Hamburg Commercial Bank

Interim Report

as at 30 June 2021

Group overview

INCOME STATEMENT (€ million)

Net income before restructuring and transformation January – June 2021
(cf. January – June 2020: 76)

↗ 181

Net income before taxes
(cf. January – June 2020: 71)

↗ 168

Group net result
(cf. January – June 2020: 4)

↗ 194

BALANCE SHEET (€ billion)

Reported equity 06/30/2021
(cf. 12/31/2020: 4)

↗ 5

Total assets 06/30/2021
(cf. 12/31/2020: 34)

↘ 32

Business volume 06/30/2021
(cf. 12/31/2020: 39)

↘ 36

CAPITAL RATIO & RWA (%)[1]

CET1 ratio 06/30/2021
(cf. 12/31/2020: 27.0)

↗ 29,6

Overall capital ratio 06/30/2021
(cf. 12/31/2020: 33.3)

↗ 36.0

Risk weighted assets (RWA) 06/30/2021
(€ billion) (cf. 12/31/2020: 15.5)

↘ 14.8

EMPLOYEES
(computed on full-time equivalent basis)

Total 06/30/2021
(cf. 12/31/2020: 1,122)

↘ 947

Germany 06/30/2021
(cf. 12/31/2020: 1,095)

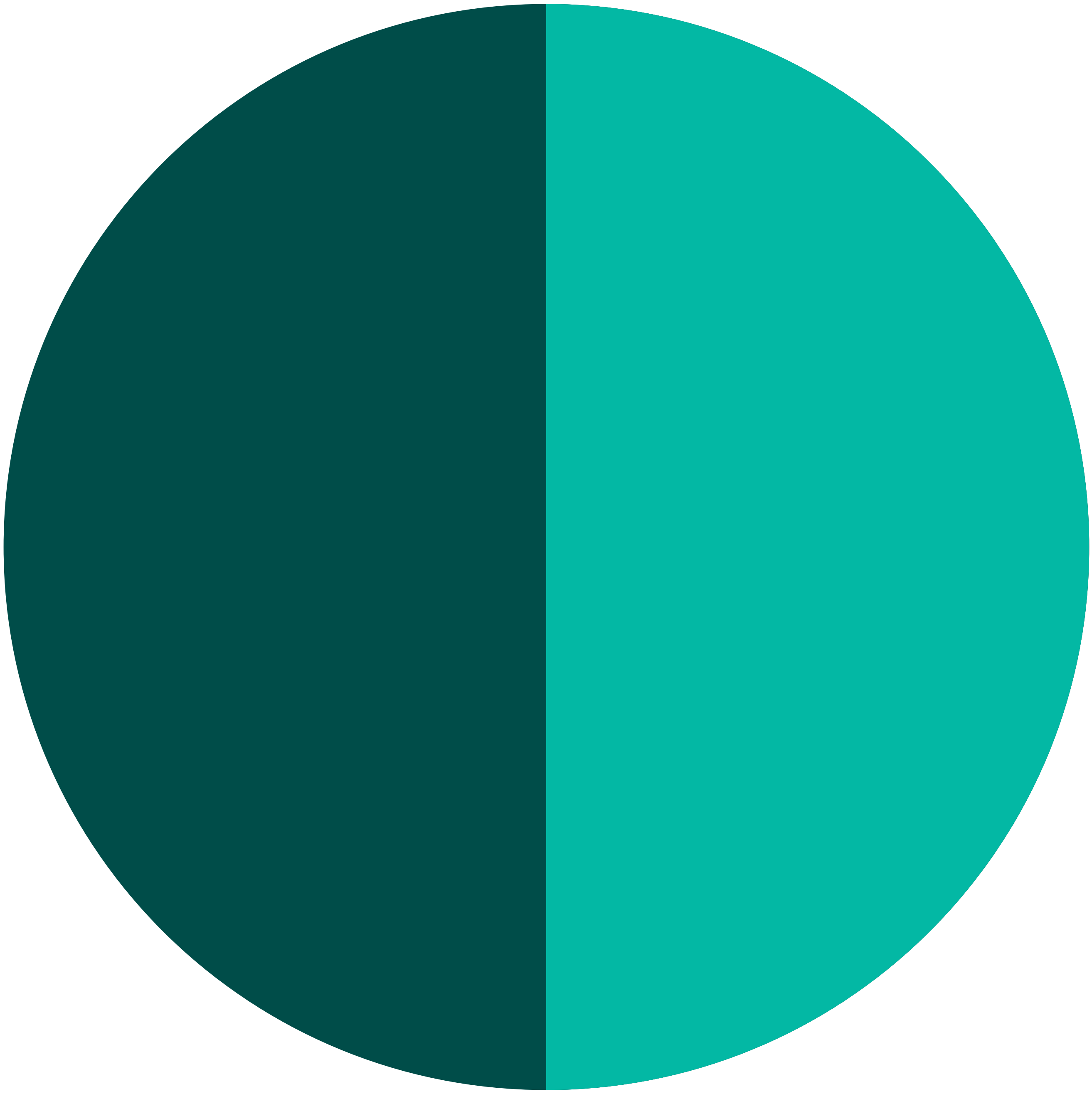
↘ 918

Abroad 06/30/2021
(cf. 12/31/2020: 27)

↗ 29

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

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



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Underlying economic and industry conditions

The COVID-19 crisis remains with us
Following the deep slump seen in 2020, an asynchronous upswing is emerging in the first half of 2021. The world's three major economic regions, the US, the eurozone and China, have returned to fairly strong growth. Vaccination campaigns have gained momentum in these regions, and infection figures at the end of the second quarter were significantly lower than they were back at the beginning of the year.

In key economic regions such as Asia (ex China) and Latin America, on the other hand, the pandemic is still slamming the brakes on economic development, meaning that the global economic recovery cannot unfold in full. The PMI purchasing managers' indices reflect this split relatively well. The PMI indices for the developed economies, for example, were around the 60-point mark in June, as opposed to hovering in the low 50s for the emerging markets. As values above 50 signal growth, this translates into strong growth prospects in the US and the eurozone and weak growth in the emerging markets.

The coronavirus crisis has overshadowed a large number of other economic policy issues. There were certainly noteworthy developments in the first half of the year. The outcome of the US presidential elections, for example, has helped ease relations with the EU. In a sense, a new beginning is emerging in transatlantic relations, characterised by a close partnership. Under the current President Joe Biden, the US has, among other things, rejoined the Paris Climate Agreement. Talks are also currently under way with Iran on a revamp of the 2015 nuclear deal. Meanwhile, things have gone quiet as far as the issue of Brexit is concerned. The UK left the EU single market on 1 January 2021, becoming a third country from the EU's perspective. An agreement designed to cushion the blow of negative effects on the economy was sealed at the last minute after all. So far, the immediate effects of Brexit appear to have been limited, with the COVID-19 pandemic likely to have overshadowed any negative impact.

The world's major central banks, the Fed and the ECB, continue to pursue a very expansive monetary policy against the backdrop of the very dynamic, but nevertheless fragile upswing, among other things by buying bonds.

In this context, the significant increase in inflation observed in the first half of the year is worthy of note. The main reasons behind this trend are the sharp rise in commodity prices, higher transport costs due to bottlenecks in global supply chains, special effects such as the change in VAT in Germany and what are known as base effects. The latter describe the phenomenon in which prices show a significant year-on-year increase due to the price collapse seen last year (for oil, for example), even though they have hardly changed over the past months.

Yields on German and American government bonds initially rose significantly in the first half of the year, only to drop again somewhat. By the halfway point of the year, yields had bounced back to close to pre-COVID levels. On the stock markets, the upward trend that emerged last year continued in the first half of 2021. The euro/US dollar exchange rate remained volatile in the first half of 2021. While the euro benefited from the eurozone's economic and immunisation-related catch-up with the US, it lost value again only recently.

The three major economies are on an upward trajectory
The US economy picked up speed in the first half of 2021, with GDP expanding by 6.4% (annualised) in the first quarter. Measures to combat COVID-19 are gradually being relaxed. The service sector is one of the main beneficiaries of this trend, as initial indicators show. The ISM rose to 60.1 points in June. In this environment, employment has increased considerably and the unemployment rate has declined. Nevertheless, the US economy has not yet returned to the near-full employment situation that prevailed before the pandemic. This could also be due to the fact that, despite what was initially rapid progress made in vaccination, the US is still relatively far away from achieving herd immunity. This means that there is a risk of renewed waves of infection at any time. Meanwhile, inflation has risen significantly in recent months. In June, the US inflation rate came to 4.9% (CPI, YoY). Besides bottlenecks in supply chains and post-pandemic demand impetus (for examples for used cars), base effects are mainly responsible for the jump in inflation.

In China, while growth momentum slowed visibly in the first half of 2021, the old growth path was achieved again, with the economy expanding by 0.6% (QoQ) in the first quarter. Although the vaccination process is progressing, the figures are not quite comparable to those in Europe or the US, given the lower level of effectiveness of Chinese vaccines.

In the eurozone, the COVID-19 crisis and related restrictions still had a strong impact on activity in the first quarter, pushing GDP down by 0.3% (QoQ). Positive economic growth is expected again in the second quarter due to the numerous easing measures. According to the Bloomberg consensus, GDP should have risen by 1.5% (QoQ). This is also indicated by the PMI purchasing managers' indices, which signal a clear recovery for both manufacturing and services. The delta variant, however, which has recently led to rising case rates again in Spain and Portugal, for example, is cause for concern.

Germany's economy recorded a sharp decline in GDP of 1.8% (QoQ) in the first quarter of 2021. Here, too, the renewed lockdown measures left their mark. The economic slump in Germany is less pronounced than in the rest of the eurozone. Unemployment, which has also risen significantly in Germany, remains below the eurozone average. This is due, among other things, to relatively generous state aid and the continued use of furlough schemes. In May, unemployment in Germany came to 5.9% as against 7.9% for the eurozone as a whole.

Central bank balance sheets continue to grow, stock markets climb to new highs

The ECB has left its key interest rates unchanged at 0% (main refinancing rate) and -0.5% (deposit rate) in the first half of 2021. At the same time, it continued with its asset purchases under the PEPP programme. This programme allows the ECB to purchase bonds worth a maximum of € 1.85 trillion. The PEPP programme will run until March 2022 and € 1.21 trillion have been invested to date. In the second quarter, the pace of bond purchases was stepped up considerably. In addition, further long-term refinancing operations in the form of the TLTRO programme were offered to the banks as planned. At the beginning of July, the ECB announced a slightly revised inflation target, which is now 2% as opposed to slightly below 2%. In addition, owner-occupied housing costs are to be taken into account in the inflation index going forward.

The US Federal Reserve also left its key interest rate unchanged in the first half of the year and continued to purchase bonds with a volume of 120 billion US dollars per month.

On the stock markets, the rally that began last year has continued. Since the beginning of the year, the S&P 500 has gained 14.2% in the first six months, climbing to almost 4,300 points. The mood on the stock markets became increasingly nervous in the first quarter of 2021. There is a growing body of opinion that the stock markets, especially in the US, are overvalued. The Dax rose by 13.4% in the first half of the year to over 15,000 points (as of 30 June 2021). If the rise in inflation were to translate into a significant increase in long-term yields, the risk of a stock market slump would increase.

Long-term yields on German and US government bonds rose initially starting at the beginning of the year, but have since retreated from their highs for the year. Bund yields came to -0.19% on 30 June 2021. T-note yields stood at 1.45% at the end of the first half of the year.

The euro/US dollar exchange rate remained volatile in the first half of 2021. At the end of the first quarter, the euro was trading at USD 1.17, its lowest level so far this year. In the second quarter, the euro benefited from the eurozone's economic and immunisation-related catch-up with the US. It peaked at USD 1.22 in mid/late May. The trend now seems to be shifting again. The euro has recently lost value against the USD. At mid-year, the exchange rate is sitting at 1.19 USD/EUR. This means that, since the beginning of the year, the euro has lost value against the USD in the first half of the year overall (-2.9%).

Consequences of the coronavirus pandemic and associated recession have led to significant slowdown in relevant markets, with modest to positive developments in the other

The **German real estate markets** showed very varied development in the first six months of 2021 due to the consequences of the pandemic and the economic slump witnessed in the previous year. While the residential property markets in major cities, in particular, continued to show positive development and escaped the crisis unscathed, most commercial property markets were hit to varying degrees. In addition to the government support measures and the expansive central bank policy, the emerging recovery of key national economies had a stabilising effect. Since spring, construction activity has been burdened by bottlenecks affecting building materials, which have led to delays in some cases.

Rents and prices continued to rise noticeably in the **housing markets** of the country's major cities in the first half of 2021. Thanks to the recovery trends on the labour market, housing demand in Germany's major cities remained more stable than feared last year. Nevertheless, the influx of people moving to the cities is likely to have decreased compared to previous years. Housing construction activity, on the other hand, remained brisk. Building permits and construction orders increased significantly until the spring, especially in the rental housing segment and for owner-occupied homes. Meanwhile, there was a slight drop in the number of owner-occupied flats approved. For investors, residential real estate remained a sought-after investment.

In the **office property markets**, net demand for space fell significantly year-on-year in the first half of the year. Companies' willingness to hire staff, however, has increased significantly since May. Completions clearly exceeded demand, meaning that, while vacancies continued to rise, they remained relatively low by long-term standards. Project developers nevertheless adopted a more cautious approach, as is evident from the figures for building permits for office buildings and construction orders, which continued to decline in the spring. Thanks to vacancy rates that remain low, prime rents in the seven largest major cities stagnated at the beginning of the year, with market values remaining relatively stable in the main and only increasing slightly in a small number of cities.

Developments on the **retail property markets** remained split down the middle, with those market segments affected by both the crisis and the structural change in favour of online retail on the one hand, and the local supply sector, which was barely affected by the crisis if at all, on the other. While the latter continued to achieve high sales growth, shops and department stores in city centre locations and shopping centres suffered due to weak sales. In addition to restrictions imposed in response to the pandemic, this was also due to consumer sentiment that remained cautious. This translated into lower demand for space and sent rents in city centre locations of major cities on a marked downward trajectory. In view of the increased uncertainty, investor demand remained low and the market values of shopping centres and commercial buildings fell significantly. By contrast, rents for specialist retail parks, especially those with food-focused anchor tenants, are likely to have remained at least stable, and market values continued to rise on the back of strong investor demand.

In most **European office property markets**, prime rents and market values stagnated at the beginning of 2021 in the wake of the economic turbulence caused by the pandemic. With declining demand for space and increased completions, vacancies continued to rise almost across the board.

German economic output fell by 1.8% in the first quarter of 2021 compared to the fourth quarter of 2020, after initially recovering somewhat in the second half of 2020. The renewed rise in infections starting in the autumn of 2020 led to a tightening of government containment measures. The third wave of the coronavirus pandemic hit the German economy in particular via considerable slumps in private consumption, which had previously charted a strong recovery. By contrast, economic sectors not directly affected by the renewed containment measures expanded considerably. In the **manufacturing sector**, the production volume was up by around 8% in a year-on-year comparison at the start of the year (January to May). Trends varied considerably in the major industries: While the construction industry struggled with material bottlenecks and recorded a slight decline, production in the food industry fell somewhat more significantly. The chemical and pharmaceutical industries, on the other hand, recorded growth of around 5%, and production in the metal and vehicle construction industries actually showed strong double-digit growth. In the automotive sector, however, production increased from a low level, having fallen by a third in the same period last year.

After reporting revenue growth of 1.1% in 2020 as a whole, **wholesale** companies already recorded marked real growth of 2.5% in the first four months of 2021 compared to the same period of the previous year. **Retail**, on the other hand, weakened in the face of the renewed tightening of measures to contain the virus. It was not only the restrictions for stationary retail outlets that had a negative impact on sales: uncertainty among consumers also curbed the propensity to buy. At the beginning of 2021 (January to May), sales (after calendar and seasonal adjustments) rose by only 1.5%, after full-year growth of over 4% for 2020. Non-stationary retail continued to benefit from the containment measures and recorded significant real sales growth of around 25% compared to the same period of last year in the first five months.

The **healthcare market**, including the hospital market, has already been reporting steady growth as a result of demographic trends and medical advances. In the course of the fight against the pandemic, special effects are likely to be seen here not only in the short term, but also in the long term, as the importance of a decentralised and efficient healthcare infrastructure (with a high level of digitalisation) could become more of a priority.

Revenue in the **logistics sector** showed slight positive development (in real terms) at the start of 2021, increasing by 0.4% in a year-on-year comparison in the first quarter of the year. The measured business climate in the German logistics industry, however, brightened considerably in the course of the first half of 2021 and reached an indicator value that was well above the pre-crisis level in May. The increasing optimism is not only noticeable in companies' assessment of their current situation, but also in their business expectations for the rest of the year.

The global project financing volume fell in the first quarter of 2021 and was down by 6% on the volume seen in the prior-year period according to the financial market data provider "Refinitiv". The volume declined particularly sharply in the Americas region (-40%), while the Europe/Middle East/Africa region saw only a slight drop (-4%). By contrast, the volume of financing in Asia increased considerably compared with the same period of the previous year (+26%).

Investments in **transport infrastructure** showed only a slight year-on-year increase across the globe at the start of the year (growth of 1%), meaning that they were responsible for the weakest growth of all the expanding sectors surveyed.

The expansion of **renewable energies** made further progress in both Europe as a whole and Germany at the beginning of 2021. The significant slowdown seen in Germany since 2018 did not continue as we entered 2021, although levels remain weak in certain segments. Even though significantly more onshore wind turbines went into operation in the first three months of 2021 than in the same period of the previous year (+51%), the current start of the year remains 40% below the average value seen in the years from 2014 to 2018 in terms of installed capacity. The expansion in the solar segment continued in Europe. In Germany alone, new installations in the photovoltaics segment came to just under 2,450 megawatts in the first five months of 2021, up by around one-third on the prior-year period. The demands created by more ambitious political climate targets and a stronger awareness of climate protection among the population at large is also likely to have a fundamentally positive effect here in the short and medium term.

The **shipping markets** are still marked by the impact of the pandemic, although this is having very different consequences in the individual market segments. On the one hand, trading activities in many products and commodities have recovered. Driven by government support programmes, the pre-crisis level is even being significantly exceeded in some cases. What is more, logistical supply chains are often not running smoothly, which ties up a lot of transport capacity. Container vessels and bulkers are the main beneficiaries of these factors. On the other hand, oil tankers are suffering as mobility remains restricted in many regions, putting a damper on fuel consumption and, as a result, also on the demand for oil transport.

Charter rates for **container vessels** have been rising relentlessly for a year and have now reached all-time highs in some cases. The simple truth is that more ships are needed than are available. The result of this shortage is that shipping lines are offering exorbitant rates for the few ships that become available or, alternatively, are acquiring second-hand ships at high prices in order to benefit from what are currently extremely high freight rates. The high tonnage demand is due, on the one hand, to the brisk growth in container handling. Globally, the pre-crisis level has already been clearly surpassed. On the route from Asia to North America, the increase has even exceeded the 30% mark. In the US in particular, the consumption of goods has risen sharply thanks to government stimulus cheques and restrictions on travel and cultural events. On the other hand, the increased transport volume and various effects relating to the pandemic are making logistics processes significantly less efficient. Ships, for example, sometimes have to spend a long time waiting outside ports until berths become available for handling, with delays in the return of empty containers. This further increases the demand for transport capacity.

Bulkers also benefited in the first half of the year as the global economic recovery from the COVID-19 pandemic continued to gather pace. The resulting strong increase in transport demand extended to almost all bulk commodities with the exception of grain, which, however, had proven extraordinarily crisis-resistant from the outset. The demand for medium-sized and smaller ships was also boosted by the fact that the usual seasonal and regional trade patterns for various goods have shifted in some cases due to a combination of the crisis and trade conflicts (currently China/Australia). Part of the fleet is also tied up due to waiting times at the ports. The cautious order behaviour witnessed in recent years also ensured only moderate fleet growth. As a result, second-hand prices also increased significantly from a weak level, albeit not as dynamically as charter rates.

The situation for **oil tankers**, on the other hand, has yet to show any marked improvement. The fact that personal mobility is restricted in so many places means that fuel consumption is still low. Also as a result of high inventory levels, transport demand for crude oil and oil products remained weak as a result. Although oil consumption increased slowly in the first half of the year, this did not directly boost production but led to a gradual reduction in inventories. As a result, oil tankers previously used as floating storage facilities re-entered the transport market and further increased what was already a surplus supply of tonnage. The fact that OPEC+ has been cautious in expanding its production so far means that supplies are not yet sufficient to keep this additional capacity busy. As a result, fleet utilisation is very low, which has kept charter rates close to their all-time low points so far. By contrast, ship prices on the secondary market have already risen considerably, driven by hopes of a recovery and rising prices for newly built vessels.

Banking sector stable during COVID-19 crisis – structural challenge of low profitability remains

The significant economic recovery witnessed in the first half of the year was also reflected in positive share prices for banks on both sides of the Atlantic, even if valuations weakened significantly again from June onwards in response to the spread of the delta variant of the coronavirus and the prospect of continued low interest rates, especially in Europe. Bank loan losses have so far remained very moderate, despite the sometimes significant slumps in economic activity in some sectors, and most institutions' capital and liquidity resources have remained very solid. Combined with the expansionary monetary policy pursued by the central banks, this means that banks continue to play a central role in the implementation of monetary and fiscal policy measures to overcome the crisis.

Nevertheless, pre-existing problems in the banking sector are becoming more acute, first and foremost the weak profitability of the European and, in particular, German institutions – an aspect that has been clearly pointed out not least by rating agencies. This is because the crisis is resulting in the challenging low interest rate environment lasting even longer and putting further pressure on margins. In view of considerable need for investment in IT infrastructure, bank profitability levels remain under pressure as a result.

Against this backdrop, rating agencies remain sceptical about the German banking market in particular. Hamburg Commercial Bank was able to largely escape this critical assessment of the market as a whole thanks to the progress it has made in transforming itself into a profitable specialist finance provider, bucking the trend to improve its rating position on the market as a whole in relative terms. Further details are provided in the chapter "Business development" in the section "Improved rating for HCOB compared to the market as a whole". An overview of Hamburg Commercial Bank AG's current ratings awarded by Moody's and S&P is provided in the chapter "Earnings, net assets and financial position" in the section "Rating".

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

As part of the SREP process, the ECB has once again made reviewing banks' risk management, capital management, business model sustainability and governance a priority in addition to its close monitoring with regard to COVID-19. Other core topics addressed by the ECB as part of the SREP process included IT and cybersecurity and, increasingly, sustainability. In addition, the ECB and EBA published the results of the EU-wide stress test for 38 systemically important major institutions at the end of July. As part of the SREP process, 51 other banks subject to supervision by the ECB participated in the stress test, including Hamburg Commercial Bank. As expected, the Bank maintained a solid capital position even in the very adverse scenario.

Overall conditions impacting Hamburg Commercial Bank's business

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 2021.

In Shipping, the Bank benefited from the marked increase in demand for transport services in the container and bulker segment. Overall, the volume of new business concluded was in line with expectations. New business conditions were above what was already a high level in the same period of the previous year.

The German real estate market continued to prove robust overall in the first half of 2021, even taking into account the segments that have been hit hard by the crisis (shopping centres, retail properties in city centre locations, hotels). In line with what is still moderate investment activity in the market as a whole, the volume of new business concluded by the Bank was slightly lower than expected. On the other hand, new business profitability, as well as the conditions for prolongations, continued to show positive development.

On the risk side, the Bank benefited from the economic recovery and the improved outlook for the macroeconomic environment compared to the end of the previous year, bolstered by the improved risk profile of its credit portfolio as a result of the de-risking process. Rating migrations have developed much more positively than expected overall, which has had a positive effect overall on the amount of RWA for credit risks, the NPE ratio and the amount of loan loss provisions. On the other hand, the NPE ratio was negatively impacted by an individual case in the Real Estate segment, which the Bank classified as a default exposure at the end of the first half. This did not result in any significant negative impact on loan loss provisions.

The situation on the capital markets was significantly more encouraging in the first half of 2021 than it was in the same period of the previous year. In particular, the narrowing of credit spreads, but also developments on the interest rate and equity markets, had a positive impact on the result from financial instruments categorised as FVPL. Higher interest rates as against 31 December 2020 have led to a reduction in the present value of pension liabilities, which has been reflected in an increase in equity not recognised through profit or loss. The dwindling value of the euro against the US dollar since the beginning of the year has led to valuation losses in the result from financial instruments categorised as FVPL, with the losses being offset by an increase in other comprehensive income (OCI) on the same scale.

The low interest rate environment, which is expected to stick around for longer as a result of the COVID-19 crisis, is exerting pressure on margins in banks' lending business. Hamburg Commercial Bank has been able to escape this trend to a large extent, further increasing its profitability. This is thanks primarily to the further drop in funding costs and the gradual increase in margins in the lending business due to the optimisation of asset allocation/the funding structure.

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

Business development – Significant developments and events in the first half of 2021

Hamburg Commercial Bank has successfully completed the first half of its third transformation year, which is scheduled to end with its successful transition to the Federal Association of German Banks (BdB). This is reflected first and foremost in the strong set of key figures, which was again improved compared to the end of the year and lays a solid foundation for HCOB's planned admission to the BdB.

