33 is not required.

Segment structure

In line with the responsibilities of the Chief Investment Officer (CIO) on the Management Board, the segment structure bundles all market-related units in the four segments "Real Estate", "Shipping", "Project Finance" and "Corporates". These four market-related segments are additional presented together as "lending units". Main focus of the market-related segments' business activities is on offering financing solutions in the lending business. The remaining segment "Treasury & Group Functions" comprises the capital market activities that focus on the management of strategic investments, and the Treasury function as well as the remaining staff and service functions. The capital market activities comprise the management of the portfolios in the bank book (liquidity buffer, cover pools, strategic investment portfolio and management of pension liabilities) as well as the bank-wide asset liability management (ALM) and the management of the cash position. The financing business with institutional clients as well as the bank-wide syndication activities are also reported in the "Treasury & Group Functions" segment.

The shift of a small portfolio of highly liquid CLOs (€ 0.2 billion as at 30 June 2022) from the Treasury & Group Functions segment to the Corporates segment led to an adjustment of the previous year's figures.

The contributions to operating earnings from the positions of the ALM book in the Treasury & Group Functions segment are allocated to the market-related segments. The investment and financing income, the other effects from equity and the transformation contribution are allocated to the market-related segments according to the liquidity costs that have been offset.

Segment reporting methodology

In order to increase the level of transparency, the segment results in the areas of total income, loan loss provisions, administrative expenses and capital backing (average equity backing) are reported in line with the internal performance measurement structure. Net interest income for the purpose of internal reporting to management is calculated in accordance with Fund Transfer Pricing (FTP). In addition, the net interest margin (NIM) is reported as a basis for the assessment of the net interest income. The NIM puts the operating net interest income in relation to the average segment assets. The operating net interest income results from the adjustment of the net interest income for non-sustainable one-off effects.

In accordance with IFRS 8.28, the corresponding reconciliation effects on the individual items of the Group statement of income (IFRS) are shown separately under the "Reconciliation" item and explained in greater detail below.

Reconciliation effects in accordance with IFRS 8.28

The reconciliation effects in total income mainly consist of other income. Other income of the segments comprises the other income items in total income (IFRS) and also includes the OCI result.

With the change in IFRS accounting from 2023 (see Note 3: Changes to prior-year figures), current payments from interest rate derivatives are reported in the result from financial instruments categorised as FVPL together with the corresponding valuation effects (previously reported in the net interest income). This eliminates the previous mismatch and the resulting reconciliation effect in net interest income and other income in the segment report. In addition, the foreign currency effects from loan loss provisions are reported in the result from financial instruments categorised as FVPL from 2023 (previously reported under loan loss provisions in the income statement). The prior-year figures were also adjusted in the segment report.

The OCI results of € -22 million included in the other income of the segments (prior-year period: € 158 million), which is recognised under equity and not through profit or loss, as stipulated by the IFRS, led to a counter-item in the reconciliation. Additional reconciliation effects in the Result from financial instruments categorised as FVPL item and in the result from hedging include differences resulting from the presentation of capital market transactions between the internal management system and IFRS accounting, as well as from the hedging of certain financial instruments that can be included in the portfolio fair value hedge in full in the internal recognition of the interest rate hedge transaction, whereas under the IFRS, they cannot, or can only partly, be included in the portfolio fair value hedge.

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

In the market-related segments, administrative expenses and regulatory costs are reported based on the regulatory costs allocated in the internal performance measurement (expenses for regulatory affairs, deposit guarantee fund and banking associations) and the standard processing costs applied (for administrative expenses). The difference to the administrative expenses at Group level is reported in the Treasury & Group Functions segment.

The income taxes of the segments are calculated using a planned tax rate of 21.0% on the respective net income before taxes. The difference to actual income taxes at Group level is reported in the Reconciliation item.

The return on equity (RoE after taxes) is based on a normalised equity backing (average risk weighted assets (RWA) and normalised CET1 ratio of 13%). The allocation of RWA to the individual segments also comprises the RWA for operational risks and the RWA for the asset liability management (ALM) holdings. As tax loss carryforwards have been fully utilised and the transition to the planning tax rate of 21.0% (previously: minimum tax rate of 12.8%) has been implemented, no RWA for deferred taxes are allocated from 2023 onwards. The previous year's figures have been adjusted accordingly.

Definitions

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

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

Disclosures on financial instruments

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)	30.06.2023				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2023	**777**	**-**	**-**	**-**	**777**
thereof AC	768	-	-	-	768
thereof FVOCI	9	-	-	-	9
Transfer to 12M ECL	2	-2	-	-	-
thereof AC	2	-2	-	-	-
Other changes	48	2	-	-	50
thereof AC	48	2	-	-	50
Carrying amount as at 30 June 2023	**827**	**-**	**-**	**-**	**827**
thereof AC	818	-	-	-	818
thereof FVOCI	9	-	-	-	9

Development in gross carrying amounts for loans and advances to banks

(€ m)	31.12.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2022	**1,236**	**-**	**-**	**-**	**1,236**
thereof AC	1,218	-	-	-	1,218
thereof FVOCI	18	-	-	-	18
Other changes	-459	-	-	-	-459
thereof AC	-450	-	-	-	-450
thereof FVOCI	-9	-	-	-	-9
Carrying amount as at 31 December 2022	**777**	**-**	**-**	**-**	**777**
thereof AC	768	-	-	-	768
thereof FVOCI	9	-	-	-	9

Development in loan loss provisions for loans and advances to banks

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

Development of gross carrying amounts for loans and advances to customers

(€ m)	30.06.2023				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2023	**17,436**	**1,577**	**378**	**9**	**19,400**
thereof AC	16,702	1,573	378	9	18,662
thereof FVOCI	701	4	–	–	705
thereof receivables under finance leases	33	–	–	–	33
Transfer to LECL Stage 2	-942	942	–	–	–
thereof AC	-942	942	–	–	–
Transfer to LECL Stage 3	-150	-101	251	–	–
thereof AC	-150	-101	251	–	–
Transfer to 12M ECL	100	-100	–	–	–
thereof AC	100	-100	–	–	–
Other changes	-450	-597	-139	-1	-1,187
thereof AC	-443	-596	-139	-1	-1,179
thereof FVOCI	-3	-1	–	–	-4
thereof leasing	-4	–	–	–	-4
Carrying amount as at 30 June 2023	**15,994**	**1,721**	**490**	**8**	**18,213**
thereof AC	15,267	1,718	490	8	17,483
thereof FVOCI	698	3	–	–	701
thereof receivables under finance leases	29	–	–	–	29

Development of gross carrying amounts for loans and advances to customers

(€ m)	31.12.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2022	**17,300**	**2,169**	**425**	**15**	**19,909**
thereof AC	16,354	2,164	425	15	18,958
thereof FVOCI	910	5	-	-	915
thereof receivables under finance leases	36	-	-	-	36
Transfer to LECL Stage 2	-495	500	-4	-	1
thereof AC	-495	500	-4		1
Transfer to LECL Stage 3	-19	-15	34	-	-
thereof AC	-19	-15	34		-
Transfer to 12M ECL	774	-774	-	-	-
thereof AC	774	-774	-		-
Other changes	-124	-303	-77	-6	-510
thereof AC	88	-302	-77	-6	-297
thereof FVOCI	-209	-1	-	-	-210
thereof receivables under finance leases	-3	-	-	-	-3
Carrying amount as at 31 December 2022	**17,436**	**1,577**	**378**	**9**	**19,400**
thereof AC	16,702	1,573	378	9	18,662
thereof FVOCI	701	4	-	-	705
thereof receivables under finance leases	33	-	-	-	33

Development of loan loss provisions for loans and advances to customers

(€ m)	30.06.2023				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2023	**75**	**101**	**232**	**6**	**414**
Transfer to LECL Stage 2	-8	8	-	-	-
Transfer to LECL Stage 3	-1	-8	9	-	-
Transfer to 12M ECL	28	-28	-	-	-
Reversals due to disposals, repayments and other reductions	-61	-75	-24	-	-160
Additions due to new additions and other increases	48	86	30	1	165
Utilisation	-	-	-107	-	-107
Other changes incl. change is exchange rate	-	-	6	-	6
Loan loss provisions as at 30 June 2023	**81**	**84**	**146**	**7**	**318**

Development of loan loss provisions for loans and advances to customers

(€ m)	31.12.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2022	**68**	**169**	**204**	**5**	**446**
Transfer to LECL Stage 2	-3	3	-	-	-
Transfer to LECL Stage 3	-	-6	6	-	-
Transfer to 12M ECL	54	-54	-	-	-
Reversals due to disposals, repayments and other reductions	-119	-73	-25	- 1	-218
Additions due to new additions and other increases	74	63	73	2	212
Utilisation	-	-	-30	-	-30
Other changes incl. change in exchange rate	1	-1	4	-	4
Loan loss provisions as at 31 December 2022	**75**	**101**	**232**	**6**	**414**

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

Development of gross carrying amounts for financial investments

(€ m)	30.06.2023				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2023	**4,986**	**-**	**-**	**-**	**4,986**
thereof AC	80	-	-	-	80
thereof FVOCI	4,906	-	-	-	4,906
Other changes	1,771	-	-	-	1,771
thereof FVOCI	1,771	-	-	-	1,771
Carrying amount as at 30 June 2023	**6,757**	**-**	**-**	**-**	**6,757**
thereof AC	80	-	-	-	80
thereof FVOCI	6,677	-	-	-	6,677