The key figures show that, as expected, the Bank has yet again made significant progress in achieving its targets with regard to balance sheet volume/structure, margin level, cost efficiency, asset quality and capital resources.

With the successful implementation of the extensive three-year transformation programme launched back in 2018, Hamburg Commercial Bank can now demonstrate as planned, as at 30 June 2021, that it is succeeding in the process of transforming itself into a profitable specialist finance provider in Germany with strong financial resources.

The repeated achievement or over-achievement of financial targets also has a positive impact on the acceptance and perception of the Bank, which has steadily increased during the transformation process.

For information on current developments regarding cum-ex transactions, please refer to the Risk Report (chapter on Non-financial risk).

Key performance indicators as at 30 June 2021 significantly outstrip expectations in part

The clearest progress was made in the first half of 2021 in terms of sustainable **profitability**, where the Bank was able to continue the positive trend in the development of the net interest margin as well as cost reductions. This is reflected in net income after taxes, which rose to a very solid € 194 million in the first half of 2021 (same period of the previous year: € 4 million). With this level of earnings, Hamburg Commercial Bank has already significantly exceeded its original forecast for the full year at the half-year mark and is revising its outlook for the year as a whole and for 2022 upwards. Further details can be found in the "Forecast, opportunities and risks report" section.

Capital resources also improved again from what was already a very high level, as is reflected in a 2.6% year-on-year increase in the CET1 ratio to 29.6% as at 30 June 2021, as well as a strong leverage ratio of 13.2%. The increase in the CET1 ratio is due to a further reduction in RWA in addition to the strong result at the half-year point.

The good **asset quality**, following significant structural improvements resulting from the de-risking process in 2020, was maintained in an environment that remains challenging, which is reflected in an almost unchanged NPE ratio of 1.9% as at 30 June 2021 (31 December 2020: 1.8%) and moderate development in loan loss provisions.

The continued solid **liquidity** position with a reported liquidity coverage ratio (LCR) of 170% as at 30 June 2021 rounds off the positive overall picture.

The individual drivers of the Group's development are presented in greater detail in the chapter "Earnings, net assets and financial position".

New business with further improvement in profitability

Hamburg Commercial Bank continues to pursue a systematically profitability-oriented business approach, according to which the profit contribution made by each individual transaction is evaluated after taxes and capital costs (**S**hareholder **V**alue **A**dded concept). Gross new business volume in the first six months of 2021 totalled € 1.8 billion (same period of the previous year: € 1.4 billion). While this is below the planned pro-rata value, the Bank is largely on target with regard to the targeted portfolio size and composition. New business profitability improved considerably across almost all asset classes compared to the same period of the previous year. In the Shipping segment, the Bank benefited from the strong increase in demand for transport services. The establishment of the Corporates International & Speciality Lending business is making good progress. Across all segments, the number of potential business transactions with an overwhelming probability of a contract being concluded in the second half of the year rose significantly.

The volume of prolongations came to € 1.9 billion in the first half of 2021, with the absolute focus on commercial real estate, also due to COVID-19-induced project delays on the customer side. The level of conditions for prolongations has increased further compared to the first half of 2020.

Successful implementation of the funding strategy and further drop in funding costs

The Bank has made further progress in implementing its funding strategy, in particular by further optimising its deposit structure and engaging in renewed activities on the capital market. In the first half of 2021, this progress is reflected in the renewed decline in funding costs, which has largely contributed to an increase in the net interest margin and, as a result, to the stability of the operating net interest income.

On the capital market, the Bank successfully placed a senior preferred bond rated "Baa2" by Moody's in March 2021. The bond, with a nominal volume of € 500 million, has a term of five years and a coupon of 0.375%. Following the issuance of two senior benchmark bonds with three-year terms in 2019 and 2020, HCOB has significantly extended the maturity range for its outstanding bonds with this five-year bond, which forms an important part of the implementation of the funding strategy via the capital market. This bond once again allows HCOB to demonstrate that it has become a reliable and regular issuer. In the Bank's view, the high demand and very good pricing reflect the further increase in investor confidence.

Improved rating for HCOB in relative terms compared to the market as a whole

Even though the banking sector has proved stable so far during the COVID-19 crisis, rating agencies remain sceptical about the German banking market, in particular due to ongoing weak profitability, the high density of competition and the insufficient speed of digitalisation. Hamburg Commercial Bank was able to largely escape this critical assessment of the market as a whole thanks to the progress it has made in transforming itself into a profitable specialist finance provider. Due to the excellent capital resources, good portfolio quality, positive trend towards sustainable profitability and the prospect of its successful change in guarantee fund, Moody's upgraded Hamburg Commercial Bank's long-term issuer rating from Baa2 to Baa1 in July. The outlook remains "positive", signalling continued upside potential for the rating in the medium term. Despite a deterioration in the rating for the German banking market as a whole, S&P had already raised the outlook for the issuer rating, which remains at BBB, from "negative" to "developing", in June. This has further improved the Bank's rating position in the market as a whole, also reflecting the significant improvement in financial ratios.

Sustainability governance adopted

After the Bank made significant progress in its "sustainability@hcob" project in 2020, the topic of sustainability was even more firmly established in the Bank's organisational structure and processes in the first half of 2021, in line with its considerable importance. The Sustainability Committee, established in April 2021 and chaired by the Bank's CEO, acts as a steering and decision-making body to further strengthen sustainable action as a defining component of the "HCOB DNA" and to ensure the achievement of the Bank's ambitious sustainability objectives. Responsibility for the operational and strategic management of HCOB's sustainability processes lies with the Sustainability Office established within the Strategy & Transformation business unit, which was also set up in April 2021. Other significant ESG milestones included the expansion of the strategic architecture to include the adoption of the Sustainability Framework, the creation of a dynamic ESG roadmap, also against the backdrop of the extensive regulatory requirements, and the firm establishment of concrete ESG-related goals in the strategic planning process.

IT transformation reaches milestone of successful switch to new international payment transactions provider/system

Efforts in the first half of 2021 also focused on preparations for the changeover in international payment transactions, which was successfully completed shortly after the end of the reporting period in July 2021 when the new solution went live. This means that HCOB has reached another milestone in its extensive transformation agenda. As part of the IT transformation process, the focus was also on the continuation of project activities related to the introduction of the SAP S/4HANA modules and the Bank-wide roll-out of the new IT infrastructure (Modern Workplaces).

Successful continuation of cost-cutting measures

Despite the continued heavy investment in IT for the Bank's digital transformation/cloud architecture, the Bank was able to further significantly reduce administrative costs by 15% compared to the same period of the previous year. The staff reduction measures, which are proceeding according to plan, have already made clear progress as at 30 June 2021, with a total of 947 FTEs.

HCOB with further streamlined organisational structure as transformation progresses

At its meeting on 31 March 2021, the Supervisory Board of Hamburg Commercial Bank AG decided to comply with Dr Nicolas Blanchard's request not to renew his contract as CCO, which expires at the end of 2021. Christopher Brody (CIO) has been responsible for the Bank's entire client business since 1 April 2021.

The bundling the sales activities in one Management Board department also involved the reorganisation and focusing of the sales organisational structure. In particular, the Bank expects the reorganisation of the front office to further reduce complexity, create cross-business unit synergies and improve efficiency and prioritisation.

By reducing the number of Management Board members from five to four and reorganising the front office, Hamburg Commercial Bank has continued to streamline its organisational structure as part of its ongoing transformation process.

Earnings, net assets and financial position

Group key management indicators

	30.06.2021	31.12.2020 (30.06.2020)
Net income after taxes (€ m)	194	102 (4)
RoE after taxes[1)]	19.8%	4.3% (0.3%)
CIR	45%	42% (48%)
NPE ratio	1.9%	1.8%
CET1 capital ratio	29.6%	27.0%
LCR	170%	171%

[1)] The RoE after taxes shown is based on a standardised regulatory capital commitment (in the amount of a CET1 ratio of 13%).

Group performance significantly ahead of expectations overall
The following aspects, in particular, contributed to business development that was significantly ahead of expectations overall in the first half of 2021:

- The **Group net result** (net income after taxes), in which the annual contributions for the bank levy and the deposit guarantee fund have already been recognised in full, amounted to a very good € 194 million as at 30 June 2021 (same period of the previous year: € 4 million). As a result, the Group net result for the first half of the year is already significantly higher than the original forecast for the full year. With the further reduction of costs progressing largely as planned, this is also due to higher-than-planned results for key income items and the moderate development in loan loss provisions. Net interest income as a central component of total income has developed slightly better than assumed in the forecast. Expectations were noticeably exceeded with regard to the result from financial instruments categorised as FVPL and the result from the disposal of financial instruments classified as AC. Loan loss provisions made a positive contribution to the net result with a net reversal, whereas the forecast had still assumed moderate net additions. The following significant developments have occurred compared to the same period of the previous year (1 January to 30 June 2020): As against the prior-year period, net interest income fell by € 82 million to € 269 million, which is due primarily to valuation effects from hybrid financial instruments in the amount of € 74 million in the first half of 2020. In total income, this was clearly overcompensated by the development in the result from financial instruments categorised as FVPL, which made a clearly positive contribution to total income in the first half of 2021 at € 28 million. In the same period of the previous year, this earnings item had put significant pressure on total income with a loss of € -149 million. The other result items within total income made a positive contribution of € 41 million to total income (same period of the previous year: € 78 million). The decline here is mainly due to lower income from the sale of loans. Based on the aforementioned developments, total income as at 30 June 2021 had increased by 21% year-on-year in total to € 338 million. Allowing for a net reversal of loan loss provisions in the amount of € 22 million (same period of the previous year: net addition of € -94 million), total income after loan loss provisions increased significantly from € 186 million to € 360 million. The stringent cost management measures are reflected in administrative expenses, which once again fell significantly by € 28 million (15%). The other operating result was slightly positive on a half-year basis at € 5 million. In the same period of the previous year, this item had made a clearly positive contribution to the Group net result at € 100 million, largely due to income from the sale of buildings. Regulatory expenses (€ -31 million, prior-year period: € -29 million) and net income from restructuring and transformation (€ -13 million, prior-year period: € -5 million) have developed largely according to plan. Based on the aforementioned developments, net income before taxes increased significantly by € 97 million to € 168 million. The upward trend in the Group net result was even more pronounced, with an increase of € 190 million to € 194 million. The main reason behind this trend was the fact that, as was to be expected, deferred taxes developed in the opposite direction compared to the same period of the previous year, which led to income tax expense having a positive effect on the Group net result in the reporting period at € 26 million (prior-year period: negative effect in the amount of € -67 million).
- On the basis of the very good Group net result as at 30 June 2021 and assuming a standardised regulatory capital commitment in the form of a CET1 ratio of 13%, the return on equity (RoE after taxes) for the Group was higher than expected at 19.8% (31 December 2020: 4.3%).
- The cost-income ratio (**CIR**) came to 45% on 30 June 2021 (31 December 2020: 42%). The development in the CIR is also more positive than assumed in the forecast, as the income base has developed better than planned. A comparison with the CIR as at 31 December 2020 is only of very limited informational value, as the earnings base as at this reporting date was positively influenced to a considerable extent by one-off effects (in particular gains from the disposal of properties).
- The **NPE ratio** remained almost constant at a good 1.9% as at 30 June despite an environment that remains difficult (31 December 2020: 1.8%). The slight increase, which was to be expected, is due to the planned reduction in total EaD, which decreased by around 4% to € 33.8 billion. In terms of NPE volume, additions and disposals more or less balanced each other out in the reporting period. In the Shipping segment in particular, further exposures were reduced through the successful continuation of the NPE Action Plan. The additions relate largely to an individual case

from the Real Estate segment, which was classified as an NPE by the Bank as at 30 June 2021 in accordance with the Bank's prudent loan loss provisions policy. Beyond this exposure, re-ratings have developed much more positively than expected overall, in line with the improved macroeconomic environment. As a result, there were no other new defaults that are worthy of mention.

- The **CET1 ratio** performed better than assumed in the forecast and increased even further from what was already the very solid level seen on 31 December 2020 (27.0%). It amounted to 29.6% as at 30 June 2021. Both the increase in CET1 capital and the drop in aggregated RWA had a positive effect on the ratio. The higher-than-expected increase in Common Equity Tier 1 capital to € 4.4 billion (31 December 2020: € 4.2 billion) is due to the positive result at the half-year point and to other comprehensive income (OCI) that was also positive. Aggregated RWA were down by € 0.7 billion compared to 31 December 2020 to € 14.8 billion. The drop is based on lower RWA for credit risks and for operational risks, while RWA for market risks increased slightly due to the threshold for FX risk set out in Article 351 CRR being exceeded. The decline in RWA for credit risks can be traced back primarily to the further portfolio reduction. As far as operational risks are concerned, the assessment period advancing by one year had a positive effect.
- The liquidity ratio **LCR** came to 170% as at 30 June 2021, which is approximately the same as the value seen at the end of the previous year (171%). At this solid level, it was still well above the ECB's minimum requirements.

Further details underlying the business performance are given below in the "Earnings, net assets and financial position" and "Segment results" sections. The 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 2021.

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 2021 as a whole, is set out in Hamburg Commercial Bank's Group Management Report for the 2020 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 2021	January–June 2020	Change in %
Interest income from financial assets categorised as AC and FVOCI	303	369	-18
Interest income from other financial instruments	173	396	-56
Negative interest on investments categorised as AC and FVOCI	-7	-10	-30
Negative interest on other cash investments and derivatives	-39	-42	-7
Interest expenses	-211	-484	-56
Positive interest on borrowings and derivatives	50	48	4
Net income/loss from hybrid financial instruments	–	74	-100
Net interest income	**269**	**351**	**-23**
Net commission income	22	27	-19
Result from hedging	-2	2	> -100
Result from financial instruments categorised as FVPL	28	-149	> 100
Net income from financial investments	2	5	-60
Result from the disposal of financial assets classified as AC	19	44	-57
Total income	**338**	**280**	**21**
Loan loss provisions	22	-94	> 100
Total income after loan loss provisions	**360**	**186**	**94**
Administrative expenses	-153	-181	-15
Other operating result	5	100	-95
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-31	-29	7
Net income before restructuring and transformation	**181**	**76**	**> 100**
Result from restructuring and transformation	-13	-5	> -100
Net income before taxes	**168**	**71**	**> 100**
Income tax expense	26	-67	> -100
Group net result	**194**	**4**	**> 100**
Group net result attributable to Hamburg Commercial Bank shareholders	194	4	> 100

Developments in total income exceed plan
Hamburg Commercial Bank generated total income of € 338 million in the first half of 2021, significantly outperforming the income level seen in the same period of the previous year (€ 280 million) despite the absence of special effects in net interest income (resulting from the revaluation of hybrid financial instruments). Total income also significantly outstripped the Bank's expectations, which, in addition to the continued encouraging development in operating net interest income, is due in particular to developments in the result from financial instruments categorised as FVPL and the result from the disposal of financial instruments classified as AC. Developments in the individual items making up total income and their causes are presented below:

In the first half of 2021, **net interest income** amounted to € 269 million, putting it below the value for the same period of the previous year (€ 351 million), as was to be expected. The drop is attributable to the fact that the net interest income for the prior-year period contained special effects in the amount of € 74 million due to the positive valuation result from hybrid financial instruments. The development in net interest income shows, however, that the balance sheet of the Hamburg Commercial Bank Group has become significantly more productive. The increased productivity is reflected in the further increase in the operating net interest margin, the ratio of operating net interest income to average total assets. Operating net interest income is net interest income adjusted to reflect irregular or non-recurring effects and certain valuation effects. In the first six months of the 2021 financial year, operating net interest income was only moderately below the level seen in the same period of the previous year, even though average total assets decreased significantly compared to the reference period. The increase in the operating net interest margin is primarily due to the further drop in funding costs. The effects of repositioning the assets side of the balance sheet are also having an increasingly positive impact. Core aspects of this strategy include increasing the share of total assets attributable to interest-bearing assets, systematically reducing the level of insufficiently profitable assets and allocating free resources to transactions with higher yield levels, as well as maintaining stringent price discipline in new business transactions and prolongations.

Net commission income came to € 22 million as at 30 June 2021 (same period of the previous year: € 27 million). Overall, the decline is in line with the Bank's expectations and reflects the planned drop in business volume, as well as the Bank's focus on profitable and scalable products.

The **result from financial instruments categorised as FVPL** was responsible for the increase in total income compared to the same period of the previous year. This amounted to € 28 million in the first half of 2021, whereas in the prior-year period it had put pressure on total income with a negative result of € -149 million. The positive result in the reporting period was driven by net operating trading income, to which the investment portfolio also made a moderate positive contribution. The FVPL result also benefited from what were positive valuation effects overall on client derivatives, securities and loans and advances to customers. The significant narrowing of credit spreads had a particularly positive effect here, as did developments on the interest rate and equity markets. Valuation losses, on the other hand (with the opposite effect in OCI), came from the development of the USD/EUR exchange rate.

Overall, the result shows that the significant compression and reduction of complexity in the derivatives portfolio in the course of the transformation process, coupled with the restructuring of loans and advances to customers, are having an increasingly stabilising effect on the FVPL result.

The **result from the disposal of financial assets classified as AC** contributed € 19 million (same period of the previous year: € 44 million) to total income. This item includes income of more or less the same amount from the sale of receivables, as well as prepayment penalties for early principal repayments.

Net reversal of loan loss provisions (net income statement result)

Loan loss provisions (income statement) made a positive contribution to the Group net result in the first half of 2021 with a net reversal of € 22 million (same period of the previous year: net addition of € -94 million). The net reversal of € 24 million resulted from the change in loan loss provisions on loans and advances to customers. The net loss from foreign currency (€-3 million) and other changes in loan loss provisions (€ 1 million) had only a minor impact.

The positive change in loan loss provisions on loans and advances to customers was due primarily to Stages 1 and 2 of the loan loss provisions model. Here, there was a reversal of loan loss provisions totalling € 36 million (net) in the first half of 2021. The main driver behind this development was the improved macroeconomic environment compared to 31 December 2020 and the associated reduction in risks in those portfolios of the Bank that have been impacted directly by COVID-19. This amounts for a reversal of € 18.5 million in total. This is driven mainly by the reduced and re-evaluated coronavirus watch list, which accounts for a reversal of € 18.8 million. Further reversals are attributable to technical methodological adjustments and to the original loan loss provisions at Stages 1 and 2, thanks to improved portfolio quality. Nevertheless, the Bank remains cautious in its loan loss provisions policy, especially with regard to counterparties with a higher negative exposure to the economic impact of the COVID-19 pandemic. For further details, please refer to note 3 of the notes to the Group financial statements.

At Stage 3 of the (specific) loan loss provisions model for credit-impaired customers, the development was moderate with a net addition of € -8 million, also because there were only a small number of new defaults.

Administrative expenses: despite continued substantial investments in digital transformation, significant reduction of 15%

Administrative expenses came to € -153 million as at 30 June 2021 (same period of the previous year: € -181 million). With the drop of € 28 million (corresponds to around 15%), the Bank was able to further reduce its costs significantly despite continued substantial investments in digital transformation. This means that the Bank is well on track with its cost reduction targets as of the half-year reporting date.

Personnel expenses came to € -68 million (same period of the previous year: € -87 million) and was the driver behind the drop in administrative expenses due to this significant decrease (equivalent to 22%). As part of the staff reduction programme, which went according to plan on the whole, the number of employees within the Group has been reduced by a further 175 full-time employees (FTEs) (compared to 31 December 2020) to 947 FTEs. In order to ensure that the personnel cost targets, which are geared towards a cost-income ratio in a range of 40-42%, are ultimately achieved, and at the same time to retain flexibility for future strategic initiatives, the Bank adopted further efficiency measures on a moderate scale in the first half of the year, the implementation of which is planned for the second half of 2021.

Operating expenses came to € -82 million (same period of the previous year: € -90 million). The development in operating expenses is also characterised by declining costs in ongoing operations (known as "run the bank" costs). The largest drop witnessed here is in the cost categories relating to building costs and legal advice. At the same time, operating expenses in the first half of 2021 still include "change the bank" costs, which account for just under 30% of operating expenses and are roughly on a par with the prior-year period in absolute terms. These include future-oriented (non-capitalisable) expenses, especially for the IT environment, which are expected to be amortised through a sustainable reduction in running costs.

Depreciation of property, plant and equipment and amortisation of intangible assets came to € -3 million (same period of the previous year: € -4 million). The decrease results from the fact that the Bank significantly reduced its portfolio of buildings in the previous year, as well as from lower amortisation for software. In the reporting period, impairment losses (on software) amounted to € -1 million (same period of the previous year: € 0 million).

Other operating result slightly positive in the first half of the year, prior-year period characterised by considerable positive one-off effects from building sales
The other operating result was slightly positive on a half-year basis and amounted to € 5 million (same period of the previous year: € 100 million). Income from the reversal of provisions had a positive effect. An old lease receivable (finance lease) had a negative impact. This financing arrangement, which is reported under loans and advances to customers, required the recognition of value adjustments of € -13 million on the residual value of the leased assets. The very high positive result in the same period of the previous year was largely due to gains from the sale of buildings as part of the move to concentrate the Bank's locations.

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

Moderate negative impact of restructuring and transformation expenses as planned
Net income from restructuring and transformation in the amount of € -13 million in total put moderate pressure on the net result as planned. In the same period of the previous year, this figure came to € -5 million in total. Expenses in the reporting period mainly relate to transformation expenses, in particular project expenses to realise cost efficiencies, e.g. through outsourcing.

Income tax expense made positive contribution to net result, as expected, due to a net reversal of deferred taxes
Given the above-mentioned developments in the individual items, net income before taxes as at 30 June 2021 amounted to € 168 million (same period of the previous year: € 71 million). Whereas income tax expense had still put significant pressure on the Group net result at € -67 million in the prior-year period, it made a positive contribution to the Group net result at € 26 million in the reporting period due to deferred taxes developing in the opposite direction. Income tax expense in the reporting period includes an expense from current taxes of € -10 million and, on the other hand, income from deferred taxes of € 36 million. The expense for current taxes relates to past assessment periods and amounts to € -4 million. Based on the tax planning for 2021, deferred tax income comprises an expense from the reversal of deferred tax assets on temporary differences (€ -40 million) and offsetting income from the recognition of deferred tax assets on loss carryforwards (€ 76 million).

Group net result as at 30 June 2021 significantly above expectations due to positive developments in total income and loan loss provisions
After income tax expense, Hamburg Commercial Bank reported a Group net result of € 194 million as at the reporting date (same period of the previous year: € 4 million). With this very good result, the Bank already clearly exceeded its original earnings forecast for the full year at the end of the first half, demonstrating that it is making faster progress than planned in increasing its operating profitability. This development was due primarily to higher-than-planned developments in total income and the moderate development in loan loss provisions.

In addition to increased profitability and a further drop in costs, the earnings situation was also characterised by a clear normalisation of earnings compared to the same period of the previous year, as expected. The prior-year period was characterised, for example, by significant positive one-off effects (revaluation of hybrid instruments, building sales). These were more than offset by a significant negative impact from financial instruments categorised as FVPL, loan loss provisions and income tax expense. In the reporting period, on the other hand, all of these items all made a positive contribution to the Group net result, largely without one-off effects.

Net assets and financial position

Material items on the statement of financial position

(€ m)	30.06.2021	31.12.2020	Change in %
Assets			
Cash reserve	2,770	1,741	59
Loans and advances to banks	1,346	1,558	-14
Loans and advances to customers	21,069	22,478	-6
Loan loss provisions	-510	-569	-10
Trading assets	1,002	1,544	-35
Financial investments	5,059	5,459	-7
Non-current assets held for sale and disposal groups	98	634	-85
Other assets	771	970	-21
Total assets	**31,605**	**33,815**	**-7**
Equity and liabilities			
Liabilities to banks	6,535	7,478	-13
Liabilities to customers	12,174	13,104	-7
Securitised liabilities	5,753	5,670	1
Trading liabilities	504	686	-27
Provisions	502	634	-21
Subordinated capital	942	940	0
Equity	4,576	4,344	5
Other liabilities	619	959	-35
Total equity and liabilities	**31,605**	**33,815**	**-7**

Further reduction in total assets in the course of the continued optimisation of the balance sheet structure

Since the start of the transformation phase at the end of 2018, the Bank has substantially reduced its consolidated total assets, most recently by around 29% in 2020 as part of the derisking process. As the Bank moves closer to its total assets target of around € 30 billion, the focus in the first half of 2021 was on the continued optimisation of the balance sheet structure to further increase profitability. Within this context, consolidated total assets decreased as planned by a further 7% compared to the end of the previous year's reporting period and amounted to € 31,605 million as at 30 June 2021 (31 December 2020: € 33,815 million). On the assets side, the moderate decline in total assets is attributable in particular to loans and advances to customers (including disposals of holdings classified as held for sale in accordance with IFRS 5 as at 31 December 2020). On the liabilities side, the decline is particularly evident in liabilities to banks, but also in liabilities to customers. In detail, the developments were as follows:

The cash reserve increased due to reporting date factors and in connection with the strengthening of the Bank's liquidity resources, and amounted to € 2,770 million as at 30 June 2021 (31 December 2020: € 1,741 million).