Development of gross carrying amounts for financial investments

(€ m)	31.12.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2022	**4,049**	**16**	**-**	**-**	**4,065**
thereof AC	91	-	-	-	91
thereof FVOCI	3,958	16	-	-	3,974
Transfer to 12M ECL	36[1]	-36[1]	-	-	-
thereof FVOCI	36[1]	-36[1]	-	-	-
Transfer to LECL Stage 2	-31	31	-	-	-
thereof FVOCI	-31	31	-	-	-
Other changes	932	-11	-	-	921
thereof AC	-11	-	-	-	-11
thereof FVOCI	943	-11	-	-	932
Carrying amount as at 31 December 2022	**4,986**[1]	**-**[1]	**-**	**-**	**4,986**
thereof AC	80	-	-	-	80
thereof FVOCI	4,906	-	-	-	4,906

[1] The previous year's amount was adjusted.

Development in loan loss provisions for financial investments

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

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

(€ m)	30.06.2023				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2023	**-**	**-**	**-**	**-**	**-**
Other changes	11	-	-	-	11
Carrying amount as at 30 June 2023	**11**	**-**	**-**	**-**	**11**

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

(€ m)	31.12.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2022	**10**	**–**	**–**	**–**	**10**
Other changes	– 10	–	–	–	– 10
Carrying amount as at 31 December 2022	**–**	**–**	**–**	**–**	**–**

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

Carrying amounts off-balance-sheet business

(€ m)	30.06.2023				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2023	**3,538**	**91**	**26**	**-**	**3,655**
Transfer to 12M ECL	1	-1	-	-	-
Other changes	276	375	-1	-	650
Carrying amount as at 30 June 2023	**3,815**	**465**	**25**	**-**	**4,305**

Carrying amounts off-balance-sheet business

(€ m)	31.12.2022				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amount as at 01 January 2022	**3,860**	**222**	**64**	**-**	**4,146**
Transfer to LECL Stage 2	-1[1]	1[1]	-	-	-
Other changes	-321	-132	-38	-	-491
Carrying amount as at 31 December 2022	**3,538[1]**	**91[1]**	**26**	**-**	**3,655**

[1)] The previous year's amount was adjusted.

Development in loan loss provisions for off-balance sheet business

(€ m)	30.06.2023				
	Insignificant increase in the loan default risk (12-month - ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2023	**2**	**1**	**31**	**–**	**34**
Transfer to LECL Stage 2	-1	1	–	–	–
Reversals due to disposals and other reductions	-2	–	-3	–	-5
Additions due to new additions and other increases	3	2	–	–	5
Loan loss provisions as at 30 June 2023	**2**	**4**	**28**	**-**	**34**

Development in loan loss provisions for off-balance sheet business

(€ m)	31.12.2022				
	Insignificant increase in loan default risk (12M ECL)	Significant increase in loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions as at 1 January 2022	**2**	**1**	**41**	**-**	**44**
Transfer to 12M ECL	1	-1	–	–	–
Reversals due to disposals and other reductions	-3	-4	-11	–	-18
Additions due to new additions and other increases	2	5	1	–	8
Loan loss provisions as at 31 December 2022	**2**	**1**	**31**	**-**	**34**

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

I. Determination of Fair Values

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

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

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

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

VALUATION TECHNIQUES AND MODELS

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

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

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

VALUE ADJUSTMENTS

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

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

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

The value adjustment for the credit risk is determined for OTC derivatives at the level of a group of financial instruments of a business partner (so-called portfolio-based valuation adjustment). This is permitted if the conditions stipulated in IFRS 13.49 for a portfolio-based measurement are met.

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

DAY ONE PROFIT AND LOSS

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

MEASUREMENT PROCESSES

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

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

II. Fair values of financial instruments

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

Fair values of financial instruments

Assets

(€ m) 30.06.2023	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVOCI Mandatory	**7,386**	**7,386**	**3,482**	**2,889**	**1,015**
Loans and advances to banks	9	9	–	9	–
Loans and advances to customers	701	701	–	701	–
Financial investments	6,676	6,676	3,482	2,179	1,015
FVPL Designated	**87**	**87**	**35**	**52**	**–**
Financial investments	87	87	35	52	–
FVPL Held For Trading	**228**	**228**	**–**	**186**	**42**
Trading assets	228	228	–	186	42
FVPL Other	**685**	**685**	**311**	**154**	**220**
Loans and advances to customers	175	175	–	1	174
Financial investments	510	510	311	153	46
AC assets	**21,580**	**21,388**	**n.r.**	**n.r.**	**n.r.**
Cash reserve	3,353	3,353	n.r.	n.r.	n.r.
Loans and advances to banks	819	817	n.r.	n.r.	n.r.
Loans and advances to customers	17,165	16,982	n.r.	n.r.	n.r.
Financial investments	80	76	n.r.	n.r.	n.r.
Non-current assets held for sale and disposal groups	11	8	n.r.	n.r.	n.r.
Other assets	152	152	n.r.	n.r.	n.r.
No IFRS 9 category	**-105**	**-105**	**–**	**–**	**–**
Receivables under finance leases	29	29	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	-134	-134[1]	n.r.	n.r.	n.r.
Total assets	**29,861**	**29,669**	**3,828**	**3,281**	**1,277**