By contrast, loans and advances to banks fell slightly compared to the end of the previous year. As at 30 June 2021, they amounted to € 1,346 million (31 December 2020: € 1,558 million).

Following the very significant reduction in the 2020 financial year, the balance sheet item loans and advances to customers decreased by a further 6%. As at 30 June 2021, they had a carrying amount of € 21,069 million (31 December 2020: € 22,478 million). Taking into account the disposal of the sales portfolio from the Energy business division, which was reported separately in accordance with IFRS 5 as at 31 December 2020 (see the comments later on in this section), there was an even more pronounced reduction in the loan book. As part of its active portfolio management, the Bank has focused its portfolio on conventional corporate banking, while continuing to establish a loan book in International Corporates & Specialty Lending.

Loan loss provisions (for balance sheet items) were down as at 30 June 2021 and amounted to € -510 million (31 December 2020: € -569 million). In view of the further reduction in the portfolio, the Bank still has comfortable coverage ratios for its portfolio including model overlays of € 216 million as at the half-year reporting date.

Trading assets continued to decline and were down significantly, namely by 35%, compared to the end of the previous year, to € 1,002 million (31 December 2020: € 1,544 million). The decrease relates to the carrying amount of positive fair values from derivative financial instruments. This is because the Bank has further reduced its risk positions in customer and banking book derivatives in the course of its ongoing de-risking activities.

As far as financial investments are concerned, redemptions due to maturities exceeded new investments in the reporting period. As at 30 June 2021, they had a carrying amount of € 5,059 million (31 December 2020: € 5,459 million). With a decrease of 7%, the item has developed in proportion to total assets.

Non-current assets held for sale and disposal groups have fallen very significantly compared to 31 December 2020 from € 634 million to € 98 million. The drop is due to the scheduled completion of the sale of an energy loan portfolio (performing loans) in the second quarter of 2021, for which the contract had already been signed in December 2020. For individual loans from the portfolio, the sale was, or will be, completed after the reporting date.

The reduction in the balance sheet volume on the assets side and, as a result, the lower funding requirements had an impact on the liabilities side in the form of a corresponding decline in liabilities to banks and liabilities to customers.

Liabilities to banks were down by 13% to € 6,535 million (31 December 2020: € 7,478 million). Within this item, borrowings from the ECB under the TLTRO III programmes with a nominal amount of € 3.0 billion (31 December 2020: € 3.0 billion), which are to be gradually replaced by capital market funding over the coming years, continue to make up a significant component.

Liabilities to customers decreased by 7%, falling from € 13,104 million to € 12,174 million. The decline is mainly due to the scheduled reduction in deposits from € 9.1 billion to € 8.3 billion.

With regard to securitised liabilities, the volume of new issues exceeded that of redemptions due to maturities. Accordingly, their carrying amount increased slightly from € 5,670 million (31 December 2020) to € 5,753 million.

Trading liabilities amounted to € 504 million (31 December 2020: € 686 million). The decline, influenced by the continued reduction in the portfolio, is attributable in particular to the negative market values of interest-related derivative financial instruments and to other trading liabilities.

As of 30 June 2021, provisions amounted to € 502 million (31 December 2020: € 634 million). The decrease is mainly due to lower provisions for pensions and similar obligations, as well as utilisation of restructuring provisions. The decrease in pension and similar provisions is due primarily to an increase in the actuarial interest rate.

As at 30 June 2021, subordinated capital amounts to € 942 million, almost on a par with the level as at 31 December 2020 (€ 940 million).

Other liabilities decreased significantly compared to 31 December 2020, dropping from € 959 million to € 619 million. The main reason behind this development lies in the negative market values of the hedging derivatives (interest rate derivatives on the liabilities side). There was also a reduction in security deposits for the assumption of debts.

The Bank's reported equity increased as against the end of the previous year and amounted to € 4,576 million (31 December 2020: € 4,344 million). The increase is based on the Group net result for the first half of 2020 as well as other comprehensive income for the period, which was also positive in this period and benefited, in particular, from the effects of the remeasurement of the net liabilities from pension obligations and the development of differences from currency translation.

Business volume also down

The business volume decreased in line with total assets by 7% to € 36,415 million (31 December 2020: € 38,991 million), as off-balance-sheet business also declined. Sureties and guarantees dropped by 15% to € 824 million (31 December 2020: € 968 million), while irrevocable loan commitments fell by 5% to € 3,986 million (31 December 2020: € 4,209 million).

Structure of liabilities by financial instruments

(€ m)	30.06.2021		31.12.2020	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Pfandbriefe and asset-based funding	**6,873**	**5,049**	**7,842**	**7,108**
Covered bonds (Pfandbriefe)	3,955	2,169	4,229	3,528
Other secured funding	2,917	2,880	3,613	3,580
Unsecured liabilities (senior preferred)	**14,855**	**5,534**	**15,196**	**5,092**
Unsecured liabilities (senior non-preferred)	**2,734**	**2,226**	**3,212**	**2,613**
Profit participation certificates and other subordinated liabilities	**942**	**914**	**938**	**910**
Hybrid instruments	**–**	**–**	**4**	**–**
Total	**25,404**	**13,723**	**27,192**	**15,723**

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 (covered bonds, asset-based funding). These mainly include debt instruments issued under Pfandbrief programmes (mortgage, public sector and ship Pfandbrief programmes) as well as other asset-based funding issues, repo transactions and deposits from development banks. The total amount of secured debt instruments outstanding was € 6,873 million as at 30 June 2021 (31 December 2020: € 7,842 million.

The unsecured liabilities that can be classified as senior preferred and senior non-preferred include the call and time deposits mainly comprising client deposits, as well as other unsecured financing instruments. As at the reporting date, they amounted to € 17,589 million (31 December 2020: € 18,409 million). The call and time deposits are shown together with structured unsecured financial instruments in the "senior preferred" category and total € 14,855 million (31 December 2020: € 15,196 million). The "senior non-preferred" category consists primarily of bearer and registered bonds that do not have any structured elements and amounted to € 2,734 million as at 30 June 2021 (31 December 2020: € 3,212 million).

The two line items profit participation certificates and other subordinated liabilities (€ 942 million, 31 December 2020: € 938 million) and hybrid instruments (€ 0 million, 31 December 2020: € 4 million) in total represent subordinated capital.

Capital and funding

RWA, regulatory capital and capital ratios

	30.06.2021	31.12.2020
Risk-weighted assets (RWA) (€ bn)	14.8	15.5
Regulatory capital (€ bn)	5.3	5.2
thereof: CET1 capital (€ bn)	4.4	4.2
Overall capital ratio (%)	36.0	33.3
Tier 1 capital ratio (%)	29.6	27.0
CET1 capital ratio (%)	29.6	27.0
Leverage ratio (%)	13.2	12.2

Capital ratios at a very good level

The CET1 ratio increased significantly as against 31 December 2020 (27.0%) to 29.6%. This development is due to both the increase in Common Equity Tier 1 capital and the drop in aggregated risk-weighted assets (RWA). Common Equity Tier 1 capital increased in the reporting period, in particular due to the profit generated and the positive other comprehensive income (OCI). The development in aggregated RWA was influenced to a considerable degree by a decline in RWA for credit risks, which resulted in particular from declining balance sheet assets as part of the continuation of the Bank's de-risking activities. It is important to note that the RWA uplift for credit risks resulting from the change in the rating model landscape was more than compensated for during the reporting period. The Tier 1 capital ratio and the overall capital ratio increased in line with the Common Equity Tier 1 ratio compared with 31 December 2020.

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

Hamburg Commercial Bank's leverage ratio came to a very solid 13.2% as at 30 June 2021 (31 December 2020: 12.2%). This development is attributable to an increase in CET1 capital and, in particular, to a drop in leverage exposure in the reporting period (€ 33.1 billion, 31 December 2020: € 34.3 billion). The leverage ratio is still significantly higher than both the internal limit and the regulatory requirement of 3% and, together with the very good CET1 ratio, pays testimony to the Bank's exceptionally robust capital position.

Refinancing implemented successfully

The refinancing situation in the reporting period remained dominated by the coronavirus pandemic. The situation on the capital markets, however, has improved visibly in recent months with the continued support of the central banks.

All in all, fundraising is in line with the planned figures. In the first half of 2021, the Bank was able to raise more than € 0.7 billion in long-term funds. Another senior preferred benchmark issue with a volume of € 500 million was placed successfully on the capital market.

In addition to long-term refinancing, the reduction in deposits also contributed to the implementation of the funding strategy. Deposits were reduced further as planned in connection with the further reduction of total assets. The deposit position was also optimised in preparation for the expected change in the depositor structure due to the intended transition to the new deposit guarantee fund.

Key liquidity ratios

	30.06.2021	31.12.2020
Total deposits (€ bn)	8.3	9.1
LCR (%)	170	171
NSFR (%)	117	111

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

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

Rating

Rating overview as at 30.06.2021

	Moody's	S&P
Issuer rating (long-term)	Baa1, positive	BBB, developing
Current liabilities	P-2	A-2
Stand-alone rating (financial strength)	ba1	bbb-
“Preferred" Senior Unsecured Debt	Baa1	-
“Non-Preferred" Senior Unsecured Debt	Baa2	-
Mortgage Pfandbrief	Aa1	-
Ship Pfandbrief	A2	-

The table above provides an overview of Hamburg Commercial Bank AG's current ratings awarded by Moody's and S&P. With regard to the changes that occurred in the reporting period and their causes, we refer to the explanatory information in the previous chapter "Business development" (section "Improved rating for HCOB in relative terms compared to the market as a whole").

Segment results

Segment overview January – June 2021

(€ m)		Project Finance & Corporates	Real Estate	Shipping	Client Business	Treasury & Group Functions	Reconciliation	Group (income statement/ balance sheet)
Total income	**2021**	**90**	**97**	**71**	**258**	**110**	**-30**	**338**
	2020	99	121	35	255	87	-62	280
Risk costs (expected loss)	**2021**	**-14**	**-8**	**-7**	**-29**	**-1**	**52**	**22**
	2020	-16	-11	-15	-42	-1	-51	-94
Administrative expenses & regulatory costs	**2021**	**-48**	**-47**	**-30**	**-125**	**-59**	**0**	**-184**
	2020	-51	-58	-29	-138	-72	0	-210
Net income after taxes	**2021**	**24**	**37**	**30**	**91**	**37**	**66**	**194**
	2020	28	45	-8	65	95	-156	4
RoE after taxes (%)	**2021**	**7.0**	**17.2**	**20.8**	**13.0**	**13.2**		**19.8**
	2020	6.3	13.6	-3.7	6.5	32.5		0.3
Segment assets (€ bn)	**30.06.2021**	**7.9**	**9.1**	**3.2**	**20.2**	**11.4**	**0.0**	**31.6**
	31.12.2020	8.9	9.5	3.3	21.7	12.1	0.0	33.8
Loan loss provisions (income statement)	**2021**	**-13**	**-1**	**34**	**20**	**2**	**0**	**22**
	2020	-114	-49	66	-97	2	1	-94

Adjustments to segment reporting

As part of the Bank's transformation process, there have been T changes in the responsibilities of the Management Board and the business areas in the first half of 2021, resulting in corresponding changes in the organisational structure. In addition, methodological adjustments and additions were made to the information in the segment reporting in order to boost the transparency of internal business area management, in particular resource allocation and performance measurement. Both aspects have led to adjustments in segment reporting in accordance with the requirements of IFRS 8 (Management Approach). The prior-year figures have been adjusted accordingly for the purposes of comparability.

The management of the Group comprises three market-related segments ("Project Finance & Corporates", "Real Estate" and "Shipping"), which are also summarised under the term Client Business, the segment "Treasury & Group Functions" and the column "Reconciliation". In the course of the changes in the organisational structure, the Corporates International & Speciality Lending area (formerly known as: Diversified Lending) has been incorporated the Project Finance & Corporates segment, and the Markets area into the Treasury & Group Functions segment. For further information on the adjustments in segment reporting, in particular the methodological changes, please refer to note 37 "Segment reporting" in the notes to the Group financial statements.

Business development in the segments

The significant increase in profitability across all segments compared to the same period of the previous year, as measured by the increase in RoE of the customer departments from 6% to 13%, reflects the Bank's progress in realigning its portfolio. A comprehensive de-risking and de-leveraging strategy, aimed at systematically removing exposures with a poor risk/return profile from the portfolio, a more selective approach to new business and an overall change in asset allocation, in which higher-margin business in new areas contributes to diversifying the Bank's portfolio, have made a key contribution in this regard.

The **Project Finance & Corporates** segment is well diversified and, as at the reporting date, combines the Corporate Banking, Corporates International & Speciality Lending and Project Finance business areas in the energy and infrastructure sectors. The expertise pooled in this segment in the advisory fields of structured finance and leveraged buy-outs is offered to all the Bank's customers. The area is also a product specialist for factoring and leasing and comprises bank-wide syndication activities including the OtD (originate to distribute) approach. The segment's national and international focus makes a key contribution to income and risk diversification in the Bank's overall portfolio.

In Project Finance & Corporates, net income after taxes in the first half of 2021 amounted to € 24 million (same period of the previous year: € 28 million). This is due to total income that was down to € 90 million (same period of the previous year:

€ 99 million) due to a drop of around € 1 billion in segment assets that could not be offset in full by lower risk costs and administrative expenses. The decisive factor behind the lower segment assets was the sale of legacy exposures (mainly in the Energy portfolio) as well as deliberately selective new business. Nevertheless, compared to the same period of the previous year, new business in the Energy & Infrastructure area and in particular in Corporates International & Speciality Lending was expanded slightly, while new business in the conventional Corporates sector remained at a low level. Gross new business in the Project Finance & Corporates segment came to a total of € 0.7 billion overall (same period of previous year: € 0.5 billion). By contrast, the cross-selling result remained stable despite the significant reduction in new business in this area. Margin development was positive in view of the realignment, not least also thanks to new business in the Corporates International & Speciality Lending unit, which was incorporated into the segment for the first time, meaning that the segment's operating profitability, measured in terms of RoE, rose to 7.0% in total (same period of the previous year: 6.3%).

The **Real Estate** segment generated net income after taxes of € 37 million in the first six months of 2021 (same period of the previous year: € 45 million). The operating business remained characterised by the risk-conscious further development of the portfolio, the aim being to optimise earnings. In view of the decline in segment assets to € 9.1 billion, net interest income and net commission income from the operating business decreased, with a corresponding reduction in risk costs and administrative expenses. Gross new business bounced back slightly after the lower demand for credit due to the economic environment last year and increased slightly to a total of € 0.4 billion despite the risk-conscious business approach (same period of the previous year: € 0.3 billion). The upward trend in margins reflected both the more selective approach and the lower funding costs, which increased the segment's operating profitability to 17.2% (RoE for the same period last year 13.6%).

In the **Shipping** segment, net income before taxes amounted to € 30 million (same period of the previous year: € -8 million). Operating profitability, measured in terms of RoE, increased to 20.8% (same period of the previous year: -3.7%). The driver behind the encouraging development in earnings was the significant increase in total income, which also benefited from positive valuation effects on client derivatives and loans and advances to customers categorised at fair value in the context of strong operational development. Lower risk costs also contributed to the improved result. In view of the overall positive development on the shipping markets despite the COVID-19 crisis, the focused gross new business with national and international shipping companies with good credit ratings increased to € 0.7 billion (same period of the previous year: € 0.5 billion).

The **Treasury & Group Functions** segment generated net income after taxes of € 37 million (same period of the previous year: € 95 million). In the previous year, the result reported by this newly formed segment benefited in particular from the one-off effects from the sale of buildings, which, in contrast to the previous year's reporting, are now shown under Group Functions. Operating income from the ongoing establishment of a strategic investment portfolio to diversify the overall bank portfolio is on target and contributed to the positive result for the first half of the year. The management of pension liabilities assigned to this segment also made a significant contribution to the result through positive valuation effects.

"**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 arise, among other things, from the use of the market interest method (internal) instead of gross interest in the lending business. Further reconciliation effects result from different presentation of amortisation and hedge accounting effects in internal reporting and IFRS accounting. 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 Bank's performance in the first half of 2021 was well above expectations. The key performance indicators for profitability and capital were significantly above plan, while those for asset quality and liquidity were in line with expectations.

Operational performance was characterised by marked progress in profitability, which was reflected in a further increase in operating net interest margin as the balance sheet became smaller, more focused and more diversified as part of the quest to reduce it so as to achieve a target volume of € 30 billion. The drivers behind this development are, once again, lower funding costs, an optimised balance sheet structure and improved margins in new business. This means that Hamburg Commercial Bank is proving increasingly successful in cushioning the pressure on margins weighing on the German banking industry. Based on developments in the first half of the year, the Bank also believes that it is on track when it comes to achieving an appropriate cost base. Despite continued heavy investment in digital transformation, administrative expenses were reduced considerably again, supported by the planned reduction in staff.

The improved earnings and cost ratios have led to the Bank already exceeding its earnings forecast for the full year at the half-year mark, prompting it to revise its profit guidance upwards.

The Bank's very comfortable capital resources could be expanded even further as against what was already a high level at the end of the previous year.

Despite the ongoing COVID-19 crisis, the Bank's asset quality remains good at the end of the first six months. In view of the crisis, there were only a small number of defaults. The continued reduction in existing NPEs, particularly in the Shipping segment, compensated for the default on a larger exposure from the Real Estate segment and led to the NPE volume remaining more or less constant compared to the end of the previous year.

The substantial progress made by the Bank throughout the transformation process is also being recognised by the rating agencies, as is reflected in an improved rating position overall shortly before and after the end of the half-year.

The Bank believes that it is well positioned for its expected admission to the BdB deposit guarantee fund at the end of the year.

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

Employees of Hamburg Commercial Bank

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

Human resources issues in the first half of the year were characterised by the active support for the Bank's ongoing transformation process, as well as the comprehensive response to the challenges of the global COVID-19 pandemic, including the communication of a vaccination offer for staff members.

The Bank has set itself ambitious HR strategy goals as part of its multi-year transformation programme. These refer to both content and costs. Achieving these goals is central to the Bank's successful transformation. All business units are required to implement the measures assigned to them to achieve their cost targets in a timely manner, allowing them to meet their respective cost targets. The Bank is confident that it will be able to implement the remaining staff reduction measures as planned, despite challenging factors in the overall environment. As at 30 June 2021, the number of staff employed by the Hamburg Commercial Bank Group had fallen to 947 FTEs (31 December 2020: 1,122). The Bank's new performance management system and the first few components of the new compensation system were also implemented in the first half of the year. This was supported by the introduction of cloud-based software that maps and consolidates all of the Bank's HR processes.

In addition to the transformation process, the period under review focused on safeguarding the health of our employees and ensuring that our operations ran smoothly in light of the ongoing pandemic. The Bank continued to operate in split mode during the reporting period, with the majority of employees working from home. This has been the Bank's way of responding to the pandemic, also implementing the corresponding Occupational Health and Safety Regulation. The Bank has ensured that information is passed on to its employees in regular communications.

Employees in the Group

	30.06.2021	31.12.2020
Full-time employees (FTE) in the Group[1]	**947**	**1,122**
thereof: Women	334	408
thereof: Men	613	714
thereof: Employees in Germany	918	1,095
thereof: Employees abroad	29	27
Total number of employees in the Group ("headcount")	**1,095**	**1,343**
Key employee figures		
Part-time employees (%)[2]	17.1	21.2
Average age in years[3]	46.9	46.9
Average period of employment (years)	15.5	15.2

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

Dealing with COVID-19 at Hamburg Commercial Bank

HCOB had already set up the "coronavirus working group", which addresses COVID-19-related developments on a daily basis and then defines corresponding measures for the Bank, back in February 2020 – also from a business continuity management perspective. The working group is responsible for preparing strategic and operational decisions for the Management Board and also making these decisions itself for subareas in order to protect the health of employees and, at the same time, ensure that banking operations, and in particular the processes relevant to emergencies, can be maintained. To this end, the working group currently prepares new information received from the relevant external authorities and organisations several times a week, evaluates it and advises the Management Board on strategic decisions. The working group consists of a member of the Management Board and various representatives from the areas of Human Resources, Compliance, Facility Management, Communications and IT, as well as the company doctor.

The working group provides all employees with specific instructions and guidance in the form of regularly updated FAQs, and also provides information to managers on a regular basis. In the subject areas listed below, the "coronavirus working group" both sets the framework for the employees and makes concrete decisions: business trips, return to the office after private travel, IT and technology, mobile working, hygiene and physical distancing regulations in the Bank, as well as medical issues including what to do in the event of suspected or confirmed infections. Its key decisions on split mode, as well as the arrangement of vaccination appointments for employees and their relatives, are particularly worthy of mention within this context. Intensive organisational and content-related preparations have already allowed the working group to offer vaccinations to a large number of employees. This is the Bank's way of underscoring its fast response time and the importance of protecting the health of its employees once again.

Culture and further development

In the third year of the Bank's transformation process, the Bank is concentrating on culture and collaboration going forward. The focus is on team spirit and technical resources.

A professional employee survey conducted with external support in the second quarter is one of the sources of information serving as a basis for the measures relating to culture and collaboration. With a very good participation rate of over 75%, the survey allowed the Bank to identify focal areas. The Bank develops various bank-wide or individual measures in these focal areas together with, and for, its business units. The focal areas include "celebrating success" and a "new kind of leadership culture", which builds on the competence model that was introduced last year as well as on the target vision for collaboration and leadership. The results of the survey also show how much progress has been made in the successful transformation process. Almost all participants feel that the HCOB management levels share and represent the vision and strategy and rate collaboration within their team as being good.

Another important milestone shaping our collaboration is the complete roll-out of "Modern Work Places"; in addition to new hardware (Surface, headset and work mobile phone), these also include access to Microsoft 365. This allows meetings and calls to be conducted via MS Teams and further supports collaborative working.

With its internal seminar programme, the Bank is supporting its employees in their new working environment and the split mode that is still ongoing due to COVID-19, offering sessions on topics such as "Remote Work – Effective Remote Collaboration" or "Digital Rhetoric – Successful Video Communication". The range of courses on offer is rounded off by an extensive program of technical seminars held both internally and externally.

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

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

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

In addition, the first few key measures to promote equal opportunities and diversity adopted by the Management Board in November 2020 have been implemented, for example the mentoring programme for women, involving members of the Management Board, as well as tying bonuses to target quotas for the underrepresented gender in management and senior positions. Working from home arrangements made during the pandemic, which extended beyond the statutory requirements, as well as the arrangement of vaccination appointments have already received a positive response from employees in the aforementioned employee survey.

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

At the level of BU heads reporting directly to the Management Board, Hamburg Commercial Bank was aiming to achieve a ratio of 16% women. It has reached this objective, with a current figure of 18%. The department head ratio exceeds the target at 24% women (target of 15%). In addition, Hamburg Commercial Bank has set itself an average target quota of 33% for the underrepresented gender (predominantly women) in management and/or senior expert functions. This is to be achieved by 31 December 2025. At the business unit management level, at least 33% of positions are to be filled by the underrepresented gender (currently women) by 31 December, 2025.

Statistics on equal opportunities as at 30 June 2021[1)]

	Number			Ratio	
	Women	Men	Total	Women	Men
BU heads	3	14	17	18%	82%
Heads of department	12	38	50	24%	76%
Senior positions[2)]	101	266	367	28%	72%
Total	**116**	**318**	**434**	**27%**	**73%**

1) Head Office excluding employees released from their duties.
2) Headquarters only, no department heads.

For further details on the topic of equal opportunities and the targets for the proportion of women on the Management Board and the Supervisory Board, please refer to the combined management report for the 2020 financial year.

Forecast, opportunities and risks report

Forecast report including opportunities and risks

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

Anticipated underlying conditions

Forecasts on economic growth and inflation come from national and international institutions (Germany: Bundesbank, eurozone: ECB, USA: Fed, China: OECD, world: calculation of Hamburg Commercial Bank on the basis of IMF weights and growth forecasts specified above, as well as IMF forecasts for the rest of the world). The interest rate forecasts are based on the corresponding forward rates. The forecast euro to US dollar exchange rate is also derived from the futures markets. Unless otherwise stated, the 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: asynchronous recovery on the cards for 2021

The global economy should continue to recover in the second half of the year. This expectation is supported, in particular, by the progress made in the vaccination drive in the US, the EU and China. According to the OECD, the global economy will grow by 5.8% this year. The emerging upswing is, however, an asynchronous one. In the world's three major economies, the US, China and Europe, the economic recovery is progressing. In much of the rest of the world, the recovery is expected to be much less pronounced. Comparatively low vaccination rates combined with rebounding or ongoing high infection rates are slamming the brakes on growth. Moreover, the pandemic is still associated with downside risks. The delta variant is currently also causing infection rates to rise again in some EU countries and US states. This has already prompted new lockdown measures in some cases. Given the relatively high vaccination rates, we predict that hospitals will only come under pressure in isolated cases, meaning that we do not expect to see any new restrictions across the board. Otherwise, the rate of expansion of global GDP would be lower.