[1] The part of the value adjustments from the portfolio fair value hedge that is attributable to financial investments, loans and advances to banks and loans and advances to customers in the FVOCI holding category is recognised at fair value.

Fair values of financial instruments

Assets

(€ m) 31.12.2022	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVOCI Mandatory	**5,621**	**5,621**	**2,848**	**2,213**	**560**
Loans and advances to banks	10	10	-	10	-
Loans and advances to customers	705	705	-	705	-
Financial investments	4,906	4,906	2,848	1,498	560
FVPL Designated	**83**	**83**	**32**	**51**	**-**
Financial investments	83	83	32	51	-
FVPL Held For Trading	**441**	**441**	**-**	**315**	**126**
Trading assets	441	441	-	315	126
FVPL Other	**613**	**613**	**248**	**163**	**202**
Loans and advances to customers	192	192	-	-	192
Financial investments	421	421	248	163	10
AC assets	**24,179**	**24,094**	**-**	**10,985**	**13,109**
Cash reserve	4,974	4,974	-	4,974	-
Loans and advances to banks	767	765	-	765	-
Loans and advances to customers	18,247	18,168	-	5,059	13,109
Financial investments	80	76	-	76	-
Other assets	111	111	-	111	-
No IFRS 9 category	**-118**	**-119**	**-**	**-**	**-**
Receivables under finance leases	34	34	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	-152	-153[1]	n.r.	n.r.	n.r.
Total assets	**30,819**	**30,733**	**3,128**	**13,727**	**13,997**

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

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

Fair values of financial instruments

Liabilities

(€ m) 30.06.2023	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	**260**	**260**	**-**	**166**	**94**
Liabilities to banks	3	3	–	–	3
Liabilities to customers	117	117	–	35	82
Securitised liabilities	140	140	–	131	9
FVPL Held For Trading	**311**	**311**	**-**	**267**	**44**
Trading liabilities	311	311	–	267	44
AC liabilities	**26,132**	**25,665**	**n.r.**	**n.r.**	**n.r.**
Liabilities to banks	4,434	4,179	n.r.	n.r.	n.r.
Liabilities to customers	13,338	13,264	n.r.	n.r.	n.r.
Securitised liabilities	7,289	7,086	n.r.	n.r.	n.r.
Other liabilities	148	148	n.r.	n.r.	n.r.
Subordinated capital	923	988	n.r.	n.r.	n.r.
No IFRS 9 category	**-122**	**61**	**-**	**61**	**-**
Negative fair value of hedging derivatives	61	61	–	61	–
Value adjustments from the portfolio fair value hedge	-183	–	n.r.	n.r.	n.r.
Total liabilities	**26,581**	**26,297**	**–**	**494**	**138**

Fair values of financial instruments

Liabilities

(€ m) 31.12.2022	Carrying amount	Fair Value	Level 1	Level 2	Level 3
FVPL Designated	**268**	**268**	**-**	**167**	**101**
Liabilities to banks	3	3	–	–	3
Liabilities to customers	123	123	–	35	88
Securitised liabilities	142	142	–	132	10
FVPL Held For Trading	**335**	**335**	**-**	**280**	**55**
Trading liabilities	335	335	–	280	55
AC liabilities	**25,695**	**25,042**	**-**	**24,255**	**787**
Liabilities to banks	4,603	4,290	–	4,290	–
Liabilities to customers	13,120	13,093	–	13,067	26
Securitised liabilities	6,923	6,556	–	5,795	761
Other liabilities	118	118	–	118	–
Subordinated capital	931	985	–	985	–
No IFRS 9 category	**-127**	**65**	**-**	**65**	**-**
Negative fair value of hedging derivatives	65	65	–	65	–
Value adjustments from the portfolio fair value hedge	-192	–	n.r.	n.r.	n.r.
Total liabilities	**26,171**	**25,710**	**-**	**24,767**	**943**

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) 30.06.2023	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)	–	–	6	–	–	-6
Financial investments						
thereof FVOCI Mandatory	104	-16	16	-104	–	–
thereof FVPL Other	42	-31	31	-42	–	–
Total	**146**	**-47**	**53**	**-146**	**-**	**-6**