The US could expand at a rate of 7% this year. This high rate of expansion is likely to be driven mainly by private households, which, as their economies start to reopen, will be behind increasing demand for services that were not available at all, or were only available to a limited extent, during the COVID-19 lockdowns. Accordingly, sectors such as tourism, events and hospitality are expected to boom, with developments in recent months already serving to confirm this trend in some cases. Investment activity should also increase considerably given the positive outlook, helping to boost growth. There is also the possibility that economic growth will be stimulated by the further spending programmes focusing on infrastructure, education and social services that are currently being planned. The relationship between the US and China remains tense. It is currently impossible to predict whether the tension can be eased in the long term under Biden's presidency. The divisions have become entrenched. The rapid spread of the delta variant also harbours the risk of renewed outbreaks in the US at any time, which also entails a risk of slower economic growth. Despite the initially rapid progress made in vaccinating the population, the US economy is still relatively far off achieving herd immunity.

China's economy is expected to grow at a rate of 8.5% this year. Some leading indicators, for example the PMI, point towards very high growth expectations in the services sector at the half-year point. The tense relationship with the US represents a further economic risk for China, too.

In the eurozone, we expect GDP to grow by 4.6% in 2021 as a whole. Growth is expected to pick up speed in the second half of the year. The catch-up in vaccination recently sent out a positive signal. The services sector should benefit from the easing of the strict lockdown measures in the second half of the year. Positive impetus is also expected to come from the EU Recovery Fund, which will already be used for initial infrastructure investments before this year is out. The delta variant, which has recently led to rising case rates again in Spain and Portugal, for example, is cause for concern.

Germany's economy is expected to expand by 3.7% in 2021, meaning that growth would be lower than in the EMU area as a whole. The economic slump suffered by Germany to date has also, however, been less severe in relative terms. In the second half of the year, we expect to see the most impressive growth figures in the services sector, together with retail, due to the planned steps to open the economy back up. The manufacturing sector, on the other hand, is likely to lose momentum.

Central banks see inflation as a transitory phenomenon
In the US, inflation, which has jumped to as high as 5.0% in recent months, is unlikely to continue to rise, but rather is predicted to head south again, also because base effects will cease to apply. A similar development is to be expected for the eurozone, where Germany made a particularly significant contribution to the eurozone's inflation trend due to the increase in VAT at the turn of the year. Inflation trends are very varied in the EMU region. Looking at the eurozone as a whole, inflation most recently came to 1.9%. Both the ECB and the Fed have continued their expansionary monetary policies since the outbreak of the COVID-19 pandemic in spring 2021. With regard to the inflation debate, both the Fed and the ECB argue that the rise in inflation is primarily of a temporary nature.

The US Fed is in the process of discussing when its asset purchases to the tune of currently 120 billion US dollars a month can be reduced. We expect this process to start in the first quarter of 2022. As far as the base rate is concerned, the majority of Fed members expect it to remain at the current level of 0% to 0.25% until 2022.

The ECB will continue with its asset purchases under the PEPP and APP programmes until further notice. The central bank emphasises that it is very flexible with regard to purchases under the PEPP programme, meaning that it can reduce or increase its purchases as and when required. This means that the framework itself of € 1.85 trillion, which currently has a utilisation rate of just shy of 65%, can still be expanded, too. Given the ECB's expectation that inflation will remain below the 2% inflation target in 2023 as well, we do not expect to see any key rate hikes until then.

Yields on long-dated government bonds have recently fallen again after rising sharply in the first few months of the year. Given the generally encouraging growth outlook, we expect yields to rise moderately in the second half of the year, both in the US and in the eurozone. Should the growth environment deteriorate, on the other hand, yields are expected to dwindle further.

According to the assessment of the futures markets, the euro should appreciate slightly in the second half of 2021 and stand at USD 1.20 at the end of the year. Should growth disappointments and/or continued turmoil in global financial markets materialise, the US dollar could end up being more sought after, which would increase its value.

Outlook for relevant markets
Following the developments in the first half of 2021, the Bank is making moderate upward adjustments to the forecast statements for developments in the relevant markets that it made in the combined management report for the 2020 financial year now that the coronavirus pandemic is gradually being overcome and in view of the associated global recovery, albeit one that is progressing at different levels of intensity. In detail, the Bank now expects to see the following development.

German real estate markets
In the second half of 2021, the German real estate markets should increasingly benefit, albeit still to varying degrees, from the economic recovery once the distortions triggered by the pandemic have subsided. Catch-up effects are to be expected not least in consumption, with leisure tourism and, to a limited extent, the retail sector likely to emerge as the main winners. In view of the losses suffered during the crisis, the fact that business travel is still lagging and the unabated pressure from the growing online retail industry, the consolidation process affecting hotels and retail is nevertheless likely to continue. Bottlenecks affecting construction materials are likely to remain a burden for construction activity for the time being, and short-term project delays cannot be ruled out. On the other hand, developments on the employment market should have a positive effect. This is because the corporate sector plans to hire more staff again, meaning that unemployment should continue to fall. The ongoing expansive central bank policy should also continue to have a stabilising effect. Thanks to very low interest rates, crisis-resistant segments of the real estate market remain a sought-after investment alternative among investors.

On the **housing markets** in most major cities, the influx of people should increase again in the second half of the year as the employment market situation continues to improve. Although there may be some delays in new construction, it will remain brisk and is, in fact, likely to slightly outstrip demand. This means that the reduction in the number of vacant apartments is coming to an end, although vacancies remain at a very low level. As a result, housing rents are likely to continue to rise, albeit more moderately than in previous years due to what are already high housing costs for tenants and the statutory limits on rent increases when re-letting flats, as well as due to the growing supply of housing. As apartments remain in high demand among investors, moderate increases in value can be expected even though prices are already high.

In the **office property markets**, demand for space is expected to increase gradually as recruitment levels rise, albeit from a very low level. This growth will not, however, be sufficient to absorb the supply resulting from stronger growth in office completions. This is likely to trigger a significant increase in vacancy rates. They nevertheless remain low in a long-term comparison, meaning that office rents will only fall very moderately. Although investors' risk aversion is likely to taper off as the economic recovery progresses, many investors are likely to remain uncertain as regards the impact of the long-term use of 'working from home' models on the demand for space. As a result, it is impossible to rule out value losses, not so much for preferred, but rather for decentralised office locations.

In **retail real estate**, rising retail sales in the second half of the year should provide some relief for properties affected by the crisis. Nevertheless, the return of consumers to brick-and-mortar shops will not be sufficient to compensate for the sales losses suffered, not even in the long term, as buying habits in favour of online retail are likely to have become entrenched among quite a few consumers. Rents in shopping centres, department stores and commercial buildings, also in attractive city-centre locations, too, are therefore likely to remain under pressure with risk aversion also set to continue among investors, meaning that further value losses can be expected here. In the local supply sector, sales growth should return to normal as other needs become more of a focal point among consumers. Rents and market values for specialist retail parks focusing on this area should continue to chart a moderate increase. Thanks to their higher resilience to online retail, they remain in demand among investors.

Industry, trade and services, infrastructure and renewable energy

The overall conditions for German growth have improved fundamentally now that the crisis triggered by the pandemic is gradually being overcome, and should ensure a strong recovery in the second half of 2021. The declining infection figures since April 2021 and the easing of containment measures should help the service sectors of the economy, which have been hit particularly hard by the crisis. Private consumption is likely to be characterised by significant catch-up effects, which should support **retail trade**, although the ongoing high level of uncertainty regarding the further course of the pandemic – also in view of virus mutations as well as the recent slowdown in the vaccination speed – coupled with the risk of permanent job and income losses are a burden. The industrial economy is expected to show dynamic growth, albeit with waning momentum – driven by brisk demand from abroad – meaning that positive development can also be expected for the **manufacturing sector** and companies with **wholesale and foreign trade** activities. The braking effects triggered by supply bottlenecks for intermediate products in the second quarter should only be temporary, but represent a potential downside risk if supply bottlenecks last longer. The **logistics sector** should also benefit from the economic recovery. **Construction output** is likely to remain close to capacity, meaning that no substantial expansion would appear to be on the cards, especially as bottlenecks affecting construction materials and rising prices are still having more of a dampening effect for the time being.

In the case of **transport infrastructure**, both the global economic recovery and the unchanged considerable need for maintenance should provide positive impetus for investments, while on the other hand the increase in the price of construction materials and other commodities should have a negative effect, at least temporarily. Institutional investors are likely to continue to be important in the low interest rate environment.

The prospects for the expansion of **renewable energies** remain mixed for 2021, although the political pressure to act so as to achieve more ambitious climate targets should have more of an impact. The climate protection ruling passed by the German Federal Constitutional Court in April 2021, the sustainability elements featured in the aid package at EU level and the European Commission's climate protection plan in the form of the Green Deal should provide new growth impetus for renewable energies in Europe in the medium term.

Shipping markets

The shipping markets should continue to take advantage of the full spectrum of the market cycle in the second half of the year – from the weakening boom in container vessels to the burgeoning hope in the oil tanker slump. As restrictions are eased and the global economy embarks on a more broad-based recovery, however, the situation should start to normalise in all segments. With regard to the individual sub-markets, the expectations are as follows:

- **Container vessels** are likely to continue to report scintillating growth. The sustained upturn in the global economy means that the demand for transport capacity is unlikely to diminish for the time being. Regional distribution could, however, even out again. In the US, for example, the stimulus effect is likely to weaken and consumption should start to benefit the service sector to a greater extent again. As the flow of goods returns to normal, supply chain bottlenecks could be reduced, improving the efficiency of the container fleet. Nevertheless, we do not expect to see any noticeable relief in the global demand for tonnage before the end of the annual peak season, with any relief only expected from the fourth quarter onwards.
- **Bulkers** should benefit overall from the continued economic recovery via robust transport demand. China's hunger for raw materials is likely to be the main factor driving the continuation of the boom. With the expiry of the government's economic stimulus programme and potential environmental requirements, this trend could well weaken. On the supply side, we do not predict any major negative factors at present. Given a historically low order book, fleet growth should continue to slow for the time being.
- The situation for **oil tankers** is likely to gradually improve. Oil inventories should return to normal levels in the coming months and signal the need for a substantial increase in production. Nevertheless, oil production is expected to remain well below its pre-crisis level until the end of the year, meaning that transport demand is also still unlikely to be sufficient to pull the market out of the crisis any time soon.

Banking environment

Against the backdrop of the coronavirus crisis, which remains ongoing and is likely to continue to shape economic development in the second half of 2021, as well as the sustained low interest rate environment, the banking market will also remain challenging. Nevertheless, in view of the marked economic recovery in the first half of the year, it appears from today's perspective that the number of problematic cases and insolvencies in the corporate sector – and as a result the need for loan loss provisions – should be significantly lower than expected at the turn of the year.

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

Expected business development of Hamburg Commercial Bank

Managing the successful transition to the BdB

In the second half of the year, the Bank will first and foremost have to ensure a successful transition to the Federal Association of German Banks (BdB). As at the reporting date, the Bank continues to engage in constructive and intensive dialogue with the relevant BdB bodies. Based on the strong, and further improved, set of key indicators as at 30 June 2021 and given the optimistic outlook for the second half of the financial year, too, the Bank is convinced that it will fulfil all of the requirements to ensure a seamless transition to the deposit guarantee fund of private banks on 1 January 2022. The final decision of the BdB is expected to be made in November 2021.

Completing the transformation process and starting the transition to business as usual

As at the reporting date, Hamburg Commercial Bank is in the midst of two overlapping phases that are not entirely distinct: completing the transformation process and starting the transition to business as usual.

The target vision for the transformation process initiated at the end of 2018, the timetable for which envisaged completion by the end of 2021, was to create a sustainably profitable specialist bank with a client-focused business model. The emergence of the COVID-19 crisis forced the Bank to accelerate and intensify the far-reaching process of change once again, especially in view of the massive uncertainties associated with the pandemic. In particular, the results for the first half of 2021 show that the Bank was successful in implementing these plans, and had already achieved key transformation targets as at the reporting date, i.e. earlier than originally planned. By way of example, Hamburg Commercial Bank already has a sustainably profitable business model with adequate returns in its operating business and competitive refinancing costs. It is also characterised by excellent capital resources, a significantly improved risk profile and a streamlined organisational structure.

One major focus in the second half of the year and the following year will be on implementing the further reduction in the cost base, with all measures aimed at achieving a target CIR in the range of 40-42%. The central prerequisite for achieving the ambitious cost targets will be the successful management of the final phase of the central transformation projects, in particular the challenging restructuring of IT and the workforce reduction measures. As far as the workforce reduction measures are concerned, the Bank is heading for an FTE figure of around 840, to be achieved on 1 January 2022, taking into account the staff members who are scheduled to leave as of 31 December 2021. A high level of management and staff attention is focused on the central IT transformation projects, which are entering the success-critical phase. The next key milestone in the payment transaction system changeover is the go-live of the new SEPA solution, which is planned for the first quarter of 2022. As part of the changeover of the IT architecture to state-of-the-art and cloud-based solutions, the next milestone is the go-live of the SAP S/4HANA solution for mapping complex financing structures (SAP CML/Complex Loans), scheduled for the second half of 2021.

On the income side, the Bank is already largely in the "business as usual" phase. The aim here is to continue and expand the successful path of gradually boosting operating profitability. To this end, the Bank will continue to optimise its asset allocation as part of its portfolio management activities and – based on a stringent shareholder value added approach – to further increase the share of assets with a good risk/return profile so as to provide a further boost to the most important source of income, net interest income, in particular. In general, the Bank expects new business volumes to be higher in general in the second half of the year than in the first six months and is confident that it will achieve target total assets of around € 30 billion and the target portfolio structure towards the end of 2021. To this end, the Bank will continue to focus on high-yield and, at the same time, risk-commensurate transactions in its core business areas of Real Estate and Shipping, where it has already benefited from a favourable market environment in the first half of the year. The Bank intends to cautiously expand the area of project financing; growth opportunities are arising, also in view of the Bank's refined ESG profile, in the area that involves financing renewable energies in particular. The high-margin business in Corporates International & Speciality Lending is to be expanded further with the aim of achieving a high granularity of investments. On the other hand, the conventional German corporate client business, in which it is almost impossible to achieve adequate returns to cover the cost of capital due to the competitive situation, is being scaled down significantly. In the Corporates business, the Bank therefore intends to limit itself to a high-value core portfolio in the medium term. This sub-portfolio is characterised by more complex structures in which the Bank receives adequate remuneration for the financing and structuring expertise required. In addition, attractive cross-selling potential can be exploited.

In the context of liability management, the Bank will continue to implement its funding strategy systematically. One key component is the further optimisation of the deposit structure. The measures envisaged are aimed at increasing the granularity of deposits and their maturities, as well as expanding the client-linked deposit business. With regard to refinancing on the capital market, following the successful issue in the first quarter, more issue activities are planned for the second half of the year, also with the aim of further strengthening the maturity profile.

The topic of ESG will remain a very dynamic issue, both externally and internally, in the second half of the year. Particular attention has to be paid to regulatory activities with the ECB's extensive auditing activities, the announced climate stress test and the adaptation of the complex EU taxonomy. Other focal points on the sustainability agenda include the implementation of future ESG reporting requirements in the Bank's IT infrastructure, meeting the fundamental requirements to facilitate the issue of green bonds and the advancement of the other topics identified in HCOB's Sustainability Roadmap. Due to the high strategic and commercial importance that the Overall Management Board attaches to the topic of sustainability, the development of strategic options for action to support our clients as they move towards the "green transformation" of their business models is also increasingly moving into the spotlight.

In the second half of the year, the Bank will also continue its analysis and evaluation of the strategic options and development opportunities for the future after joining the BdB, as well as the related dialogue with the relevant stakeholders.

Most important management indicators: forecast for 2021 and targets for the 2022 financial year lifted

Based on the business performance that was better than expected in the first half of the year, the Bank expects that it will be able to fully achieve its 2021 forecasts for the main financial and non-financial key performance indicators published in the combined management report for the 2020 financial year, or even exceed them in many areas. The targets for 2022 have also been lifted. In detail, Hamburg Commercial Bank expects to see the following developments:

The Bank is lifting its forecast for **RoE after taxes** considerably. Based on the very good half-year result, Hamburg Commercial Bank expects to be able to achieve **net income after taxes** of more than € 250 million for 2021 as a whole and, on this basis, to generate RoE after taxes of more than 12% (calculated on the basis of a standardised regulatory capital commitment in the form of a CET1 ratio of 13%). The increase in the income forecast is based on higher expectations for total income (with an expected figure of around € 600 million) and the other operating result, but also for income tax expense. With regard to cost items and loan loss provisions, where the Bank is maintaining its cautious stance, the Bank still expects things to develop in line with the plan. Looking ahead to the 2022 financial year, the Bank aims to generate a Group net result of more than € 250 million with total income in excess of € 600 million. The increased expectations regarding the earnings base also mean that the forecast for the **cost-income ratio (CIR)** has improved by almost 10% to a value of around 50% in 2021. For the 2022 financial year, the Bank is narrowing the target corridor for the target CIR to a range of 40-42%. The targets for the **CET1 ratio** for 2021 as a whole have also been lifted. As things stand at the moment, the Bank expects to achieve a CET1 ratio of around 30% by 31 December 2021, based on RWA of around € 15 billion. The target for 2022 is a CET1 ratio of around 25% due to expectations of increasing RWA (to around € 18 billion) in the course of the further changes in the rating model landscape. The **NPE ratio** is still expected to come to below 2 % by 31 December 2021 and 2022. As far as the **LCR** is concerned, the Bank again confirms the forecast it published in the combined management report for the 2020 financial year. In general, the Bank expects that the faster than expected progress made in the transformation process, as well as its successful admission to the BdB deposit guarantee fund at the beginning of 2022, will continue to have a positive effect on the **rating agencies**' assessment, meaning that the positive rating development looks set to continue.

In the context of the forecast, it is important to note that the COVID-19 pandemic and its impact on the global economy could affect Hamburg Commercial Bank's ability to meet its financial targets, as its ultimate impact remains difficult to predict.

Overall appraisal and net income forecast

Hamburg Commercial Bank closed the first half of 2021 successfully. It not only maintained the strong financial ratios from the 2020 financial year, but also outstripped expectations by improving them further, with the above-target developments in core business profitability proving particularly positive. Based on the strong set of ratios as at 30 June 2021, the Bank considers itself well positioned for transition to the BdB deposit guarantee fund expected at the end of the year. Even though central transformation projects, primarily in the IT environment and further cost reduction programmes, still have to be finalised, the Bank had already achieved key transformation goals by the reporting date, i.e. much earlier than planned. Hamburg Commercial Bank has a sustainably profitable business model with adequate returns in its operating business and competitive refinancing costs. It is also characterised by excellent capital resources, a significantly improved risk profile and a streamlined organisational structure.

As described above, based on business developments in the first half of the year, the Bank expects to achieve net income after taxes of more than € 250 million for 2021 as a whole. This income forecast assumes that there will be no significant effects resulting from the further implementation of the transformation process that cannot be foreseen today. Furthermore, the forecast is subject to the proviso that the economic impact of the COVID-19 pandemic on the Bank's market environment does not turn out to be significantly more adverse than can be expected from today's perspective (cf. the corresponding sections within this chapter on the expected development of the global economy/financial markets, as well as the industries relevant for Hamburg Commercial Bank). Furthermore, as of the reporting date, it is impossible to predict the extent to which significant contributions will have to be made to resolution funds or the deposit guarantee fund in the future in order to meet potentially increased capital requirements due to current or future liability cases in banking associations. At present, it is impossible to reliably estimate the effects that such scenarios would have on the earnings forecast.

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 2020.

Risk Report

Risk management heavily influenced by the coronavirus

The risk management of Hamburg Commercial Bank was also influenced by the uncertainties associated with the COVID-19 pandemic in the reporting period. The consequences of the pandemic remain difficult to predict, and developments in the first half of 2021 were significantly better than expected.

The further effects of the pandemic on the credit portfolio, as well as legal and banking supervisory changes, are monitored by the Bank on an ongoing basis. At the start of the COVID-19 crisis, Hamburg Commercial Bank has analysed its loan portfolio at the level of sub-portfolios, as well as at a case-by-case level and identified clients with higher exposure to the pandemic. On the basis of these results, the clients are closely managed and the need for measures to manage credit risk, such as adjustments to payment arrangements or state guaranteed bridging loans, are continuously reviewed.

The negative effects from rating migrations and defaults due to the consequences of the COVID-19 pandemic have occurred to a much lesser extent than expected. The NPE ratio could be kept almost on a par with the previous year's level despite the adverse effects of the further reduction of the balance sheet total, as well as a few defaults due to the successful continuation of the NPE Action Plan. The already very good capital resources have once again improved further during the reporting period, while balance sheet quality was maintained at a solid level – despite the COVID-19 pandemic. The substantial volume of general loan loss provisions related to COVID-19 also provides a significant buffer to cushion potential future negative effects of COVID-19.

Since the beginning of the pandemic, business operations have been continuously ensured at full operational capacity. The increased hygiene measures, split-mode operations, as well as IT measures for increased use of digital services and mobile work, were continued in the first half of 2021.

Through these measures, Hamburg Commercial Bank remains well positioned to counter the effects of the COVID-19 crisis.

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 2020 financial year.

Determination of risk appetite and risk guidelines

The Strategic Risk Framework (SRF), which serves as the foundation of the risk culture, sets out the focus of the Bank's risk management activities and defines the objectives of risk management based on the planned development of key business activities, and measures taken to achieve these objectives. The focus is on securing and allocating the scarce resources of capital and liquidity and 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.

The transformation into a profitable private bank, implementation of the business strategy objectives and meeting the requirements of the stakeholders, such as the owners, the banking supervisory authorities and the Deposit Guarantee Fund of the Association of German Banks, are supported by the SRF guidelines.

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

The RAS is broken down into a financial and non-financial RAS on the basis of the risk inventory and is aimed at providing a condensed description of risk appetite in order to achieve the Overall Bank's objectives. The financial RAS consists of a catalogue of key figures and ratios, the non-financial RAS of qualitative targets regarding the risk culture. Operationalisation is achieved via the risk strategy and the limit system, with the risk strategy describing how risks are managed based on the risk inventory in accordance with the business strategy and RAS. 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 also fully integrated into the Bank's processes, for example, by being incorporated into the Bank's objectives, by way of the definition of requirements for the strategy and planning process, in risk reporting and in the Code of Conduct.

Key risk indicators of the Group

A functioning limit system requires that the risk appetite be derived on a rigorous basis. Based on the Bank’s risk capacity, the risk appetite is defined separately for three scarce resources: regulatory and economic capital and liquidity. The Bank has established a system of risk limits and guidelines for all three resources, which serves to identify potential developments that could jeopardise its continued existence at an early stage, to avert such risks with appropriate countermeasures, and to achieve the risk strategy objectives.

Key risk indicators of the Group[1)]

	30.06.2021		Limit		Guideline
ICAAP utilisation from an economic perspective/RBC	42%	<	90%		–
Economic capital required (in € bn)	1.6	<	2.8		–
of which: for default risks	0.9	<	1.3		–
of which: for market risks	0.4	<	1.0		–
of which: for liquidity risks	0.1	<	0.3		–
NPE ratio	1.9%		–	<	3.5%
CET1 ratio (same period calculation)[1)]	29.6%	>	14.0%		–
T1 ratio (same period calculation)[1)]	29.6%	>	15.5%		–
Overall capital ratio (same period calculation)[1)]	36.0%	>	17.5%		–
MREL	28.7%	>	7.7%		–
Leverage ratio	13.2%	>	4.2%		–
Liquidity coverage ratio (LCR)	170%	>	115%		–
Net stable funding ratio (NSFR)	117%	>	102%		–
Net liquidity position in stress case up to 1 month (in € bn)	3.0	>	0.5		–

1) In-period: calculation 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's Internal Capital Adequacy Assessment Process (ICAAP) Guide. The Bank defines capital adequacy as the ongoing safeguarding of financial stability, in the sense that risks are adequately covered by capital in order to ensure the implementation of the objectives of the business model. By determining it on a regular basis, capital adequacy forms part of the internal reporting and is closely managed and reported to the Bank’s supervisory authorities.

The economic perspective is used to check whether all material risks are backed by internal capital at a specific point in time. Compared with the regulatory view (CRR), it is based on a significantly 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 quantifiable 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 planning process.

In addition to the regulatory Common Equity Tier 1 capital modified for economic purposes, the risk coverage potential includes, inter alia, a negative balance comprising unrealised gains and losses on all assets and liabilities at amortised cost (AC). Positive balances and positive effects associated with the Bank’s own credit rating are not taken into account based on the requirements of the ICAAP Guide.

The risk coverage potential amounted to € 3.8 billion as at 30 June 2021 (31 December 2020: € 3.7 billion).

The overall risk takes into account default risk, market risk, split into interest rate risks in the banking book (IRRBB) and other market risks, operational risk as well as the liquidity maturity transformation risk as an element of liquidity risk. Economic capital required as an expression of unexpected losses is determined monthly for default, liquidity and market risks in a methodologically consistent manner with a confidence level of 99.9 % and a risk horizon of one year. Operational risks are determined by means of a modified standard approach, which also takes account of results from the scenario analyses. The economic capital requirements for the individual risk types are aggregated to an overall economic risk. No risk-reducing correlations are utilised in the process.

The overall economic risk as at the reporting date was € 1.6 billion (31 December 2020: € 1.9 billion).

The economic capital required for default risks is calculated closely in line with the regulatory capital backing, taking into account economic adjustments, particularly for risk concentrations. As at the reporting date, the economic capital required for default risks amounted to € 0.9 billion (31 December 2020: € 0.9 billion).

Market risk (Value at Risk, VaR) is scaled up on the basis of the confidence level chosen by the Bank and a one-day holding period to show the economic capital required for market risk positions for the purpose of managing risk-bearing capacity with a risk horizon of one year. The economic capital required for market risk amounted to € 0.4 billion as at 30 June 2021 (31 December 2020: € 0.7 billion). € 0.2 billion of this amount is attributable to interest rate risks in the banking book (IRRBB).

Hamburg Commercial Bank also uses a VaR approach to quantify the liquidity maturity transformation risk. This long-term/structural liquidity risk is an expression of the danger of increased refinancing costs for the subsequent closure of open liquidity positions. The Liquidity Value at Risk (LVaR), as a measure of the economic capital required for liquidity risk, was € 0.1 billion as at 30 June 2021 (31 December 2020: € 0.2 billion). The risk of insolvency, on the other hand, which is more significant for the purposes of managing the liquidity risk in principle, is backed by a buffer of liquid funds. Information on managing insolvency risk is included in the section entitled "Liquidity risk".

The economic capital required for operational risks amounted to € 0.2 billion as at 30 June 2021 (31 December 2020: € 0.2 billion).

Utilisation of risk coverage potential decreased compared to the end of the previous year and amounted to 42 % as at the reporting date (31 December 2020: 53 %). The main reasons for this are the increase in risk coverage potential due to the positive result, as well as the decrease in market risk due to the elimination of last year's volatile scenarios from the historical simulation related to the COVID-19 pandemic.

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

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

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

(€ bn)	30.06.2021	31.12.2020
Economic risk coverage potential	**3.8**	**3.7**
Economic capital required	**1.6**	**1.9**
of which: for default risks	0.9	0.9
of which: for market risks	0.4	0.7
of which: Interest rate risks in the banking book (IRRBB)	0.2	0.3
of which: Other market risks	0.2	0.3
of which: for liquidity risks	0.1	0.2
of which: for operational risks	0.2	0.2
Risk coverage potential buffer	**2.2**	**1.8**
Utilisation of risk coverage potential (%)	**42**	**53**

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 cases) under the internal normative perspective is also assessed in accordance with the ECB Guide for the Internal Capital Adequacy Assessment Process (ICAAP). Adherence to the capital requirements is checked by means of the quarterly calculation of the regulatory capital ratios as at the reporting date and over a multi-year scenario horizon.

Further information on the Bank's scenario analyses is presented in detail in the combined management report for the 2020 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. For 2021, the following SREP requirements apply to the Bank: The total capital requirement (P2R), excluding the combined capital buffer requirements, is 10.75 %, including a Pillar 2 surcharge of 2.75 %. In addition, there is a Pillar 2 Guidance (P2G) of 1.0 %. In accordance with the CRD V requirements, the Pillar 2 surcharge may be covered by 56.25 % core Tier 1 capital (CET1) and 75 % Tier 1 capital (T1). The capital requirements, including the combined capital buffer requirements are approximately 8.6 % for CET1 capital (around 9.6 % including P2G), around 10.6 % for Tier 1 capital (T1) and approximately 13.3 % for total capital.

Hamburg Commercial Bank participated in the ECB's 2021 EU-wide stress test. In an adverse stress scenario, the Bank has a CET1 ratio of 15.8 %, which is well above the regulatory requirements in the normal case, even though the rigid methodology used for the stress test does not reflect the transformation successes achieved, and therefore understates the Bank's resilience.

In addition, compliance with the minimum regulatory capital ratios is tested under the normative perspective in the ICAAP over a multi-year time horizon in base and stress scenarios.

Regulatory capital ratios [1]

(%)	30.06.2021	31.12.2020
Overall capital ratio	36.0%	33.3%
Tier 1 capital ratio	29.6%	27.0%
CET1 capital ratio	29.6%	27.0%

[1] Regulatory group according to CRR.

Regulatory capital [1][2]

(€ bn)	30.06.2021	31.12.2020
Regulatory capital	5.3	5.2
thereof: Tier 1 capital	4.4	4.2
thereof: CET1 capital	4.4	4.2
thereof: Additional Tier 1 capital	–	–
thereof: Supplementary capital	1.0	1.0

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

Risk-weighted assets (RWA) [1]

(€ bn)	30.06.2021	31.12.2020
Market risks	0.4	–
Operational risks	0.9	1.4
Credit risks	11.2	11.9
Other RWA	2.3	2.2
Total RWA	**14.8**	**15.5**

[1] Regulatory group according to CRR.

Common Equity Tier 1 capital increased in the reporting period, in particular due to the profit generated and the positive other comprehensive income (OCI). RWA have decreased compared to 31 December 2020. This is particularly due to the drop in RWA for credit risks due to declining balance sheet assets related to the active winding down of high-risk positions in the portfolio. It is important to note that the RWA uplift for credit risks resulting from the change in the rating model landscape was more than compensated for during the reporting period.

The regulatory CET1 capital ratio for the single entity in accordance with HGB accounting standards was 21.7 % as at 30 June 2021 (31 December 2020: 21.6 %). The corresponding Tier 1 ratio reached 21.7 % (31 December 2020: 21.6 %), the corresponding overall capital ratio amounted to 27.4 % (31 December 2020: 27.3 %). 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. Following the introduction of new statutory regulations in connection with corresponding transitional provisions, Hamburg Commercial Bank will have to comply with requirements of 8 % of the total risk exposure amount (TREA) and 3 % of the leverage ratio exposure (LRE) from 2022 onwards. The Bank is already orientating itself towards this level in 2021, and has complied with the requirements at all times during the reporting period.

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

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

Hamburg Commercial Bank successfully implemented the first step towards simplification of its model landscape in the first half of 2021. The goal is to simplify the models for mapping counterparty risk from the Advanced IRB (A-IRB) approach to the Foundation IRB (F-IRB) approach along with the Credit Risk Standardised Approach (CRSA), and thereby in particular eliminate internal loss ratio estimates. This incorporates transforming the core procedures, in the areas of project finance, shipping, corporates and national real estate as well as the country and transfer risk model, for F-IRB. The majority of the rating modules in use were migrated during the reporting period. Implementation of the remaining models is planned in a second step in 2022. The Bank has taken this simplification of its rating model landscape into account in the projections of risk-weighted assets and capital ratios for the years affected.

Under CRR III, further burdens for the capital ratios could result from the proposed changes to the regulatory requirements – partly referred to as “Basel IV”. The original introduction date of January 2022 has been postponed due to the COVID-19 crisis. Under Basel IV, there are plans to significantly restrict the advantages of internal models. The Bank does not expect any additional burdens to arise through simplification of its model landscape for risk classification procedures.

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

Default risk

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

The uncertainties due to the COVID-19 pandemic continue to have a significant impact on economic activities. The effects of the pandemic on the credit portfolio, as well as legal and banking supervisory changes, are monitored by the Bank on an ongoing basis. At the start of the COVID-19 crisis, Hamburg Commercial Bank has analysed its loan portfolio at the level of sub-portfolios as well as at a case-by-case level and identified clients with higher exposure to the pandemic. During the reporting period, the main areas which suffered negative effects due to the coronavirus crisis were particularly in the hotel and retail properties sub-portfolios, especially shopping centres, department stores and retail outlets in city centres. In addition to the real estate markets, hotel operators, travel businesses and restaurants/catering companies, in particular, are severely affected by the restrictions due to the pandemic. On the basis of these results, the clients are closely managed and the need for measures to manage credit risk, such as adjustments to payment arrangements or state guaranteed bridging loans, are continuously reviewed.

The following table shows the holdings where special measures have been taken due to the COVID-19 crisis, according to the new financial reporting (FinRep) requirements. The information is reported on the basis of the exposure at default (EAD) and shows the whole EAD of customers where at least one of the above-mentioned measures has been utilised. This means that the EAD amount shown also includes the holdings of the accounts of the corresponding customers, which are not covered by these measures. The EAD corresponds to the total volume of loan receivables, securities, equity holdings, derivative financial instruments (positive market values after netting) and off-balance-sheet transactions (taking the credit conversion factor into account). Risk-mitigating effects (such as recognition of collateral) are not included in the EAD.

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

(€ m)	30.06.2021	31.12.2020
Active forbearance measures in connection with COVID-19	325	186
Partially state guaranteed (new) loans (e.g. KfW programme)	169	249
vdp repayment moratorium for commercial real estate financing	–	–
Consumer loan moratorium[1]	–	–

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

The EAD of the total exposure amounted to € 33,833 million as at 30 June 2021. The continuation of the de-risking activities resulted in a moderate decline in EAD compared to 31 December 2020.

The EAD broken down by internal rating categories is presented in the following table. EAD with an investment grade rating (rating category 1 to 5) remains high at 70 % of the total exposure at the Group level (31 December 2020: 71 %).

Despite the ongoing difficult economic environment caused by the coronavirus crisis, the NPE ratio was maintained at a solid 1.9 %, almost on a par with 31 December 2020 (1.8 %). The slight increase is largely due to the planned drop in the EAD.

The small increase in non-performing exposures due to a few coronavirus-related losses in the Real Estate and Corporates segment was largely offset by the systematic efforts to wind down non-performing exposures. In addition, the negative effects from rating migrations and defaults due to the consequences of the COVID-19 pandemic have occurred to a much lesser extent than expected.

The high level of risk coverage of the NPE portfolio is reflected in the NPE coverage ratio AC (ratio of total loan loss provisions recognised on the non-performing exposure to the total non-performing exposure AC), which stood at a solid 45.2 % as at the reporting date.

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

(€ m)	30.06.2021	31.12.2020
1 (AAAA) to 1 (AA+)	7,206	7,259
1 (AA) to 1 (A–)	6,610	6,589
2 to 5	9,953	11,039
6 to 9	7,768	7,871
10 to 12	1,049	1,392
13 to 15	456	541
16 to 18 (default categories)	645	624
Other[3]	146	85
Total	**33,833**	**35,400**

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

[2] No separate disclosure of the segment "Other and reconciliation" 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.

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

Default risk structure by sector[1)]

(€ m)	30.06.2021	31.12.2020
Industry	4,830	5,850
Shipping	3,148	3,229
Trade and transportation	1,968	1,985
Credit institutions	4,008	4,334
Other financial institutions	1,762	1,545
Land and buildings	7,777	7,830
Other services	3,814	4,164
Public sector	6,331	6,231
Private households	196	232
Other	–	–
Total	**33,833**	**35,400**

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

The following table shows EAD broken down by residual maturities:

Default risk structure by residual maturity[1)]

(€ m)	30.06.2021	31.12.2020
Up to 3 months	1,390	2,286
> 3 months to 6 months	1,450	1,488
> 6 months to 1 year	2,172	2,673
> 1 year to 5 years	13,306	12,818
> 5 years to 10 years	10,310	10,074
> 10 years	5,205	6,061
Total	**33,833**	**35,400**

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

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

Default risk structure by region[1)]

(€ m)	30.06.2021	31.12.2020
Eurozone	27,174	29,014
thereof: Germany	18,724	20,049
Western Europe	2,618	2,678
Eastern Europe	145	166
Africa	330	443
North America	901	916
Latin America	901	542
Middle East	53	74
Asia-Pacific region	1,599	1,417
International organisations	112	150
International stock exchanges	–	–
Total	**33,833**	**35,400**

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

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.

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

As a result of economic developments and the EU sanctions, the exposure to Russia is subject to significant restrictions. In the current economic and geopolitical environment, new business with Turkey remains suspended, and the existing exposure is subject to increased winding-down efforts. The following table shows the EAD of the exposures to selected countries.

Exposure at default in selected countries

(€ m)	30.06.2021	31.12.2020
Greece	–	–
Italy	187	197
Portugal	137	224
Russia	–	–
Spain	312	324
Turkey	84	93
Total	**720**	**838**

Through the ongoing de-risking activities, the direct country exposure to the countries shown above decreased during the reporting period. The exposures for Turkey relate primarily to corporate/ship financing arrangements with Hermes coverage, which are largely free of country risk (transfer risk) due to the existing collateral.

In the course of the COVID-19 pandemic and the distortions on the raw materials markets as a result of the collapse in global demand, particularly for crude oil, the Bank has sharpened monitoring of and limits on oil-producing countries in its portfolio. Even though commodity prices have picked up significantly in the course of the global recovery, these limits remain in place for the time being.

Due to the unresolved finer details of the UK-EU trade agreement concluded at the end of 2020 and the corresponding lingering uncertainties, as well as the possible structural economic consequences – also due to the COVID-19 pandemic – the exposure in the UK (€ 826 million) will not only continue to be monitored more closely, but an explicit limit has also been introduced in the reporting period.

Loan loss provisions

The change in loan loss provisions amounted to a net reversal of € 22 million as at the reporting date (same period of the previous year: net addition of € -94 million).

The positive change in loan loss provisions was due primarily to Stages 1 and 2 of the loan loss provisions model. Here, there was a reversal of loan loss provisions totalling € 37 million (net) in the first half of 2021. The main driver behind this development was the improved macroeconomic environment compared to 31 December 2020 and the associated reduction in risks in those portfolios of the Bank that have been impacted directly by COVID-19. This amounts for a reversal of € 18.5 million in total. This is driven mainly by the reduced and re-evaluated coronavirus watch list, which accounts for a reversal of € 18.8 million. Further reversals are attributable to technical methodological adjustments and to the original loan loss provisions at Stages 1 and 2, thanks to improved portfolio quality. Nevertheless, the Bank remains cautious in its loan loss provisions policy, especially with regard to counterparties with a higher negative exposure to the economic impact of the COVID-19 pandemic. For further details, please refer to note 3 of the notes to the Group financial statements.

At Stage 3 of the (specific) loan loss provisions, the development was moderate with a net addition of € -8 million, also because there were only a small number of new defaults. The change in loan loss provision for loans purchased or originated credit-impaired (POCI) amounted to a net addition of € -4 million.

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

Changes in loan loss provisions in the lending business

(€ m)	January–June 2021				
	Stage 3 loan loss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Loan loss provisions recognised for financial investments	Currency translation income on loan loss provisions	Total
Project Finance & Corporates	– 9	– 4	–	–	–13
Real Estate	– 17	17	–	– 1	–1
Shipping	11	25	–	– 2	34
Treasury & Group Functions	2	–	–	–	2
Reconciliation	1	– 1	–	–	–
Group	**– 12**	**37**	**–**	**– 3**	**22**

Changes in loan loss provisions in the lending business

(€ m)	January–June 2020				
	Stage 3 loan loss provisions incl. POCI	Stages 1 and 2 loan loss provisions	Loan loss provisions recognised for financial investments	Currency translation income on loan loss provisions	Total
Project Finance & Corporates	– 23	– 91	–	–	-114
Real Estate	– 33	– 21	–	5	-49
Shipping	– 10	79	–	– 3	66
Treasury & Group Functions	–	1	1	–	2
Reconciliation	2	–	–	– 1	1
Group	**– 64**	**– 32**	**1**	**1**	**-94**

Total loan loss provisions

(€ m)	30.06.2021	31.12.2020
Loans and advances to customers AC	19,889	20,998
Loans and advances to banks AC	1,326	1,537
of which: volume of impaired loans (gross carrying amount Stage 3)	587	544
Total loan loss provisions (POCI) for loans and advances to customers	– 4	– 1
Total loan loss provisions (Stage 3) for loans and advances to customers	– 236	– 261
Total loan loss provisions (Stage 2) for loans and advances to customers	– 179	– 216
Total loan loss provisions (Stage 1) for loans and advances to customers	– 91	– 91
Total loan loss provisions for balance sheet items	**– 510**	**– 569**
Provisions for Stage 3 in the lending business	– 37	– 35
Provisions for Stage 2 in the lending business	– 1	– 1
Provisions for Stage 1 in the lending business	– 2	– 3
Total loan loss provisions for off-balance sheet items	**– 40**	**– 39**
Total loan loss provisions	**– 550**	**– 608**

The volume of impaired loans amounted to € 587 million as at 30 June 2021 (31 December 2020: € 544 million). The increase is mainly due to a few coronavirus-related losses in the Real Estate and Corporates segment.

Hamburg Commercial Bank's prudent loan loss provisions policy is reflected in the Bank's continued solid total loan loss provisions. Total loan loss provisions determined under IFRS 9 amounted to € –550 million as at 30 June 2021 (31 December 2020: -€ 608 million). With the simultaneous planned reduction in the portfolio, the coverage ratio of the total volume of receivables AC at the half-year reporting date was at a comfortable 2.4 %, almost at the same level as 31 December 2020 (2.5 %).

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

Market risk

The system for measuring and managing market risks at Hamburg Commercial Bank is based on the economic daily profit and loss and on a value-at-risk approach. For the purposes of the same day measurement and management of market risks, the Bank applies a VaR approach with a 99.0 % confidence level, a holding period of one day and a historical observation period of 250 days. To measure the contribution to risk-bearing capacity, the economic capital required for market risk positions is determined on a monthly basis, with a confidence level of 99.9 % and a holding period of one year. As at 30 June 2021, the daily market risk of the trading book positions was € 0.5 million and that of the banking book positions was € 15.9 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 € 16.1 million. The daily interest rate risk in the banking book (IRRBB) amounted to € 10.2 million. In addition to the risk determined by the system, the Value at Risk of the Hamburg Commercial Bank Group includes VaR add-ons of € 1.3 million for residual risks for corporate bonds, Pfandbriefe and government bonds (only included at the Group level), as well as € 3.4 million for assets used to back up and hedge the Bank's long-term pension liabilities under a Contractual Trust Agreement (CTA).

Developments with respect to the daily VaR for individual market risk types during the first six months of 2021 are presented in the table below. Overall VaR decreased during the reporting period compared to the previous year-end. The background is the significant reduction in volatility compared to the previous year, which was heavily influenced by the COVID-19 crisis. The effects of the ongoing portfolio development in CTA were significantly overcompensated.

As part of the VaR approach, strict limits are set on the economic capital required for market risk positions and the daily VaR. Limits are also imposed on the potential net present value losses that would result from a 200 bp interest rate shock (Basel interest rate shock) in relation to the Bank's regulatory capital. The cumulative economic daily profit and loss has a stop-loss limit. The VaR perspective is expanded through monthly stress test calculations, in which the effects of various stress scenarios are analysed.

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

Daily Value at Risk of the Group

(€ m)	Interest rate risk[1]		Credit spread risk		Foreign exchange risk		Equity risk		Total[2]	
	Jan.–June 2021	Jan.–Dec. 2020	Jan.–June 2021	Jan.–Dec. 2020	Jan.–June 2021	Jan.–Dec. 2020	Jan.–June 2021	Jan.–Dec. 2020	Jan.–June 2021	Jan.–Dec. 2020
Average	14.7	21.8	8.2	10.2	1.6	1.5	6.1	3.8	23.3	26.4
Maximum	23.2	31.6	13.0	14.1	3.2	3.1	9.5	8.7	31.8	30.3
Minimum	10.0	16.6	3.9	6.9	0.7	0.6	4.0	0.5	14.3	19.7
Period end amount	10.4	19.1	3.9	10.4	0.9	1.8	5.2	8.6	16.1	28.0

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

Liquidity risk

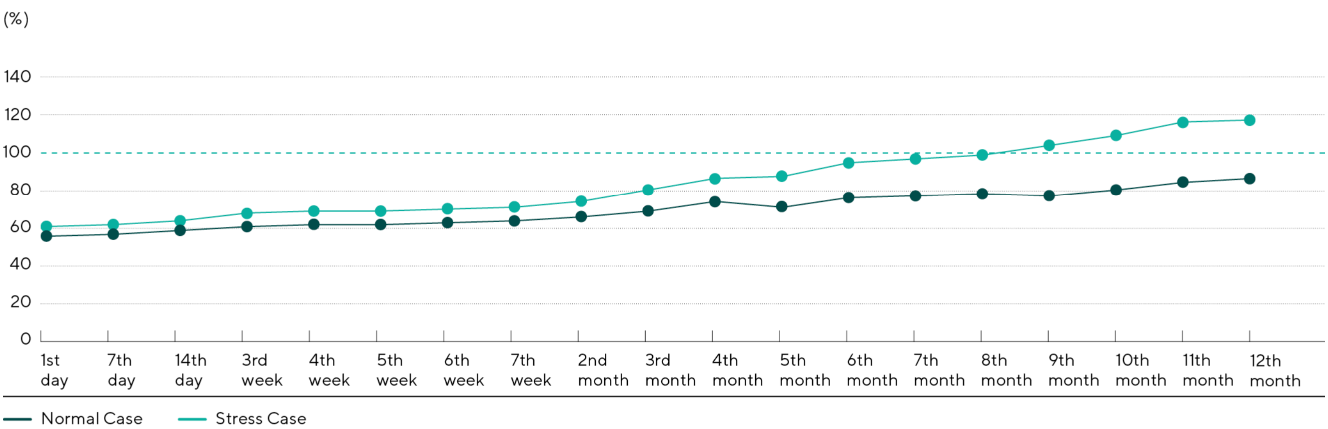
Hamburg Commercial Bank assesses liquidity adequacy from both a normative and an economic perspective in accordance with the ECB's Internal Liquidity Adequacy Assessment Process (ILAAP) guide. The normative perspective covers a multi-year assessment period, and thereby considers the ability to fulfil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

Conversely, the economic perspective ensures that all material risks that may negatively affect 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 portfolios. For the liquidity risk, a distinction is made between risk of insolvency 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 insolvency 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).

The gaps, i.e. the balances arising from incoming and outgoing payments, are shown on a cumulative basis from day one to twelve months in order to map future liquidity requirements. They are compared to the respective liquidity potential which is applied to close the cumulative gaps of the individual maturity bands and consequently represents the respective limit for the risk of insolvency. Utilisation of this limit is monitored daily. The following chart shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case liquidity maturity profiles as at 30 June 2021.

Utilisation of Liquidity Potential as at 30 June 2021



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 insolvency.

The utilisation is 86.8 % 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 within the 12-month period under review. In the scenario that is relevant from a management perspective, the stress case liquidity maturity profile shows that the liquidity potential was not exceeded for the minimum survival period of one month defined in MaRisk. Instead, the minimum survival period as at 30 June 2021 stood at over 8 months. Compared to the 2020 year-end, utilisation levels have increased slightly in the normal case and stress case in virtually all maturity bands. The changes are due, in particular, to deliberate moves to reduce excess liquidity. Critical limit utilisation levels were not reported in the normal case nor in the stress case liquidity maturity profile during the period under review.

The regulatory indicator for liquidity risks is the liquidity coverage ratio (LCR), the purpose of which is to ensure that liquidity is safeguarded in an acute stress period of 30 days. When calculating the LCR, the amount of highly liquid assets is compared to the net outflows over the next 30 days. The minimum threshold of 100 % pursuant to CRR was maintained at all times in the reporting period. As at 30 June 2021, it amounted to 170 % (31 December 2020: 171%).

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 2021, the NSFR under CRR II amounted to 117 % (31 December 2020 under QIS: 111 %) and is thus above the minimum requirement of 100 %, which has been binding since June 2021.

Hamburg Commercial Bank also calculates the additional liquidity monitoring metrics (AMM), including the preparation of the stipulated liquidity maturity profile. By means of the AMM, the LCP (liquidity capacity period) is determined by the supervisory authorities. In so doing, inflows and outflows from a contractual point of view excluding any prolongation or new business assumptions are compared to the unencumbered liquid funds of the counterbalancing capacity less any haircuts The LCP is no longer maintained from the date on which the cumulative cash flows give rise to a need for liquid funds, which exceeds the liquidity position. This figure is determined by the Bank on a daily basis and was five months as at 30 June 2021.

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

Hamburg Commercial Bank successfully implemented its funding strategy in the first half of the 2021 financial year. Despite the continuing uncertainties caused by the coronavirus pandemic, the situation on the capital markets has improved noticeably in recent months. Thus, another senior preferred benchmark bond could be issued. In addition to the issuing activities, deposits from corporates in particular contributed to the refinancing of the business. The further diversification of the funding structure as well as the reduction of concentrations within deposits continue to pose challenges for future refinancing. However, the positive development of the Bank has led to significant improvements in the perception by investors. Execution of funding measures in the market can be made more difficult by potential tensions in the financial markets, in the context of the ongoing coronavirus pandemic. A less supportive monetary policy adopted by the central banks could also limit the refinancing options and potentially increase funding costs. Due to the current expansionary monetary policy of the ECB in the context of the coronavirus pandemic, the Bank does not anticipate a more restrictive ECB policy in the short term.

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

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

Part of the assets denominated in foreign currency are refinanced via derivatives (e.g. via EUR/USD basis swaps). With significantly reduced USD funding requirements, the exchange rate now 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 Bank's realignment is associated with a comprehensive transformation process. This includes measures such as implementing the IT transformation process and the staff reorganisation and reduction measures.

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

The remaining staff reductions as part of the current transformation are being actively supported by the Human Resources business unit. Overall, the reduction in staff is on track and has largely been completed. Against this background, the use of personnel management tools for employee retention and performance management is increasingly important in order to prevent the unscheduled departure of key personnel. In addition, succession planning is performed and regularly reviewed for relevant positions.