Transfer, assets

(€ m) 31.12.2022	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Trading assets (FVPL Trading)	–	–	1	-2	2	-1
Financial investments	–	–	–	–	–	–
thereof FVOCI Mandatory	2,268	-1,209	1,209	-2,268	–	–
thereof FVPL Designated	2	-3	3	-2	–	–
thereof FVPL Other	172	-2	50	-172	–	-48
Total	**2,442**	**-1,214**	**1,263**	**-2,444**	**2**	**-49**

Transfer, liabilities

(€ m) 30.06.2023	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)	–	–	8	–	–	-8
Total	**-**	**-**	**8**	**-**	**-**	**-8**

Transfer, liabilities

(€ m) 31.12.2022	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Trading assets (FVPL Trading)	-	-	-	-3	3	-
Total	**-**	**-**	**-**	**-3**	**3**	**-**

IFRS 13 specifys the guidlenes to be applied in determining the fair value which are further specified by IDW RS HFA 47. They also include the guidelines for assigning input factors to the fair value hierarchy levels. Hamburg Commercial Bank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities that are commonly traded on the OTC market. Average prices determined on the basis of binding offers or transaction-based prices are Level 2 input factors within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities were accordingly transferred from Level 1 to Level 2 or vice versa in the reporting period – depending on the prices used for measurement. The following shows the reconciliation for all assets and liabilities recognised at fair value and assigned to Level 3 in the fair value hierarchy. The data is presented from the start to the end of the period. The table takes into account all movements of assets and liabilities that were or are allocated to Level 3 during the reporting period.

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Changes in volume	
30.06.2023	1 January 2023	Realised net income (income statement)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	192	-4	-	-	-10
Trading assets (FVPL Trading)	126	-2	-	-	-5
Financial investments					
thereof FVOCI Mandatory	560	6	3	450	-
thereof FVPL Other	10	-	-	36	-
Total	**888**	**-[1]**	**3**	**486**	**-15**

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income		Changes in volume	
31.12.2022	1 January 2022	Realised net income (income statement)	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	291	-14	-	-	-52
Trading assets (FVPL Trading)	119	-16	-	37	-
Financial investments					
thereof FVOCI Mandatory	242	2	-11	343	-
thereof FVPL Other	59	-2	-	1	-
Total	**711**	**-30[1]**	**-11**	**381**	**-52**

[1)] Of the net income in the income statement recognised in profit or loss, € -32 million relate to the result from financial instruments categorised as FVPL and € 2 million to the net interest result.

Changes in volume		Transfers					
Issues	Settlements	From Level 3	To Level 3	Transfer/ recategorisa-tion	Exchange rate changes	30.06.2023	Net income from assets held as at 30 June 2023
–	-2	–	–	–	-2	174	1
–	-71	-6	–	–	–	42	-1
–	–	–	–	–	-4	1,015	6
–	–	–	–	–	–	46	-1
-	**-73**	**-6**	**-**	**-**	**-6**	**1,277**	**5**

Changes in volume		Transfers					
Issues	Settlements	From Level 3	To Level 3	Transfer/ recategorisa-tion	Exchange rate changes	31.12.2022	Net income from assets held as at 31 December 2022
–	-42	–	–	–	9	192	-19
–	-14	-1	2	-1	–	126	-15
–	-23	–	–	–	7	560	–
–	–	-48	–	–	–	10	–
-	**-79**	**-49**	**2**	**-1**	**16**	**888**	**-34**

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Changes in volume	
30.06.2023	1 January 2023	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	3	–	–	–	–
Liabilities to customers					
FVPL Designated	88	-1	–	–	–
Securitised liabilities					
FVPL Designated	10	-1	–	–	–
Trading assets (FVPL Trading)	55	-1	–	–	–
Total	**156**	**-3**[1]	**–**	**–**	**–**

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

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income		Changes in volume	
31.12.2022	1 January 2022	Realised net income (income statement)	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	15	-2	–	–	-10
Liabilities to customers					
FVPL Designated	126	-11	-1	–	-26
Securitised liabilities					
FVPL Designated	12	-2	–	–	–
Trading assets (FVPL Trading)	56	-9	–	8	–
Total	**209**	**-24**[1]	**-1**	**8**	**-36**

[1] Of the net income in the income statement, € -22 million relate to the result from financial instruments categorised as FVPL and € -2 million to the net interest result.