Along with the transformation, the first half of 2021 was still characterised by the COVID-19 crisis and the resulting uncertainties. Ensuring and maintaining the business operations is controlled by an interdisciplinary coronavirus working group within the framework of the business continuity management system. The impact of COVID-19 on loss events has so far been limited to additional costs, for example, for increased hygiene measures, as well as IT measures for the increased use of digital services and teleworking.

Hamburg Commercial Bank recognised provisions within the legal risk category, which is a component of operational risk, of € 120 million for litigation risks and costs as at the reporting date (31 December 2020: € 122 million). In addition, there are also contingent liabilities arising from legal disputes. A substantial part of the provisions for litigation risks results from the cases listed in the 2020 Annual Report, for which there were no significant changes in the first half of 2021. In the reporting period, the following development also occurred:

The use of clauses in contracts between consumers and banks for the modification of general terms and conditions has been declared invalid for consumer business by the Federal Court of Justice (BGH) in its judgement of 27 April 2021. Hamburg Commercial Bank and its legal advisers are analysing the judgement regarding the past and future business with consumers. With regard to other clients, it cannot be completely ruled out that claims will be made. Overall, the legal risks associated therewith are considered to be manageable.

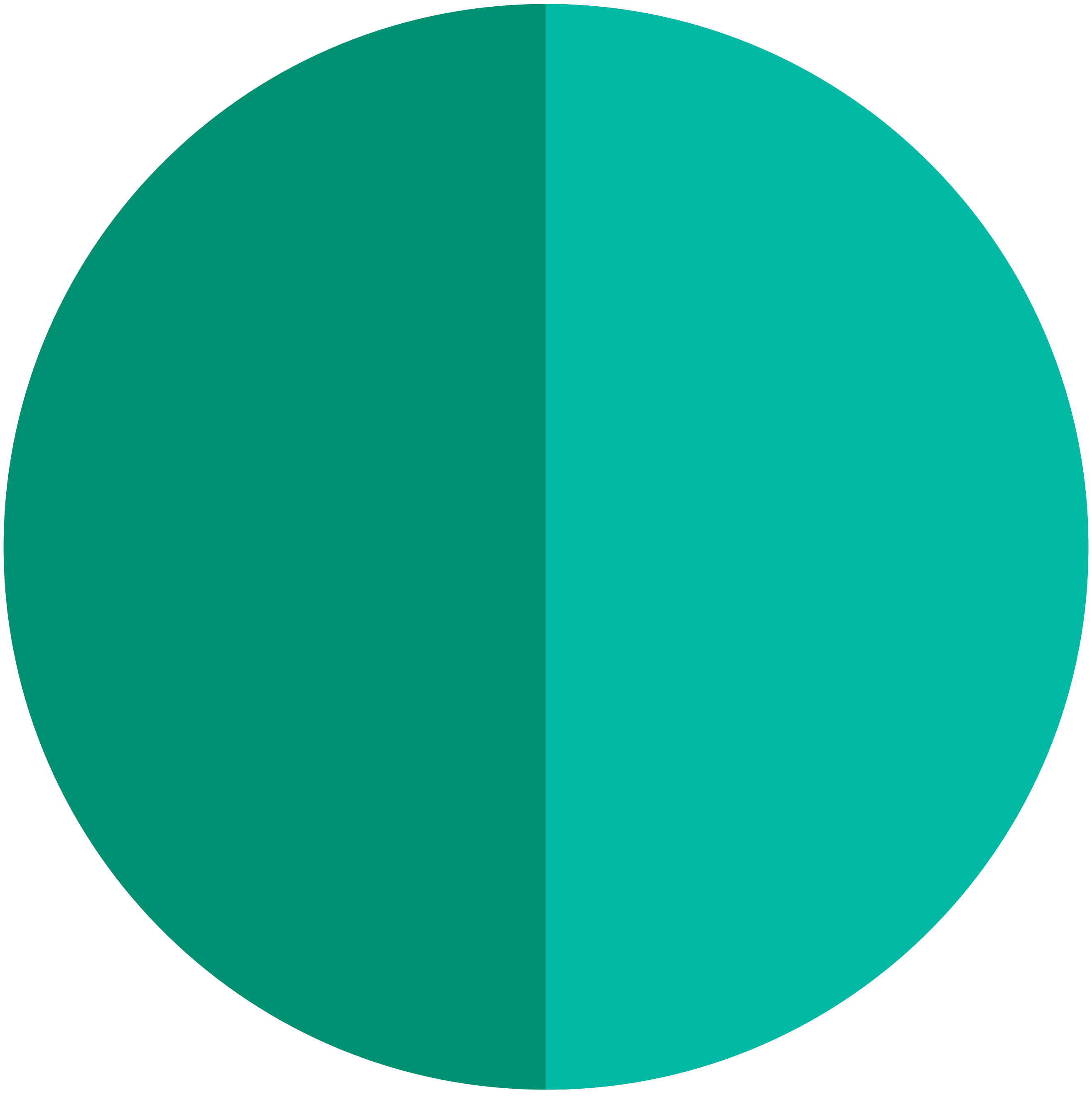
The Cologne public prosecutor's office has been conducting an investigation into two former senior employees of HSH Nordbank since April 2018. As part of the investigation, the Bank was interviewed as a potential co-defendant in the case. In July 2021, the Cologne public prosecutor's office searched the premises of the Bank. In the course of thereof, the charges were extended to other (mostly former) employees. HSH Nordbank, as 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 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.

Further information on non-financial risks can be found in the combined management report for the 2020 financial year.

Hamburg, den 17. August 2021

Stefan Ermisch Ulrik Lackschewitz

Ian Banwell Christopher Brody



Interim group financial statements

Group explanatory notes

Group statement of income

for the period from 1 January to 30 June 2021

(€ m)	Note	January–June 2021	January–June 2020	Change in %
Interest income from financial assets categorised as AC and FVOCI		303	369	-18
Interest income from other financial instruments		173	396	-56
Negative interest on investments categorised as AC and FVOCI		-7	-10	-30
Negative interest on other cash investments and derivatives		-39	-42	-7
Interest expenses		-211	-484	-56
Positive interest on borrowings and derivatives		50	48	4
Net income/loss from hybrid financial instruments		–	74	-100
Net interest income	(5)	**269**	**351**	**-23**
Net commission income	(6)	22	27	-19
Result from hedging	(7)	-2	2	> -100
Result from financial instruments categorised as FVPL	(8)	28	-149	> 100
Net income from financial investments	(9)	2	5	-60
Result from the disposal of financial assets classified as AC	(10)	19	44	-57
Total income		**338**	**280**	**21**
Loan loss provisions	(11)	22	-94	> 100
Total income after loan loss provisions		**360**	**186**	**94**
Administrative expenses	(12)	-153	-181	-15
Other operating result	(13)	5	100	-95
Expenses for regulatory affairs, deposit guarantee fund and banking associations	(14)	-31	-29	7
Net income before restructuring and transformation		**181**	**76**	**> 100**
Result from restructuring and transformation	(15)	-13	-5	> -100
Net income before taxes		**168**	**71**	**> 100**
Income tax expense		26	-67	> -100
Group net result		**194**	**4**	**> 100**
Group net result attributable to Hamburg Commercial Bank shareholders		194	4	> 100

Earnings per share

(€)	Note	January–June 2021	January–June 2020
Undiluted	(16)	0.06	–
Diluted	(16)	0.06	–
Number of shares (millions)		**3,018**	**3,018**

Group statement of comprehensive income

for the period from 1 January to 30 June 2021

Reconciliation with total comprehensive income/loss

(€ m)	January–June 2021	January–June 2020
Group net result	**194**	**4**
Income and expenses that have been reclassified to the statement of income or may be reclassified at a later date		
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement (before taxes)		
Unrealised gains and losses (before taxes)	-43	-29
Gains and losses (before taxes) reclassified to the statement of income	-1	-6
Income taxes recognised	14	12
	-30	**-23**
Differences resulting from currency translation	18	2
	18	**2**
Subtotal	**-12**	**-21**
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	8
Income taxes recognised	1	-3
	-3	**5**
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	75	29
Income taxes recognised	-25	-10
	50	**19**
Subtotal	**47**	**24**
Other comprehensive income for the period	**35**	**3**
Total comprehensive income	**229**	**7**
Total comprehensive income attributable to Hamburg Commercial Bank shareholders	229	7

Group statement of financial position
as at 30 June 2021

Assets

(€ m)	Note	30.06.2021	31.12.2020	Change in %
Cash reserve	(17)	2,770	1,741	59
Loans and advances to banks	(18)	1,346	1,558	-14
Loans and advances to customers	(19)	21,069	22,478	-6
Loan loss provisions	(20)	-510	-569	-10
Positive fair values of hedging derivatives	(21)	25	2	> 100
Positive adjustment item from portfolio fair value hedges		68	108	-37
Trading assets	(22)	1,002	1,544	-35
Financial investments	(23)	5,059	5,459	-7
Intangible assets	(24)	24	15	60
Property, plant and equipment	(25)	20	23	-13
Investment property	(25)	1	1	-
Non-current assets held for sale and disposal groups	(26)	98	634	-85
Current tax assets		13	25	-48
Deferred tax assets	(27)	559	532	5
Other assets	(28)	61	264	-77
Total assets		**31,605**	**33,815**	**-7**

Liabilities

(€ m)	Note	30.06.2021	31.12.2020	Change in %
Liabilities to banks	(29)	6,535	7,478	-13
Liabilities to customers	(30)	12,174	13,104	-7
Securitised liabilities	(31)	5,753	5,670	1
Negative fair value of hedging derivatives		142	371	-62
Negative adjustment item from portfolio fair value hedges		212	269	-21
Trading liabilities	(32)	504	686	-27
Provisions	(33)	502	634	-21
Current tax liabilities		27	7	> 100
Other liabilities	(34)	238	312	-23
Subordinated capital	(35)	942	940	0
Equity	(36)	4,576	4,344	5
Share capital		3,018	3,018	-
Capital reserve		84	82	2
Retained earnings		1,162	1,010	15
Revaluation reserve		116	148	-22
Currency conversion reserve		2	-16	> -100
Group net result		194	102	90
Total liabilities		**31,605**	**33,815**	**-7**

Group statement of changes in equity

(€ m)	Note	Share capital	Capital reserve
As at 1 January 2020		**3,018**	**75**
Adjustments to the prior-year figures		–	–
Adjusted amount as at 1 January 2020		**3,018**	**75**
Group net result		–	–
Changes resulting from the revaluation of net defined benefit liabilities		–	–
Credit risk-induced changes in the value of liabilities designated at fair value		–	–
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		–	–
Exchange rate changes		–	–
Other comprehensive income		–	–
Comprehensive income as at 30 June 2020		**–**	**–**
Additions from the Group net result for the previous year		–	–
Transactions with shareholders		–	4
Share-based remuneration		–	4
As at 30 June 2020		**3,018**	**79**
As at 1 January 2021		**3,018**	**82**
Group net result		–	–
Changes resulting from the revaluation of net defined benefit liabilities		–	–
Credit risk-induced changes in the value of liabilities designated at fair value		–	–
Changes in the fair value of financial assets categorised as FVOCI as a mandatory requirement		–	–
Exchange rate changes		–	–
Other comprehensive income		–	–
Comprehensive income as at 30 June 2021		**–**	**–**
Dividend payments and distribution		–	–
Additions from the Group net result for the previous year		–	–
Share-based remuneration		–	2
As at 30 June 2021	(36)	**3,018**	**84**

	Retained earnings	Currency conversion reserve	Revaluation reserve	Group net result	Total before non-control-ling interests	Non-control-ling interests	Total
	1,016	**33**	**196**	**12**	**4,350**	**–**	**4,350**
	1	–	–	–	1	–	1
	1,017	**33**	**196**	**12**	**4,351**	**–**	**4,351**
	–	–	–	4	4	–	4
	19	–	–	–	19	–	19
	–	–	5	–	5	–	5
	–	–	-23	–	-23	–	-23
	–	2	–	–	2	–	2
	19	2	-18	–	3	–	3
	19	**2**	**-18**	**4**	**7**	**–**	**7**
	12	–	–	-12	–	–	–
	–	–	–	–	4	–	4
	–	–	–	–	4	–	4
	1,048	**35**	**178**	**4**	**4,362**	**–**	**4,362**
	1,010	**-16**	**148**	**102**	**4,344**	**–**	**4,344**
	–	–	–	194	194	–	194
	50	–	–	–	50	–	50
	–	–	-2	–	-2	–	-2
	–	–	-30	–	-30	–	-30
	–	18	–	–	18	–	18
	50	18	-32	–	36	–	36
	50	**18**	**-32**	**194**	**230**	**–**	**230**
	-2	–	–	–	-2	–	-2
	102	–	–	-102	–	–	–
	–	–	–	–	2	–	2
	1,162	**2**	**116**	**194**	**4,576**	**–**	**4,576**

Group cash flow statement

Condensed cash flow statement

(€ m)	January–June 2021	January–June 2020
Cash and cash equivalents as at 1 January	**1,741**	**4,850**
Cash flow from operating activities	678	-2,554
Cash flow from investing activities	355	160
Cash flow from financing activities	-4	-250
Cash and cash equivalents as at 30 June	**2,770**	**2,206**

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 € 988 million were made (previous year: € 1,461 million). The volume of repayments/repurchases in this period amounted to € 244 million (previous year: € 2,422 million) and the volume of maturing issues came to € 646 million (previous year: € 448 million).

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

Group notes

(selected explanatory notes)

General information

1. Accounting principles

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

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

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

The interim Group financial statements as at 30 June 2021 were prepared in accordance with IFRS as published by the International Accounting Standards Board (IASB) and adopted as European law by the European Union (EU). In particular, the application of IAS 34 (Interim Financial Reporting) has been observed.

In the interim Group financial statements, the same accounting policies have been applied as in the Group financial statements of Hamburg Commercial Bank AG as at 31 December 2020.

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 2020 as a basis. Every quarter, pension provisions are reviewed for changes in key parameters, which are then adjusted if necessary and taken into account for accounting purposes (in particular changes in the discount rate). Plan assets are measured at fair value and netted with the pension provisions.

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are related to the reform of reference interest rates (IBOR reform), in particular the presentation of changes in contractual cash flows and hedging relationships that are made in this context.

The amendments relate, among other things, to simplifications for the presentation of modifications to financial instruments made necessary by the IBOR reform, specific exceptions to the rules on the termination of hedging relationships and additional disclosure requirements.

Amendments to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

The amendments to IFRS 16 provide lessees with the option to apply the practical expedient on accounting for rent concession related to the COVID-19 pandemic. On issuance, the practical expedient was limited to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. Since the effects of the pandemic are ongoing, this time period is extended to 30 June 2022. These amendments apply to financial years beginning on or after 1 April 2021. Early application is permitted, including for financial statements that were not yet published on 31 March 2021.

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

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

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

All findings up until 17 August 2021 have been taken into account.

Going concern assumption

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

2. Adjustments to the prior-year figures

Changes to segment reporting

The segment structure of Hamburg Commercial Bank was changed with effect from 30 June 2021. The corresponding prior-year figures in the segment reporting have therefore been adjusted accordingly (cf. note 37).

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

IV. Estimates and discretionary decisions

Uncertainties with regard to the estimates required in line with impairment provisions have increased due to the COVID-19 pandemic. This relates both to the integration of forward-looking macroeconomic scenarios and their weighting in determining expected losses in Stage 1 and Stage 2 credit exposures and to the estimation of future cash flows in Stage 3 credit exposures.

Determining the extent to which a significant deterioration in credit quality occurs and the associated movement between Stages 1 and 2 is per se a key discretionary decision. As institutions such as IASB, EBA and ESMA have clarified that the COVID-19 pandemic does not automatically lead to any movements between the Stages, this requires discretionary decisions determining whether the credit default risk of a debtor has increased significantly or whether the debtor in question only suffers a temporary liquidity bottleneck because of COVID-19 while the credit default risk has not increased significantly. In line with the Bank's conservative loan loss provisioning policy, the Bank retains its stage transfer concept as previously applied. Moreover, credit exposures particularly affected by the COVID-19 pandemic were already classified as Stage 2, even before this would have been required pursuant to the stage transfer concept.

V. Change in loan loss provisions as at 30 June 2021

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 2021") 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.

In the light of the COVID-19 crisis in the first half of 2021, the resulting economic effects on loan loss provisions were calculated in separate scenarios. For this purpose, the Bank developed two new scenarios in the first quarter of the reporting year (the COVID-19 Basis Scenario and the COVID-19 Stress Scenario). These scenarios are based on the following macroeconomic forecasts.

Macroeconomic forecasts for 2021

	Basis Scenario	Stress Scenario
GDP USA (%)	7.0	4.0
GDP eurozone (%)	4.6	2.9
GDP Germany (%)	3.7	2.9
Fed funds rate (%)	0.125	0.125
ECB MRO rate (%)	0.00	0.00
3M EURIBOR (%)	-0.52	-0.70
10Y Bunds (%)	-0.16	-0.70
EUR/USD exchange rate	1.20	1.10
Unemployment rate Germany (%)	5.8	6.5

Here, the COVID-19 Basis Scenario (60 % probability of occurrence) represents the expected development, while the COVID-19 Stress Scenario (40 % probability of occurrence) takes into account the additional uncertainties regarding the severity and length of the pandemic.

In addition to the purely macroeconomic forecasts, potential impacts on individual counterparties in the banking portfolio are also considered if they are expected to be significantly affected by the COVID-19 pandemic.

The Bank has therefore analysed its loan portfolio at the level of sub-portfolios as well as at a case-by-case level with respect to the impact of the COVID-19 pandemic. In close collaboration between the front office and back office, the Bank has identified its customers with a medium to strong negative dependency on current economic developments. This pertains to EAD of € 4,716 million. These credit exposures have also been allocated to Stage 2, and the risk parameters were adjusted accordingly.

At the portfolio level, the sub-portfolios Hotels and Retail properties (in particular department stores and shopping centres) were identified as being particularly affected by the COVID-19 pandemic.

In total, this pertains to EAD of € 3,192 million. This breaks down to the sub-portfolios Hotels, with EAD of € 1,187 million, and Retail, with EAD of € 2,005 million. Where these exposures were still allocated to Stage 1, they were now also assigned to Stage 2; the risk parameters were adjusted accordingly.

Loan loss provisions (for on- and off-balance-sheet transactions) amount to € 550 million as at 30 June 2021. € 67 million of this amount is attributable to the aforementioned macroeconomic scenarios and € 121 million to the other adjustments outlined above. A further € 28 million was added for upcoming adjustments to Internal Models.

In line with the improved macroeconomic environment compared to 31 December 2020 and the associated reduced risks in the Bank's portfolios directly affected by COVID-19, there was a release of € 19 million. This is mainly driven by a reduced and revalued Corona watchlist, which accounts for a release of approximately € 19 million.

In line with the economic recovery, the economic scenarios used to measure the models overlays have generally improved, resulting in a reversal of € 19 million. This figure mainly includes COVID-19-related overlays. On the one hand, there will be a reversal of €23 million in the first half of the year relating to the COVID-19 watchlist and the portfolio affected by COVID-19. On the other hand, overlays relating to tankers in the shipping portfolio increase by €7 million due to the corona-induced decline in demand for crude oil.

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

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

A rating downgrade for the portfolios that are particularly affected by the COVID-19 pandemic by two notches would result in an increase in loan loss provisions of € 101 million, while a downgrade by one notch would result in an increase of € 46 million. A rating upgrade by two notches reduces the loan loss provisions by € 71 million, while an upgrade by one notch leads to a reduction of € 40 million.

There were no other modification effects caused by forbearance measures in connection with COVID-19 in the first half of 2021.

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

4. Scope of consolidation

In addition to the parent company, Hamburg Commercial Bank AG, Hamburg, the scope of consolidation includes twelve fully consolidated subsidiaries (31 December 2020: twelve).

As in the previous financial statements of 31 December 2020, there are no associates or joint ventures accounted for using the equity method.

There were no changes in the scope of consolidation in the reporting period.

Information on consolidated structured entities

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

Notes on the Group statement of income

5. Net interest income

Net interest income

(€ m)	January–June 2021	January–June 2020
Interest income from		
Lending and money market transactions categorised as AC and FVOCI	274	328
Fixed-interest securities categorised as AC and FVOCI	23	30
Impaired financial assets	6	11
Interest income from financial assets categorised as AC and FVOCI	**303**	**369**
thereof attributable to financial assets measured at AC	264	356
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	39	13
Interest income from		
Other lending and money market transactions	6	20
Other fixed-interest securities	10	6
Trading transactions	2	3
Derivative financial instruments	153	364
Current income from		
Long-term equity investments	–	3
Interest income from other financial instruments	**173**	**396**
Negative interest on investments categorised as AC and FVOCI	**-7**	**-10**
thereof attributable to financial assets measured at AC	-7	-10
Negative interest on other cash investments and derivatives	**-39**	**-42**
Interest expenses for		
Liabilities to banks	22	30
Liabilities to customers	95	133
Securitised liabilities	23	30
Subordinated capital	4	6
Other liabilities	1	7
Derivative financial instruments	66	278
Interest expenses	**211**	**484**
thereof attributable to financial liabilities not measured at fair value through profit or loss	67	89
Positive interest on borrowings and derivatives	**-50**	**-48**
thereof attributable to financial liabilities not measured at fair value through profit or loss	-14	-7
Net income from re-estimating interest and repayment cash flows	–	80
Net income from discounting and compounding	–	-6
Net income/loss from hybrid financial instruments	**–**	**74**
thereof attributable to financial liabilities not measured at fair value through profit or loss	–	74
Total	**269**	**351**

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

Net interest income includes income and expenses arising from the amortisation of the adjustment items for portfolio fair value hedge relationships and corresponding proceeds from the closing of the underlying transactions which contributed to the adjustment item.

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

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

The positive interest is mainly attributable to derivative financial instruments.

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

The net income from hybrid financial instruments from the previous year included the effects on earnings resulting from the application of IFRS 9 B5.4.6. As at the reporting date 30 June 2021, there are no hybrid financial instruments.

The decrease in interest income and interest expense from derivative financial instruments is mainly due to changes in the balance sheet and the sharp decline in short-term US dollar interest rates

6. Net commission income

Net commission income

(€ m)	January–June 2021	January–June 2020
Commission income from		
Lending business	13	15
Securities business	1	1
Guarantee business	3	5
Payments and account transactions as well as documentary business	9	9
Other commission income	1	1
Commission income	**27**	**31**
Commission expense from		
Lending business	2	1
Securities business	-	1
Payments and account transactions as well as documentary business	1	1
Other commission expenses	2	1
Commission expenses	**5**	**4**
Total	**22**	**27**

Financial instruments that are not measured at fair value through profit or loss account for € 20 million of net commission income (previous year: € 27 million). Financial instruments that are measured at fair value through profit or loss account for € 2 million of net commission income (previous year: € 0 million).

7. Result from hedging

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

Result from hedging

(€ m)	January–June 2021	January–June 2020
Fair value changes from hedging transactions	58	-70
Micro fair value hedge	45	-78
Portfolio fair value hedge	13	8
Fair value changes from underlyings	-60	72
Micro fair value hedge	-47	81
Portfolio fair value hedge	-13	-9
Total	**-2**	**2**

8. Result from financial instruments categorised as FVPL

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

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

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

Result from financial instruments categorised as FVPL

(€ m)	January–June 2021	January–June 2020
Bonds and interest rate derivatives		
FVPL Held For Trading	13	-153
FVPL Designated	13	13
FVPL Other	-4	-5
Total	**22**	**-145**
Equities and equity derivatives		
FVPL Held For Trading	-	-1
FVPL Designated	1	2
FVPL Other	12	-5
Total	**13**	**-4**
Other products		
FVPL Held For Trading	2	3
FVPL Other	-9	-3
Total	**-7**	**-**
Total	**28**	**-149**

The Result from financial instruments categorised as FVPL includes net income from foreign currency of € -9 million (previous year: € -3 million).

During the reporting period, € 1 million (previous year: € -10 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 € 3 million (previous year: € 16 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.

Net income from financial investments

(€ m)	January–June 2021	January–June 2020
Realised results from financial assets categorised as FVOCI	2	5
Total	**2**	**5**

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

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

In the reporting period, the "Result from the disposal of financial assets classified as AC" is composed in equal parts of disposals of receivables in connection with early repayments/redemptions and disposals from the sale of receivables.

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

The transformation process of Hamburg Commercial Bank (with the aim of transitioning to the deposit protection fund of the BdB) led to an increase in disposals in accordance with IFRS 9.B4.1.3B. The definition of what constitutes harmless sales and materiality thresholds for sales of receivables within the "Hold" business model are discretionary decisions.

Result from the disposal of financial assets classified as AC

(€ m)	January–June 2021	January–June 2020
Gains from the disposal of financial assets classified as AC		
Loans and advances to customers	18	44
Non-current assets held for sale and disposal groups	4	-
Total gains	**22**	**44**
Losses from the disposal of financial assets classified as AC		
Loans and advances to customers	1	-
Non-current assets held for sale and disposal groups	2	-
Total losses	**3**	**-**
Total	**19**	**44**

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 2021	January–June 2020
Loans and advances to customers		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	32	-25
thereof AC	32	-25
Significant increase in the loan default risk (Stage 2/lifetime ECL)	4	3
thereof AC	4	3
Impaired credit rating (Stage 3/lifetime ECL)	-8	-78
thereof AC	-8	-78
Lloans that are purchased or originated credit-impaired (POCI)	-4	-
thereof AC	-4	-
Result from the change in loan loss provisions on loans and advances to customers	**24**	**-100**
Financial investments		
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-	1
thereof FVOCI	-	1
Result from the change in loan loss provisions for financial investments	**-**	**1**
Off-balance-sheet business		
Insignificant increase in the loan default risk (Stage 1/12-month ECL)	1	1
Significant increase in the loan default risk (Stage 2/lifetime ECL)	-	-11
Impaired credit rating (Stage 3/lifetime ECL)	-2	16
Provisions in lending business in accordance with IAS 37	1	-1
Result from changes in provisions in the lending business	**-**	**5**
– Direct write-downs	2	5
+ Payments received on loans and advances previously written down	3	4
Result from other changes to loan loss provisions	**1**	**-1**
Result from changes in loan loss provisions before currency translation gains or losses and compensation	**25**	**-95**
Currency translation gains or losses on loan loss provisions denominated in foreign currency	**-3**	**1**
Total loan loss provisions	**22**	**-94**

The positive change in the allowance in the first half of 2021 can be explained in particular by the improved macroeconomic environment and the associated economic recovery. This led to a reversal of allowances of € 36 million (net), particulary in Levels 1 and 2 of risk provision models. There were only isolated new defaults in connections with the COVID-19 pandemic in the first half of the year., so that the additions to specific valuation allowances in Level 3 were more than offset by the improved portfolio quality and the risk provisioning result developed positively at the pleasing level.

12. Administrative expenses

Administrative expenses

(€ m)	January–June 2021	January–June 2020
Personnel expenses	68	87
Operating expenses	82	90
Depreciation of property, plant and equipment, leased assets and investment properties and amortisation of intangible assets	3	4
Total	**153**	**181**

13. Other operating result

Other operating result

(€ m)	January–June 2021	January–June 2020
Other operating income	35	124
Other operating expenses	30	24
Total	**5**	**100**

The other operating result amounted to € 5 million (previous year: € 100 million).

Other operating income includes income from the reversal of provisions in the amount of € 11 million (previous year: € 9 million).

Other operating expenses include expenses from allocations to provisions in the amount of € 10 million (previous year: € 5 million). An old lease receivable (finance lease) had an additional negative impact. This financing arrangement, which is reported under loans and advances to customers, required the recognition of downward value adjustments of € 13 million on the residual value of the leased assets.

In the same period of the previous year, the other operating result had benefited significantly from the sale of buildings due to the strategic concentration on fewer locations.

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

Expenses for regulatory affairs, deposit guarantee fund and banking associations

(€ m)	January–June 2021	January–June 2020
Expenses for European bank levy	25	23
Expenses for deposit guarantee fund	3	3
Expenses for banking supervisory authority	2	3
Expenses for banking associations	1	-
Total	**31**	**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 2021	January–June 2020
Personnel expenses due to restructuring	–	1
Operating expenses due to restructuring	-	1
Income from the reversal of provisions	-	1
Result from restructuring	**-**	**-1**
Expenses from privatisation	-	-
Expenses from transformation	13	4
Result from restructuring and transformation	**-13**	**-5**

The transformation expenses refer in particular to measures supporting the Bank's strategic objectives, which are to result in the seamless transition to the deposit guarantee fund of private banks by 2022.

16. Earnings per share

To calculate earnings per share, the Group net result attributable to Hamburg Commercial Bank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review.

In May 2021, Hamburg Commercial Bank AG carried out a share split without increasing the share capital. This leads to a higher number of shares as at the balance sheet date. In accordance with IAS 33.28, the number of shares in the comparative period was adjusted accordingly.

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 2021	January–June 2020
Attributable Group net result (€ m) – undiluted/diluted	194	4
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	3,018	3,018
Earnings per share (€)		
Undiluted	0.06	-
Diluted	0.06	-

Notes on the Group statement of financial position

17. Cash reserve

Cash reserve

(€ m)	30.06.2021	31.12.2020
Balances with central banks	2,770	1,741
thereof at the Deutsche Bundesbank	2,764	1,718
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	-	-
Total	**2,770**	**1,741**

18. Loans and advances to banks

Loans and advances to banks

(€ m)	30.06.2021	31.12.2020
Payable on demand	743	953
Other loans and advances	603	605
Total	**1,346**	**1,558**

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)	30.06.2021	31.12.2020
Retail customers	198	247
Corporate clients	19,838	20,680
Public authorities	1,033	1,551
Total	**21,069**	**22,478**

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)	30.06.2021	31.12.2020
Loan loss provisions for loans and advances to customers classified as AC, incl. leasing	510	569
Loan loss provisions in the lending business	**510**	**569**
Loan loss provisions for items in the statement of financial position	**510**	**569**
Provisions in the lending business	40	39
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	**550**	**608**

In accordance with IFRS 9, the Loan loss provisions item is only set up for transactions classified as AC. For information on the development of the total IFRS 9 portfolio of loan loss provisions for loans and advances to customers, please refer to note 38.
In addition, the Bank recognizes an allowance for losses on loans and advances in accordance with IAS 37 for off-balance sheet lending business, which totalled € 10 million at the balance sheet date and is reported in note 33 Provisions.

21. Hedge accounting

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

IV. Risk management strategy

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

V. Effects on cash flows

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

Micro fair value hedges

(€ m)	Maturity date		
	2027	2037	2038
Nominal value of hedging instruments	-	250	200
Average swap rate	-	3.752	3.633

VI. Effects on net assets and statement of comprehensive income

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

HEDGING INSTRUMENTS
This section presents the nominal values, hedge adjustment and the positive and negative fair values of derivatives used in

hedge accounting. Only interest rate swaps are currently taken into account as hedging instruments.

If a derivative is only designated pro rata in hedge accounting, the Positive/negative fair value of hedging derivatives item contains the corresponding share of the derivative's fair value, nominal value and hedge adjustment. The residual amount is reported under the Trading assets/Net trading income item.

Hedging instruments[1)]

(€ m)		30.06.2021			31.12.2020		
Hedge type/type of risk	Balance sheet item	Nominal value	Carrying amount	Hedge adjustment (ytd)	Nominal value	Carrying amount	Hedge adjustment (ytd)
Fair value hedge/interest rate risk							
Interest rate derivatives (assets side)	Positive fair values of hedging derivatives	1,711	25	-4	2,126	2	-9
Interest rate derivatives (liabilities side)	Negative fair value of hedging derivatives	3,007	142	-69	4,520	371	39

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

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

UNDERLYING TRANSACTIONS

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

Underlying transactions[1)]

(€ m)		30.06.2021			31.12.2020		
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	4,216	65	-39	4,863	104	-38
Micro fair value hedge	Loans and advances to customers	676	69	-80	875	149	43
Portfolio fair value hedge: Fixed-interest issues	Negative adjustment item from portfolio fair value hedges	7,255	212	-53	7,357	265	-105
Portfolio fair value hedge (inactive)	Positive adjustment item from portfolio fair value hedges	109	3	-1	77	4	-1
Portfolio fair value hedge (inactive)	Negative adjustment item from portfolio fair value hedges	-	-	-4	61	4	-20
Micro fair value hedge (inactive)	Loans and advances to customers	67	5	-1	73	6	-49
Micro fair value hedge (inactive)	Liabilities due to customers, subordinated capital	28	7	-	29	7	-1

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

22. Trading assets

Only financial assets in the FVPL Trading category are reported under the Trading assets item. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value 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)	30.06.2021	31.12.2020
Positive fair value of financial derivatives	840	1,377
Other, including promissory notes held for trading	113	118
Receivables from syndication transactions	49	49
Total	**1,002**	**1,544**

23. Financial investments

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

Financial investments

(€ m)	30.06.2021	31.12.2020
Debentures and other fixed-interest securities	5,025	5,438
Shares and other non-fixed-interest securities	25	12
Long-term equity investments	8	8
Interests in affiliated companies	1	1
Total	**5,059**	**5,459**

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

24. Intangible assets

Intangible assets

(€ m)	30.06.2021	31.12.2020
Software	2	3
acquired	2	3
Software in development	22	12
acquired	22	12
Total	**24**	**15**

In the reporting period, the addition to the Software under development item relates entirely to the development of the target IT platform SAP S/4 Hana.

25. Property, plant and equipment and investment property

Property, plant and equipment

(€ m)	30.06.2021	31.12.2020
Land and buildings	8	8
Plant and equipment	4	6
Right-of-use assets from leasing	8	9
Assets under construction	-	-
Total	**20**	**23**

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)	30.06.2021	31.12.2020
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)	30.06.2021	31.12.2020
Loans and advances to customers	90	626
Financial investments	8	8
Property, plant and equipment	-	-
Investment property	-	-
Total before loan loss provisions	98	634
Total	**98**	**634**

As part of the ongoing transformation process, Hamburg Commercial Bank AG has decided to sell loans and advances to customers in the amount of € 626 million. The signing was effected in December 2020. In the first half of 2021, a partial transfer to the buyer of this portfolio and the associated balance sheet disposal in the amount of € 430 million were effected. This sale of loans and advances to customers generated proceeds totalling € 1 million in the first half of 2021, which are recognised in the Result from the disposal of financial assets classified as AC item. For loans and advances to customers from this portfolio in the amount of € 102 million, the Bank considered a sale no longer most likely as at 30 June 2021. Therefore, these loans and advances are not classified as non-current assets held for sale and disposal groups as at 30 June 2021. A closing for the remaining loans and advances to customers in the amount of € 90 million is expected in the third quarter of 2021. These loans and advances to customers have been allocated to the Corporates & Structured Finance segment. No loan loss provisions have been created for them.

The Bank still plans to sell an equity holding measured at fair value, which is recognised under the Financial investments item. The disposal of the equity holding will most likely take place in H2 2021. The equity holding to be sold is allocated to the Other and Reconciliation column in the segment report.

27. Deferred tax assets

Of the deferred tax assets of € 559 million (31 December 2020: € 532 million), € 255 million (31 December 2020: € 179 million) relate to tax loss carryforwards.

As at 30 June 2021, € 213 million of this amount is attributable to the head office (31 December 2020: € 142 million) and € 42 million attributable to the Luxembourg branch (31 December 2020: € 37 million).

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

28. Other assets

Other assets

(€ m)	30.06.2021	31.12.2020
Prepaid expenses	18	10
Receivables from other taxes	8	7
Capitalised plan assets	9	-
Other assets	26	247
Total	**61**	**264**

€ 34 million of the assets disclosed in the table relate to financial instruments (31 December 2020: € 245 million).

Due to the increase in plan assets for pension provisions, the fair value of the plan assets exceeds the covered pension liabilities and was capitalised at € 9 million.

29. Liabilities to banks

Liabilities to banks

(€ m)	30.06.2021	31.12.2020
Payable on demand	155	388
Other term liabilities	6,380	7,090
Total	**6,535**	**7,478**

Liabilities to banks include liabilities from TLTRO III transactions ("Targeted Longer-Term Refinancing Operations") with the ECB in the amount of € 2,984 million. Two transactions were concluded (in March 2020 and June 2020) with a maturity of three years; the interest rate is generally based on the average MRO rate of the ECB. For the current interest rate period from June 2020 to June 2021, the maximum interest rate for TLTRO operations was reduced to 50 basis points below the average rate applied in main refinancing operations (MRO). As at 30 June 2021, the TLTRO III liabilities therefore accounted for € 15.5 million of accrued interest, which is recognised in the net interest result (as positive interest under interest expense) and led to a corresponding reduction in the carrying amount of the TLTRO III liabilities.

In its books, Hamburg Commercial Bank has recognised the financing liability as a financial instrument within the meaning of IFRS 9. Hamburg Commercial Bank uses the "discrete approach" to determine the effective interest rate.

Banks that meet certain lending performance criteria in their lending business are furthermore granted a premium in the form of an additional interest rate reduction. Hamburg Commercial Bank does not currently expect to meet these criteria and does not currently expect to meet them in the future.

30. Liabilities to customers

Liabilities to customers

(€ m)	30.06.2021	31.12.2020
Savings deposits	5	7
Other liabilities		
Payable on demand	4,767	4,903
Term liabilities	7,402	8,194
Total	**12,174**	**13,104**

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

31. Securitised liabilities

Securitised liabilities

(€ m)	30.06.2021	31.12.2020
Debentures issued	5,753	5,670
Total	**5,753**	**5,670**

In the Securitised liabilities item, repurchased own debentures in the amount of € 2,962 million (31 December 2020: € 3,275 million) were deducted.

32. Trading liabilities

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

Trading liabilities

(€ m)	30.06.2021	31.12.2020
Negative fair value from derivative financial instruments		
Interest rate-related business	318	509
Currency-related business	49	13
Other business	88	114
Other	49	50
Total	**504**	**686**

33. Provisions

Provisions

(€ m)	30.06.2021	31.12.2020
Provisions for pension obligations and similar obligations	110	198
Other provisions		
Provisions for personnel expenses	29	41
Provisions in the lending business	50	49
Provisions for restructuring	100	131
Provisions for litigation risks and costs	120	122
Other provisions	93	93
Total	**502**	**634**

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 2021, plan assets amount to € 988 million (previous year: € 292 million), which is netted with the pension liabilities. The net change in pension provisions in the amount of € 89 million refers mainly to payments for pension liabilities in the amount of € 28 million and transfers of early retirement obligations from the restructuring provisions in the amount of € 7 million as well as service and interest expenses of € 8 million. Because of the increase in the discount rate, pension liabilities decrease by € 73 million. In addition, a curtailment of € 4 million is expected because of staff reductions. The fair value of plan assets is up by € 7 million in the reporting period, which reduces the pension liabilities by the same amount as at 30 June 2021. Due to the increase in plan assets, the fair value of the plan assets exceeds the covered pension liabilities by € 9 million. This is reported as capitalised plan assets under other assets.

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

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

34. Other liabilities

Other liabilities

(€ m)	30.06.2021	31.12.2020
Security deposits for assumption of debts	114	159
Liabilities for outstanding invoices	47	53
Other tax liabilities	4	6
Personnel liabilities	12	12
Deferred income	2	3
Liabilities from leases (lessee)	22	25
Liabilities for restructuring	23	32
Other	14	22
Total	**238**	**312**

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

€ 183 million of the liabilities reported here relate to financial instruments (31 December 2020: € 245 million).

No further valuation was performed in the current fiscal year as the instruments were repaid.

35. Subordinated capital

Subordinated capital

(€ m)	30.06.2021	31.12.2020
Subordinated debt	942	938
Silent participations	-	2
Total	**942**	**940**

The carrying amounts for silent participations were determined on the basis of assumptions regarding the future earnings situation of Hamburg Commercial Bank and the exercise of termination or extension options (IFRS 9.B5.4.6).No further valuation was performed in the current fiscal year, as the instruments were paid.

36. Equity

Equity

(€ m)	30.06.2021	31.12.2020
Share capital	3,018	3,018
Capital reserve	84	82
Retained earnings	1,162	1,010
thereof: cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	-185	-261
thereof: deferred taxes on cumulative gains and losses arising from the revaluation of net defined benefit liabilities recognised in OCI	59	83
Revaluation reserve	116	148
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	-	3
thereof: Valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	116	145
Currency conversion reserve	2	-16
Group net result	194	102
Total	**4,576**	**4,344**

Changes in ordinary shares

(Number of shares)	30.06.2021	31.12.2020
Number at the beginning of the year	3,018,224,530	3,018,224,530
Number at the end of the year	**3,018,224,530**	**3,018,224,530**

After the share split in the ratio of 1:10 resolved by the Annual General Meeting in March 2021 was completed without any effect on the share capital, the share capital of HCOB as at 30 June 2021 remains unchanged at € 3,018 million. The number of ordinary shares increased as at the balance sheet date to 3,018,224,530 because of the share split (the number of shares in the comparative period was adjusted retrospectively in accordance with IAS 33.28).

Segment reporting

37. Segment report

(€ m / %)	Project Finance & Corporates		Real Estate		Shipping		Client Business	
	30.06. 2021	30.06. 2020	30.06. 2021	30.06. 2020	30.06. 2021	30.06. 2020	30.06. 2021	30.06. 2020
Net interest income	71	79	89	116	44	61	204	256
Net commission income	14	14	4	6	6	8	24	28
Other income[1]	5	6	4	-1	21	-34	30	-29
Total income	**90**	**99**	**97**	**121**	**71**	**35**	**258**	**255**
Risk costs (expected loss)	-14	-16	-8	-11	-7	-15	-29	-42
Administrative expenses & regulatory costs	-48	-51	-47	-58	-30	-29	-125	-138
Other operating result	-	-	-	-	-	-	-	-
Result from restructuring and transformation	-	-	-	-	-	-	-	-
Net income before taxes	**28**	**32**	**42**	**52**	**34**	**-9**	**104**	**75**
Income tax expense	-4	-4	-5	-7	-4	1	-13	-10
Net income after taxes	**24**	**28**	**37**	**45**	**30**	**-8**	**91**	**65**
Cost/income ratio (CIR - %)	48	46	42	42	39	75	43	48
RoE after taxes (%)	**7.0**	**6.3**	**17.2**	**13.6**	**20.8**	**-3.7**	**13.0**	**6.5**
Risk costs (expected loss - %)	0.32	0.32	0.17	0.19	0.44	0.64	0.27	0.32
Average segment assets (€ bn)	8.5	10.1	9.4	11.8	3.3	4.6	21.2	26.5
Loan loss provisions (income statement)	-13	-114	-1	-49	34	66	20	- 97

(€ bn)	30.06. 2021	31.12. 2020	30.06. 2021	31.12. 2020	30.06. 2021	31.12. 2020	30.06. 2021	31.12. 2020
Segment assets	**7.9**	**8.9**	**9.1**	**9.5**	**3.2**	**3.3**	**20.2**	**21.7**
Risk-Weighted Assets (RWA)	5.2	5.5	3.0	3.6	2.1	2.2	10.3	11.3
Loan loss provisions (balance sheet)	0.2	0.3	0.2	0.2	0.1	0.1	0.5	0.6
NPE ratio (%)	2.9	2.8	2.6	1.3	3.3	5.4	2.8	2.6

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

(€ m / %)	Client Business		Treasury & Group Functions		Reconciliation		Group (income statement/balance sheet)	
	30.06. 2021	30.06. 2020	30.06. 2021	30.06. 2020	30.06. 2021	30.06. 2020	30.06. 2021	30.06. 2020
Net interest income	204	256	15	71	50	24	269	351
Net commission income	24	28	-	-	-2	-1	22	27
Other income[1]	30	-29	95	16	-78	-85	47	-98
Total income	**258**	**255**	**110**	**87**	**-30**	**-62**	**338**	**280**
Loan loss provisions (expected loss)	-29	-42	-1	-1	52	-51	22	-94
Administrative expenses & regulatory costs	-125	-138	-59	-72	-	-	-184	-210
Other operating result	-	-	5	100	-	-	5	100
Result from restructuring and transformation	-	-	-13	-5	-	-	-13	-5
Net income before taxes	**104**	**75**	**42**	**109**	**22**	**-113**	**168**	**71**
Income tax	-13	-10	-5	-14	44	-43	26	-67
Net income after taxes	**91**	**65**	**37**	**95**	**66**	**-156**	**194**	**4**
Cost/income ratio (CIR - %)	43	48	35	31			45	48
RoE after taxes (%)	**13**	**6.5**	**13.2**	**32.5**			**19.8**	**0.3**
Loan loss provisions (expected loss - %)	0.27	0.32	0.02	0.01			-0.14	0.43
Average segment assets (€ bn)	21.2	26.5	11.3	17.4	0,0	0.0	32.5	43.9
loan loss provisions (income statement)	20	-97	-2	2		-1	22	- 94

(€ bn)	30.06. 2021	31.12. 2020	30.06. 2021	31.12. 2020	30.06. 2021	31.12. 2020	30.06. 2021	31.12. 2020
Segment assets	**20.2**	**21.7**	**11.4**	**12.1**	**0.0**	**0.0**	**31.6**	**33.8**
Risk Weighted Assets (RWA)	10.3	11.3	4.5	4.2	0.0	0.0	14.8	15.5
Loan loss provisions (balance sheet)	0.5	0.6	0.0	0.0	0.0	0.0	0.5	0.6
NPE ratio (%)	2.8	2.6	0.0	0.0			1.9	1.8

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

General information

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

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

Information about revenues from external customers for each product and service and on a geographical basis for management reporting is not disclosed in accordance with IFRS 8.32 and 8.33 as it is not relevant for the management of the Group and the cost to develop such information would be excessive.

Adjustments to segment reporting

As part of the Bank's transformation process, there have been changes in the responsibilities of the Management Board and the business areas in the first half of 2021, resulting in corresponding changes in the organisational structure. In addition, methodological adjustments and additions were made to the information in the segment reporting in order to boost the transparency of internal business area management, in particular resource allocation and performance measurement. Both aspects have led to adjustments in segment reporting in accordance with the requirements of IFRS 8 (Management Approach). The prior-year figures have been adjusted for the purposes of comparability.

(A) **ADJUSTMENTS TO THE ORGANISATIONAL STRUCTURE**
In accordance with the changed responsibilities in the Management Board (CIO), the new segment structure bundles all market-related units in the three segments "Project Finance & Corporates", "Real Estate" and "Shipping". The three segments are additionally bundled and reported as "Client Business". main focus of the market-related segments' business activities is on offering financing solutions in the lending business. The remaining segment "Treasury & Group Functions" comprises the capital market activities, which have been newly established during the transformation process and focus on the management of strategic investments, and the Treasury function (CFO) as well as the remaining staff and service functions (formerly "Others"). The Treasury function includes the management of overlay positions (strategic investment portfolios, CTA, asset liability management (ALM) incl. liquidity buffer & cash). The Treasury function was previously reported in the former segment "Diversified Lending & Markets". The business activities with international corporate clients were transferred from the former "Diversified Lending & Markets" segment to the "Project Finance & Corporates" segment. The financing business activities with institutional clients (formerly in the "Corporates & Structured Finance" segment) are now reported as part of the ALM book in the "Treasury & Group Functions" segment. The effects on earnings from the positions of the ALM book in the Treasury & Group Functions segment are allocated to the market-related segments. The investment and financing income, the other effects from equity and the transformation contribution are allocated to the segments according to the liquidity costs that have been offset.

(B) **METHODOLOGICAL ADJUSTMENTS**
In order to increase the level of transparency, the segment results in the areas of total income, loan loss provisions, administrative costs and capital utilisation (average equity utilisation) were changed in accordance with the internal performance measurement structure. In accordance with IFRS 8.28, the resulting reconciliation effects in the individual income items are presented separately, which is explained in greater detail below.

The total income of the segments now also includes OCI results, which under IFRS are reported in other comprehensive income not recognised through profit or loss.

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

In the market-related segments, administrative expenses and regulatory costs are reported based on the regulatory costs allocated in the internal performance measurement (expenses for regulation, deposit guarantee fund and banking associations) and the standard processing costs applied (for administrative expenses). The standard processing costs of the segments take into account the personnel and material costs in the amount of the target costs for the year 2022. The costs not allocated to the market-related segments (so-called "legacy costs" as the difference between the actual expenses and the target costs 2022) are allocated to the Treasury & Group Functions segment.

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

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

The return on equity (RoE after taxes) is based on a normalised equity utilisation (average risk-weighted assets (RWA) and normalised CET1 ratio of 13 percent).

Further reconciliation effects in accordance with IFRS 8.28

The "Reconciliation" column contains further effects from different accounting policies used for the internally reported figures and the presentation in the IFRS consolidated financial statements. In accordance with IFRS 8.28, these additional reconciliation effects included in the individual income items are presented separately and explained in greater detail below.

These are reporting and valuation effects resulting from the transition, but also effects in the interest income and other income, which are summarised in the other income items under total income (IFRS).

Net interest income for the purpose of internal reporting to management is calculated in accordance with Fund Transfer Pricing (FTP). The reconciliation effects on the net interest income of the Group also include effects from different calculation and amortisation methods used for internal reporting purposes. In addition, in the internal management system, the measurement results of the hedging derivatives in hedge accounting are only recognised upon the disposal of AC or FVOCI positions, whereas under the IFRS hedge accounting regulations, the hedge adjustments are continuously amortised within the Net interest income item.

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

Definitions

For the definition of the KPIs CIR and NPE ratio, please refer to the explanations provided in the Group management report for the 2020 financial year (Chapter "Basis of the Group", Section "Management system").