Changes in volume		Transfers					
New business	Settlements	From Level 3	To Level 3	Transfer/ recategorisa-tion	Exchange rate changes	30.06.2023	Net income from assets held as at 30 June 2023
–	–	–	–	–	–	3	–
–	-5	–	–	–	–	82	-2
–	–	–	–	–	–	9	–
–	-1	-8	–	-1	–	44	1
–	**-6**	**-8**	**–**	**-1**	**–**	**138**	**-1**

Changes in volume		Transfers					
New business	Settlements	From Level 3	To Level 3	Transfer/ recategorisa-tion	Exchange rate changes	31.12.2022	Net income from assets held as at 31 December 2022
–	–	–	–	–	–	3	1
–	–	–	–	–	–	88	11
–	–	–	–	–	–	10	3
–	-2	–	3	-1	–	55	4
–	**-2**	**–**	**3**	**-1**	**–**	**156**	**19**

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) 30.06.2023		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	174		DCF method	Spread (bps)	72- 1208
Trading assets/ trading liabilities	FVPL Held For Trading	42	44	DCF method	Spread (bps)	72- 1208
				Option pricing model	Swaption volatility	8%-22%
Financial investments	FVPL Other	46		Price	Spread (bps)	167- 187
	FVOCI Mandatory	1,015		Price	Spread (bps)	167- 187
Liabilities to banks	FVPL Designated		3	Option pricing model	Swaption volatility	8%-22%
Liabilities to customers	FVPL Designated		82	Option pricing model	Swaption volatility	8%-22%
Securitised liabilities	FVPL Designated		9	Option pricing model	Swaption volatility	8%-22%
Total		**1,277**	**138**			

Fair Value

(€ m) 31.12.2022		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	192		DCF method	Spread (bps)	1- 13
Trading assets/ trading liabilities	FVPL Held For Trading	126	55	DCF method	Spread	1- 13
				Option pricing model	Swaption volatility	11%-26%
					Interest rate FX correlation	-39%-26%
				Option pricing model	FX correlation	10%-67%
Financial investments	FVPL Other	10		Price	Price	14,610- 34053
				DCF method	Capital costs	9%-10%
	FVOCI Mandatory	560		DCF method	Spread (bps)	167- 251
				Price	Price	95- 100
Liabilities to banks	FVPL Designated		3	Option pricing model	Interest rate FX correlation	-39%-26%
Liabilities to customers	FVPL Designated		88	Option pricing model	Interest rate FX correlation	-39%-26%
				Price	Price	1
Securitised liabilities	FVPL Designated		10	Option pricing model	Interest rate FX correlation	-39%-26%
Total		**888**	**156**			

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

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

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

IV. Sensitivities of fair value in relation to unobservable input

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

CORRELATION

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

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

VOLATILITY

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

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

PRICE

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

V. Reciprocal effects between unobservable inputs

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

EFFECTS OF UNOBSERVABLE INPUTS

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

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had certain effects on the fair values of the financial instruments in question. Advantageous and disadvantageous changes to fair value have been determined by recalculating the fair values based on possible alternative values to the relevant unobservable inputs. The interest volatilities were changed by +/- 5 %, all correlations by +/- 20 % (capped at +/- 100 %), price parameters by +/- 2 % and spreads by +/- 50 bp. Overall, this would then have had a positive/negative effect on the fair values of the financial instruments in question in the amount of € 29 million (31 December 2022: € 28 million). Of this amount, € 9 million was recognised in the income statement as income/expense and € 20 million in the revaluation reserve (31 December 2022: € 17 million income statement; € 11 million revaluation reserve).

VI. Day one profit and loss

The day one profit and loss reserve developed as follows:

(€ m)	30.06.2023	31.12.2022
Holdings as at 1 January	4	4
Additions not recognised in profit or loss	-	-
Reversals recognised in profit or loss	-	-
Holdings as at 30 June/31 December	**4**	**4**

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

40. Credit risk analysis of impaired financial assets

I. Credit quality

The following table contains information on the credit quality of all financial instruments held by the Bank. It shows the credit risk exposures by classifying the gross carrying amounts of financial assets and the nominal amounts of off-balance sheet transactions by credit risk level and assigning them to rating categories. This is based on the DSGV master scale, which is used in all rating procedures.

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

Credit quality

(€ m) 30.06.2023		1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve				
	thereof AC assets	3,353	–	–	–
	Loans and advances to banks				
	thereof AC assets	422	385	–	11
	thereof FVOCI Mandatory	9	–	–	–
	Loans and advances to customers				
	thereof AC assets	404	3,342	7,231	4,211
	thereof FVOCI Mandatory	616	82	–	–
	Financial investments				
	thereof AC assets	–	40	40	–
	thereof FVOCI Mandatory	2,677	3,659	338	4
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	11	–
	Other assets				
	thereof AC assets	–	152	–	–
	No holding category				
	Receivables under finance leases	–	–	–	–
	Contingent liabilities	17	118	149	9
	Irrevocable loan commitments	37	921	1,629	927
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers				
	thereof AC assets	–	58	404	1,006
	thereof FVOCI Mandatory	–	–	3	–
	Financial investments				
	thereof FVOCI Mandatory	–	–	–	–
	No holding category				
	Contingent liabilities	–	1	2	10
	Irrevocable loan commitments	–	2	84	313
Credit-impaired (LECL Stage 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	2
	No holding category				
	Contingent liabilities	–	–	–	5
	Irrevocable loan commitments	–	–	–	–
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers				
	thereof AC assets	–	–	–	–
Total		**7,535**	**8,760**	**9,891**	**6,498**

Credit quality

(€ m) 30.06.2023		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to customers			
	thereof AC assets	79	2	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	Other assets			
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance leases	–	29	–
	Contingent liabilities	–	2	–
	Irrevocable loan commitments	4	1	–
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers			
	thereof AC assets	143	106	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof FVOCI Mandatory	–	–	–
	No holding category			
	Contingent liabilities	6	2	–
	Irrevocable loan commitments	44	2	–
Credit-impaired (LECL Stage 3)	Loans and advances to customers			
	thereof AC assets	–	–	487
	No holding category			
	Contingent liabilities	–	–	13
	Irrevocable loan commitments	–	–	8
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	8
Total		**276**	**144**	**516**

Credit quality

(€ m) 31.12.2022		1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve				
	thereof AC assets	4,974	-	-	-
	Loans and advances to banks				
	thereof AC assets	470	284	5	9
	thereof FVOCI Mandatory	-	10	-	-
	Loans and advances to customers				
	thereof AC assets	374	4,959	6,934	4,334
	thereof FVOCI Mandatory	509	111	82	-
	Financial investments				
	thereof AC assets	-	-	80	-
	thereof FVOCI Mandatory	2,063	2,266	565	14
	Non-current assets held for sale and disposal groups				
	thereof AC assets	-	-	-	-
	Other assets				
	thereof AC assets	-	111	-	-
	No holding category				
	Receivables under finance leases	-	33	-	-
	Contingent liabilities	9	130	169	13
	Irrevocable loan commitments	42	1,070	1,246	852
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers				
	thereof AC assets	-	-	372	899
	thereof FVOCI Mandatory	-	-	3	-
	Financial investments				
	thereof FVOCI Mandatory	-	-	-	-
	No holding category				
	Contingent liabilities	-	-	3	11
	Irrevocable loan commitments	-	-	10	43
Credit-impaired (LECL Stage 3)	Loans and advances to customers				
	thereof AC assets	-	-	-	-
	No holding category				
	Contingent liabilities	-	-	-	-
	Irrevocable loan commitments	-	-	-	-
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers				
	thereof AC assets	-	-	-	-
Total		**8,441**	**8,974**	**9,469**	**6,175**

Credit quality

(€ m) 31.12.2022		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve			
	thereof AC assets	–	–	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to customers			
	thereof AC assets	85	18	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	Other assets			
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance leases	–	–	–
	Contingent liabilities	–	–	–
	Irrevocable loan commitments	–	6	–
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers			
	thereof AC assets	283	18	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	No holding category			
	Contingent liabilities	6	–	–
	Irrevocable loan commitments	13	5	–
Credit-impaired (LECL Stage 3)	Loans and advances to customers			
	thereof AC assets	–	–	377
	No holding category			
	Contingent liabilities	–	–	19
	Irrevocable loan commitments	–	–	8
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	8
Total		387	47	412

II. Credit risk exposure

With the exception of loans and advances to banks and customers, the credit risk exposure as at the reporting date corresponds to the carrying amount of financial assets, as presented in Note 38 as well as the nominal value of off-balance sheet liabilities as presented in Note 42. In the case of loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount after loan loss provisions as presented in Note 20. The maximum default risk of the loans and advances recognised at fair value through profit or loss (FVPL) is not reduced by associated credit derivatives.

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

III. Collateral received

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

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

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

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

Financial assets and associated collateral

(€ m)		Value of collateral received		
30.06.2023	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Financial investments	87	–	–	–
FVPL Other				
Loans and advances to customers	175	30	–	–
Financial investments	510	–	–	–
FVPL Held For Trading				
Trading assets	228	–	1	60
No holding category				
Value adjustments from the portfolio fair value hedge	-134	–	–	–
Total assets	**866**	**30**	**1**	**60**

Financial assets and associated collateral

(€ m)		Value of collateral received		
31.12.2022	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Financial investments	83	-	-	-
FVPL Other				
Loans and advances to customers	192	36	-	-
Financial investments	421	-	-	-
FVPL Held For Trading				
Trading assets	441	93	2	145
No holding category				
Value adjustments from the portfolio fair value hedge	-152	-	-	-
Total assets	**985**	**129**	**2**	**145**

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		
30.06.2023	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	497	165	6	81
No holding category				
Contingent liabilities	18	-	2	10
Irrevocable loan commitments	8	-	-	-
Total assets	**523**	**165**	**8**	**91**

For loans and advances to customers amounting to € 177 Million (31 December 2022:€ 19 Million), no loan loss provisions were recognised despite default due to the collateral available.

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

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

A substantial portion of the collateral provided is from domestic guarantors. The creditworthiness of the collateral providers is mainly in the 1(AAA) to 1(A-) rating categories.

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

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

Hamburg Commercial Bank received collateral from counterparties with a total fair value of € 61 Million (31 December 2022: € 145 Million). The collateral received is broken down as follows: € 61 Million (31 December 2022: € 145 Million) relates to OTC derivatives and structured transactions. Neither as at the reporting date nor as at 31 December 2022 did the Group receive any collateral from genuine repo transactions where it acted as the lender. Collateral received includes cash collateral in the amount of € 61 Million (31 December 2022: € 50 million).

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

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

D) OTHER COLLATERAL RECEIVED

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

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

In the current reporting period, financial assets that are still subject to an enforcement measure were written off in the amount outstanding under contract law of € 0 Million (31 December 2022 : 10 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) 30.06.2023	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	206	269	475
Irrevocable and revocable loan commitments	75	7	82
Total	**281**	**276**	**557**

Forbearance exposure

(€ m) 31.12.2022	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	418	354	772
Irrevocable and revocable loan commitments	12	8	20
Total	430	362	792

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 137 Million have already been set up for the portfolios measured at amortised cost (31 December 2021: € 261 Million). The IT systems have been improved so that the Bank can now mark forbearance for individual transactions (previously only possible for the entire business partner), which allows for a more precise evaluation of the transactions.

42. Contingent liabilities and irrevocable loan commitments

(€ m)	30.06.2023	31.12.2022
Contingent liabilities	704	831
Loan commitments	3,972	3,294
Total	**4,676**	**4,125**

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

Other disclosures

43. Related parties

Hamburg Commercial Bank does business with related parties and companies.

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

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

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

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

III. Companies with a significant influence over the Bank

As in the prior-year period, there were no significant transactions with companies with a significant influence over the Bank in the reporting period.

IV. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

Subsidiaries – Liabilities

(€ m)	30.06.2023	31.12.2022
Liabilities to customers	–	2
Total	**-**	**2**

V. Associates

The transactions with unconsolidated associates are shown below:

Associates – Liabilities

(€ m)	30.06.2023	31.12.2022
Liabilities to customers	–	6
Total	**–**	**6**

VI. Joint ventures

The transactions with unconsolidated joint ventures are shown below:

Joint ventures – Assets

(€ m)	30.06.2023	31.12.2022
Loans and advances to customers	3	4
Total	**3**	**4**

Joint ventures – Liabilities

(€ m)	30.06.2023	31.12.2022
Liabilities to customers	2	2
Total	**2**	**2**

VII.Other related parties and companies

As in the previous year's period, no significant transactions have been entered into with individuals in key positions at Hamburg Commercial Bank AG and their close relatives or companies controlled by these individuals as at the reporting date (< € 1 million).

VIII. Pension plans

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

Members of the Management Board

IAN BANWELL
Born in 1963
Chief Excecutive Officer (CEO)

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

CHRISTOPHER BRODY
Born in 1968
Chief Investment Officer (CIO)

MARC ZIEGNER
Born in 1975
Chief Financial Officer (CFO)

Hamburg, 15 August 2023

Ian Banwell Ulrik Lackschewitz

Christopher Brody Marc Ziegner

Review report

Hamburg Commercial Bank AG, Hamburg
We have reviewed the condensed consolidated financial statements of Hamburg Commercial Bank AG, comprising the Group statement of financial position, the Group statement of income, the Group statement of comprehensive income, the Group statement of changes in equity, the Group cash flow statement as well as selected Group explanatory notes and the interim Group management report of Hamburg Commercial Bank AG, Hamburg for the time period 1 January to 30 June 2023, which are part of the half-year financial report pursuant to Article 115 German Securities Trading Act (WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the German Securities Trading Act applicable to interim group management reports is the responsibility of the Company's Management Board. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institute of Public Auditors in Germany, Incorporated Association (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

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

Hamburg, 16 August 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lutz Meyer	ppa. Maximilian Hockenberger
German Public Auditor	German Public Auditor

Responsibility statement by the Management Board

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

Hamburg, 15 August 2023

Ian Banwell

Ulrik Lackschewitz

Christopher Brody

Marc Ziegner

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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 24 August 2023 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 histori-cal 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 uncer-tainties, 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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