The loan loss provisions (income statement) shown in the tables above (additionally) 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)	30.06.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2021	**1,557**	**–**	**–**	**–**	**1,557**
thereof AC	1,535	–	–	–	1,535
thereof FVOCI	22	–	–	–	22
Other changes	-211	–	–	–	-211
thereof AC	-209	–	–	–	-209
thereof FVOCI	-2	–	–	–	-2
Carrying amounts as at 30 June 2021	**1,346**	**–**	**–**	**–**	**1,346**
thereof AC	1,326	–	–	–	1,326
thereof FVOCI	20	–	–	–	20

Development in gross carrying amounts for loans and advances to banks

(€ m)	31.12.2020				
	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 amounts as at 1 January 2020	**2,520**	**1**	**-**	**-**	**2,521**
thereof AC	2,465	1	-	-	2,466
thereof FVOCI	55	-	-	-	55
Other changes	-960	-3	-	-	-963
thereof AC	-926	-1	-	-	-929
thereof FVOCI	-34	-	-	-	-34
Carrying amounts as at 31 December 2020	**1,558**	**-**	**-**	**-**	**1,558**
thereof AC	1,537	-	-	-	1,537
thereof FVOCI	21	-	-	-	21

Development in gross carrying amounts for loans and advances to customers

(€ m)	30.06.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2021	**18,819**	**2,723**	**544**	**16**	**22,102**
thereof AC	17,721	2,717	544	16	20,998
thereof FVOCI	1,049	6	–	–	1,055
thereof receivables under finance leases	49	–	–	–	49
Transfer to LECL Stage 2	-480	480	–	–	–
thereof AC	-480	480	–	–	–
Transfer to LECL Stage 3	-125	-31	156	–	–
thereof AC	-125	-31	156	–	–
Transfer to 12M ECL	425	-425	–	–	–
thereof AC	425	-425	–	–	–
Other changes	-934	-285	-114	-1	-1,334
thereof AC	-709	-285	-114	–	-1,109
thereof FVOCI	-210	–	–	–	-210
thereof leasing	-15	–	–	–	-15
Carrying amounts as at 30 June 2021	**17,705**	**2,462**	**586**	**15**	**20,768**
thereof AC	16,832	2,456	586	15	19,889
thereof FVOCI	839	6	–	–	845
thereof receivables under finance leases	34	–	–	–	34

Development in gross carrying amounts for loans and advances to customers

(€ m)	31.12.2020				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans pur-chased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2020	**26,672**	**2,750**	**649**	**–**	**30,071**
thereof AC	25,011	2,750	649	–	28,410
thereof FVOCI	1,604	–	–	–	1,604
thereof receivables under finance leases	57	–	–	–	57
Transfer to LECL Stage 2	-1,811	1,811	–	–	–
thereof AC	-1,804	1,804	–		–
thereof FVOCI	-7	7	–		–
Transfer to LECL Stage 3	-75	-577	652	–	–
thereof AC	-75	-577	652		–
Transfer to 12M ECL	310	-310	–	–	–
thereof AC	310	-310	–		–
Other changes	-6,277	-951	-757	16	-7,969
thereof AC	-5,721	-950	-757	16	-7,412
thereof FVOCI	-548	-1	–	–	-549
thereof receivables under finance leases	-8	–	–	–	-8
Carrying amounts as at 31 December 2020	**18,819**	**2,723**	**544**	**16**	**22,102**
thereof AC	17,721	2,717	544	16	20,998
thereof FVOCI	1,049	6	–	–	1,055
thereof receivables under finance leases	49	–	–	–	49

Development in loan loss provisions for loans and advances to customers

(€ m)	30.06.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Loan loss provisions on 1 January 2021	**91**	**216**	**261**	**1**	**569**
Transfer to LECL Stage 2	-2	2	–	–	–
Transfer to LECL Stage 3	-1	-6	7	–	–
Transfer to 12M ECL	33	-33	–	–	–
Reversals due to disposals, repayments and other reductions	61	67	23	–	151
Additions due to new additions and other increases	29	64	30	4	127
Utilisation	–	–	45	–	45
Change in line with effective interest rate	–	–	4	-1	3
Exchange rate changes	2	3	2	–	7
Loan loss provisions on 30 June 2021	**91**	**179**	**236**	**4**	**510**

Development in loan loss provisions for loans and advances to customers

(€ m)	31.12.2020				
	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 on 1 January 2020	**57**	**308**	**343**	**–**	**708**
Transfer to LECL Stage 2	-10	10	–	–	–
Transfer to LECL Stage 3	–	-160	160	–	–
Transfer to 12M ECL	28	-28	–	–	–
Reversals due to disposals, repayments and other reductions	73	118	101	–	292
Additions due to new additions and other increases	91	207	196	1	495
Utilisation	–	–	337	–	337
Change in line with effective interest rate	–	–	19	–	19
Exchange rate changes	-2	-3	-19	–	-24
Loan loss provisions on 31 December 2020	**91**	**216**	**261**	**1**	**569**

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

Development in gross carrying amounts for financial investments

(€ m)	30.06.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2021	**4,890**	**-**	**-**	**-**	**4,890**
thereof AC	86	-	-	-	86
thereof FVOCI	4,804	-	-	-	4,804
Other changes	-397	-	-	-	-397
thereof AC	-18	-	-	-	-18
thereof FVOCI	-379	-	-	-	-379
Carrying amounts as at 30 June 2021	**4,493**	**-**	**-**	**-**	**4,493**
thereof AC	68	-	-	-	68
thereof FVOCI	4,425	-	-	-	4,425

Development in gross carrying amounts for financial investments

(€ m)	31.12.2020				
	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 amounts as at 1 January 2020	**5,443**	**51**	**-**	**-**	**5,494**
thereof AC	112	-	-	-	112
thereof FVOCI	5,331	-51	-	-	5,382
Other changes	-553	-51	-	-	-604
thereof AC	-26	-	-	-	-26
thereof FVOCI	-527	-51	-	-	-578
Carrying amounts as at 31 December 2020	**4,890**	**-**	**-**	**-**	**4,890**
thereof AC	86	-	-	-	86
thereof FVOCI	4,804	-	-	-	4,804

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 loan loss provisions for financial investments

(€ m)	31.12.2020			
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Total
Loan loss provisions on 1 January 2020	**–**	**1**	**–**	**1**
Reversals due to disposals and other reductions	–	1	–	1
Loan loss provisions on 31 December 2020	**–**	**–**	**–**	**–**

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

(€ m)	30.06.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2021	**609**	**17**	**–**	**–**	**626**
Other changes	–519	–17	–	–	–536
Carrying amounts as at 30 June 2021	**90**	**–**	**–**	**–**	**90**

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

(€ m)	31.12.2020				
	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 amounts as at 1 January 2020	**245**	**–**	**–**	**–**	**245**
Other changes	364	17	–	–	381
Carrying amounts as at 31 December 2020	**609**	**17**	**–**	**–**	**626**

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

Carrying amounts of off-balance sheet business

(€ m)	30.06.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant increase in the loan default risk (LECL Stage 2)	Credit-impaired (LECL Stage 3)	Loans purchased or originated credit-impaired (POCI)	Total
Carrying amounts as at 1 January 2021	**4,257**	**259**	**76**	**-**	**4,592**
Other changes	-199	-22	-4	-	-225
Carrying amounts as at 30 June 2021	**4,058**	**237**	**72**	**-**	**4,367**

Carrying amounts of off-balance sheet business

(€ m)	31.12.2020				
	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 amounts as at 1 January 2020	**6,906**	**311**	**94**	**-**	**7,311**
Other changes	-2,649	-52	-18	-	-2,719
Carrying amounts as at 31 December 2020	**4,257**	**259**	**76**	**-**	**4,592**

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

(€ m)	30.06.2021				
	Insignificant increase in the loan default risk (12M ECL)	Significant in-crease in the loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or orig-inated credit-impaired (POCI)	Total
Loan loss provisions on 1 January 2021	**3**	**1**	**35**	**–**	**39**
Reversals due to disposals and other reductions	2	1	3	–	6
Additions due to new additions and other increases	1	1	5	–	7
Loan loss provisions on 30 June 2021	**2**	**1**	**37**	**–**	**40**
thereof provisions for contingent liabilities	-	-	11	–	11
thereof provisions for irrevocable loan commitments	2	1	26	–	29

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

(€ m)	31.12.2020				
	Insignificant increase in loan default risk (12M ECL)	Significant in-crease in loan default risk (LECL Stage 2)	Credit-im-paired (LECL Stage 3)	Loans pur-chased or orig-inated credit-impaired (POCI)	Total
Loan loss provisions on 1 January 2020	**4**	**3**	**46**	**-**	**53**
Transfer to LECL Stage 3	-	-4	4	-	-
Reversals due to disposals and other reductions	-4	-11	-42	-	-57
Additions due to new additions and other increases	3	13	28	-	44
Exchange rate changes	-	-	-1	-	-1
Loan loss provisions on 31 December 2020	**3**	**1**	**35**	**-**	**39**
thereof provisions for contingent liabilities	-	-	11	-	11
thereof provisions for irrevocable loan commitments	3	1	24	-	28

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

I. DETERMINATION OF FAIR VALUE

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

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

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

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

VALUATION TECHNIQUES AND MODELS

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

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

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

VALUE ADJUSTMENTS

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

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

Hedge relationships (back-to-back transactions) and corresponding risk-compensating effects are taken into account when determining value adjustments to be made for model risks and uncertainties regarding parameters. The value adjustment for the credit risk is determined for OTC derivatives at the level of a group of financial instruments of a business partner (so-called portfolio-based valuation adjustment). This is permitted if the conditions stipulated in 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 procedure. These measures also ensure that financial instruments to be assigned to Level 3 of the fair value hierarchy are measured in accordance with IFRS 13. The Risk division, which is independent from the Bank's market departments, is responsible for ensuring that the measurement methods applied are in accordance with external accounting requirements. Information available on the methods applied by other market participants is also taken into account in this regard.Fair values of financial instruments assigned to Level 3 are determined again on a periodic basis – but at least on a monthly basis. Any changes in value that have occurred since the previous period are reviewed for plausibility. Where available, observable market information such as transaction prices or attributes of valuation parameters are also used in the internal price validation. If there are material differences between the fair values determined by the Bank and prices offered by counterparties, the valuation model used is subjected to an ad hoc validation process.

II.Fair values of financial instruments

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

Fair values of financial instruments

Assets

(€ m) 30.06.2021	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVOCI Mandatory	**5,289**	**5,289**	**2,909**	**2,257**	**123**
Loans and advances to banks	20	20	–	20	–
Loans and advances to customers	845	845	–	845	–
Financial investments	4,424	4,424	2,909	1,392	123
FVPL Designated	**41**	**41**	**-**	**41**	**-**
Loans and advances to banks	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–
Financial investments	41	41	–	41	–
FVPL Held For Trading	**1,002**	**1,002**	**-**	**791**	**211**
Trading assets	1,002	1,002	–	791	211
FVPL Other	**833**	**833**	**-**	**519**	**314**
Loans and advances to customers	300	300	–	2	298
Financial investments	525	525	–	517	8
Non-current assets held for sale and disposal groups	8	8	–	–	8
AC assets	**23,690**	**24,434**	**n.r.**	**n.r.**	**n.r.**
Cash reserve	2,770	2,770	n.r.	n.r.	n.r.
Loans and advances to banks	1,326	1,332	n.r.	n.r.	n.r.
Loans and advances to customers	19,379	20,116	n.r.	n.r.	n.r.
Financial investments	69	70	n.r.	n.r.	n.r.
Non-current assets held for sale and disposal groups	90	90	n.r.	n.r.	n.r.
Other assets	56	56	n.r.	n.r.	n.r.
No IFRS 9 category	**128**	**125**	**–**	**25**	**–**
Positive fair values of hedging derivatives	25	25	–	25	–
Receivables under finance leases	35	35	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	68	65[1)]	n.r.	n.r.	n.r.
Total assets	**30,983**	**31,724**	**2,909**	**3,633**	**648**

[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 € 3 million pertain to loans and advances in the AC holding category.

Fair values of financial instruments

Assets

(€ m) 31.12.2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVOCI Mandatory	**5,878**	**5,878**	**1,954**	**3,788**	**136**
Loans and advances to banks	22	22	–	22	–
Loans and advances to customers	1,055	1,055	–	1,055	–
Financial investments	4,801	4,801	1,954	2,711	136
FVPL Designated	**123**	**123**	**–**	**123**	**–**
Loans and advances to customers	61	61	–	61	–
Financial investments	62	62	–	62	–
FVPL Held For Trading	**1,544**	**1,544**	**–**	**1,314**	**230**
Trading assets	1,544	1,544	–	1,314	230
FVPL Other	**832**	**832**	**12**	**489**	**331**
Loans and advances to customers	314	314	–	–	314
Financial investments	510	510	12	489	9
Non-current assets held for sale and disposal groups	8	8	–	–	8
AC assets	**24,663**	**25,486**	**–**	**4,264**	**21,222**
Cash reserve	1,741	1,741	–	1,741	–
Loans and advances to banks	1,536	1,539	–	961	578
Loans and advances to customers	20,429	21,239	–	1,260	19,979
Financial investments	86	88	–	57	31
Non-current assets held for sale and disposal groups	626	634	–	–	634
Other assets	245	245	–	245	–
No IFRS 9 category	**160**	**158**	**–**	**2**	**–**
Positive fair values of hedging derivatives	2	2	–	2	–
Receivables under finance leases	50	50	n.r.	n.r.	n.r.
Value adjustments from the portfolio fair value hedge	108	106[1)]	n.r.	n.r.	n.r.
Total assets	**33,200**	**34,021**	**1,966**	**9,980**	**21,919**

[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 € 2 million pertain to loans and advances in the AC holding category.

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

Fair values of financial instruments

Liabilities

(€ m) 30.06.2021	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVPL Designated	**742**	**742**	**-**	**378**	**364**
Liabilities to banks	115	115	-	12	103
Liabilities to customers	293	293	-	146	147
Securitised liabilities	334	334	-	220	114
FVPL Held For Trading	**504**	**504**	**-**	**446**	**58**
Trading liabilities	504	504	-	446	58
AC liabilities	**24,847**	**25,326**	**n.r.**	**n.r.**	**n.r.**
Liabilities to banks	6,420	6,392	n.r.	n.r.	n.r.
Liabilities to customers	11,881	12,225	n.r.	n.r.	n.r.
Securitised liabilities	5,419	5,477	n.r.	n.r.	n.r.
Other liabilities	185	185	n.r.	n.r.	n.r.
Subordinated capital	942	1,047	n.r.	n.r.	n.r.
No IFRS 9 category	**354**	**142**	**-**	**142**	**-**
Negative fair value of hedging derivatives	142	142	-	142	-
Value adjustments from the portfolio fair value hedge	212	-	n.r.	n.r.	n.r.
Total liabilities	**26,447**	**26,714**	**-**	**966**	**422**

Fair values of financial instruments

Liabilities

(€ m) 31.12.2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
FVPL Designated	**932**	**932**	**-**	**448**	**484**
Liabilities to banks	112	112	-	11	101
Liabilities to customers	417	417	-	151	266
Securitised liabilities	403	403	-	286	117
FVPL Held For Trading	**686**	**686**	**-**	**625**	**61**
Trading liabilities	686	686	-	625	61
AC liabilities	**26,505**	**27,160**	**-**	**22,411**	**4,749**
Liabilities to banks	7,366	7,364	-	7,333	31
Liabilities to customers	12,687	13,131	-	8,496	4,635
Securitised liabilities	5,267	5,347	-	5,264	83
Other liabilities	245	245	-	245	-
Subordinated capital	940	1,073	-	1,073	-
No IFRS 9 category	**640**	**371**	**-**	**371**	**-**
Negative fair value of hedging derivatives	371	371	-	371	-
Value adjustments from the portfolio fair value hedge	269	-	n.r.	n.r.	n.r.
Total liabilities	**28,763**	**29,149**	**-**	**23,855**	**5,294**

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) 30.06.2021	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Financial investments						
thereof FVOCI Mandatory	1,193	-32	32	-1,193	–	–
thereof FVPL Other	–	-25	25	–	–	–
Total	**1,193**	**-57**	**57**	**-1,193**	**-**	**-**

Transfer, assets

(€ m) 31.12.2020	Transfer to Level 1	Transfer from Level 1	Transfer to Level 2	Transfer from Level 2	Transfer to Level 3	Transfer from Level 3
Trading assets (FVPL Trading)	-	-	4	-3	3	-4
Financial investments	-	-	-	-	-	-
thereof FVOCI Mandatory	437	-1,613	1,613	-437	-	-
thereof debt instruments	437	-1,613	1,613	-437	-	-
Total	**437**	**-1,613**	**1,617**	**-440**	**3**	**-4**

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

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

Reconcilation, Assets

(€ m)		Change in balance affecting income		Changes in volume	
30.06.2021	1 January 2021	Net income recognised in profit or loss	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	314	39	–	–	-51
Trading assets (FVPL Trading)	230	-10	–	–	–
Financial investments					
thereof FVOCI Mandatory	136	-1	–	31	-19
thereof FVPL Other	9	–	–	–	-1
Non-current assets held for sale and disposal groups					
thereof FVPL Other	8	–	–	–	–
Total	**697**	**28[1)]**	**-**	**31**	**-71**

[1)] Of the net income in the income statement recognised in profit or loss, € 34 million relates to net income from financial instruments categorised as FVPL, € -5 million to the net interest result and € -1 million to net income from financial investments.

Reconcilation, Assets

(€ m)		Change in balance affecting income		Changes in volume	
31.12.2020	1 January 2020	Net income recognised in profit or loss	OCI reserve	Purchases	Sales
Balance sheet item/category/ instrument type					
Loans and advances to customers					
thereof FVPL Other	373	-23	–	38	-16
Trading assets (FVPL Trading)	345	-143	–	56	-10
Financial investments					
thereof FVOCI Mandatory	20	1	–	115	–
thereof FVPL Other	36	4	–	1	-1
Non-current assets held for sale and disposal groups					
thereof FVPL Other	8	–	–	–	–
Total	**782**	**-161[1)]**	**-**	**210**	**-27**

[1)] Of the net income in the income statement recognised in profit or loss, € -157 million relates to the result from financial instruments categorised as FVPL and € -4 million to the net interest result.

Changes in volume		Transfers					
Issues	Settlements	From Stage 3	To Stage 3	Transfer/ recategorisa-tion	Exchange rate changes	30 June 2021	Net income from assets held as at 30 June 2021
–	-9	–	–	–	5	298	-2
–	-10	–	–	–	1	211	4
–	-25	–	–	–	1	123	–
–	–	–	–	–	–	8	–
–	–	–	–	–	–	8	–
-	**-44**	**-**	**-**	**-**	**7**	**648**	**2**

Changes in volume		Transfers					
Issues	Settlements	From Stage 3	To Stage 3	Transfer/ recategorisa-tion	Exchange rate changes	31 December 2020	Net income from assets held as at 31 December 2020
–	-39	–	–	–	-19	314	-5
–	-13	-4	3	–	-4	230	-11
–	–	–	–	–	–	136	–
–	–	–	–	–	–	9	–
–	–	–	–	–	–	8	–
-	**-52**	**-4**	**3**	**-**	**-23**	**697**	**-16**

Reconcilation, Liabilities

(€ m)		Change in balance affecting income		Changes in volume	
	1 January 2021	Net income recognised in profit or loss	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	101	1	1	–	–
Liabilities to customers					
FVPL Designated	266	–10	1	–	–111
Securitised liabilities					
FVPL Designated	117	–	–	–	–
Trading liabilities (FVPL Trading)	61	–3	–	–	–
Total	**545**	**–12[1)]**	**2**	**–**	**–111**

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

Reconcilation, Liabilities

(€ m)		Change in balance affecting income		Changes in volume	
31.12.2020	1 January 2020	Net income recognised in profit or loss	Net income not recognised in profit or loss	Purchases	Sales
Balance sheet item/category/ instrument type					
Liabilities to banks					
FVPL Designated	111	-3	–	–	–
Liabilities to customers					
FVPL Designated	343	1	–	–	–
Securitised liabilities					
FVPL Designated	354	-51	-4	-204	70
Trading liabilities (FVPL Trading)	87	-80	–	50	–
Total	**895**	**-133[1)]**	**-4**	**-154**	**70**

[1)] Of the net income in the income statement, € -128 million relates to the result from financial instruments categorised as FVPL and € -5 million to the net interest result.

Changes in volume		Transfers					
New business	Settlements	From Stage 3	To Stage 3	Transfer/ recategorisa-tion	Exchange rate changes	30 June 2021	Net income from assets held as at 30 June 2021
–	–	–	–	–	–	103	2
–	1	–	–	–	–	147	-1
–	–	–	–	–	-3	114	1
–	–	–	–	–	–	58	-3
–	**1**	**–**	**–**	**–**	**-3**	**422**	**-1**

Changes in volume		Transfers					
New business	Settlements	From Stage 3	To Stage 3	Transfer/ recategorisa-tion	Exchange rate changes	31 December 2020	Net income from assets held as at 31 December 2020
–	-7	–	–	–	–	101	-2
–	-75	–	–	–	-3	266	-10
–	-37	–	–	–	-11	117	-4
–	–	–	6	-2	–	61	-4
–	**-119**	**–**	**6**	**-2**	**-14**	**545**	**-20**

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) 30.06.2021		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	298		DCF method	Spread (bps)	30 – 1496
				Option pricing model	Interest rate FX correlation	-39% - 6%
Trading assets/trading liabilities	FVPL Held For Trading	211	58	DCF method	Spread	30 – 1,496
					Longevity	10% - 33%
				Option pricing model	Interest rate volatility	8% - 46%
					Interest rate FX correlation	-39% - 6%
					FX correlation	-17% - 78%
Financial investments	FVPL Other	8		Price	Price	1 – 11,471
				DCF method	Capital costs	6% - 8%
	Mandatory FVOCI	123		DCF method	Spread (bps)	9 – 232
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Capital costs	6% - 8%
Liabilities to banks	FVPL Designated		103	Option pricing model	Interest rate volatility	8% - 46%
					Interest rate FX correlation	-39% - 6%
Liabilities to customers	FVPL Designated		147	Option pricing model	Interest rate volatility	8% - 46%
				Price	Price	9
Securitised liabilities	FVPL Designated		114	Option pricing model	Interest rate volatility	8% - 46%
					FX correlation	-17% - 78%
Total		**648**	**422**			

Fair value

(€ m) 31.12.2020		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (Level 3)	Margin
Loans and advances to customers	FVPL Other	314		DCF method	Spread (bps)	48 – 1470
				Option pricing model	Interest rate FX correlation	-35% - 9%
				Price	Price	2 – 85
Trading assets/trading liabilities	FVPL Held For Trading	230	61	DCF method	Spread	48 – 1,470
					Longevity	10% - 33%
				Option pricing model	Interest rate volatility	9% - 47%
					Interest rate FX correlation	-35% - 9%
					FX correlation	3% - 79%
Financial investments	FVPL Other	9		Price	Price	1 – 11,471
				DCF method	Capital costs	6% - 8%
	Mandatory FVOCI	136		DCF method	Spread (bps)	48 – 1470
Non-current assets held for sale and disposal groups	FVPL Other	8		DCF method	Capital costs	6% - 8%
Liabilities to banks	FVPL Designated		101	Option pricing model	Interest rate volatility	9% - 47%
					Interest rate FX correlation	-35% - 9%
Liabilities to customers	FVPL Designated		266	Option pricing model	Interest rate volatility	9% - 47%
					Interest rate FX correlation	-35% - 9%
				Price	Price	2- 10
Securitised liabilities	FVPL Designated		117	Option pricing model	Interest rate volatility	9% - 47%
					FX correlation	3% - 79%
Total		**697**	**545**			

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

The overview also includes financial instruments whose change in value resulting from inputs unobservable in the market does not give rise to any P&L effect due to economic hedging relationships (at the micro level). Changes in value attributable to the respective relevant inputs are offset for these financial instruments by the changes in value of the hedging derivatives.

IV. Sensitivities of fair values in relation to unobservable inputs

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

CORRELATION

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

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

VOLATILITY

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

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

PRICE

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

V. Reciprocal effects between unobservable inputs

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

EFFECTS OF UNOBSERVABLE INPUTS

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

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had certain effects on the fair values of the financial instruments in question. Advantageous and disadvantageous changes to fair value have been determined by recalculating the fair values based on possible alternative values to the relevant unobservable inputs. The interest volatilities were changed by +/- 5 %, all correlations by +/- 20 % (capped at +/- 100 %), price parameters by +/- 2 % and spreads by +/- 50 bp. Overall, this would then have had a positive/negative effect on the fair values of the financial instruments in question in the amount of € 20 million (31 December 2020: € 19 million). Of this amount, € 17 million was recognised in the income statement as income/expense and € 3 million in the revaluation reserve (31 December 2020: € 16 million income statement; € 3 million revaluation reserve).

VI. Day One Profit and Loss

The day one profit and loss reserve developed as follows:

(€ m)	30.06.2021	31.12.2020
Holdings as at 1 January	6	6
Additions not recognised in profit or loss	–	1
Reversals recognised in profit or loss	1	1
Holdings as at 30 June/31 December	**5**	**6**

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

40. Credit risk analysis of financial assets

I. Credit quality

The following table contains information on the credit quality of all financial instruments held by the Bank. 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) 30.06.2021		1(AAA) to 1(AA+)	1(AA) to 1(A-)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve				
	thereof AC assets	2,770	–	–	–
	Loans and advances to banks				
	thereof AC assets	716	602	2	6
	thereof FVOCI Mandatory	–	20	–	–
	Loans and advances to customers				
	thereof AC assets	454	4,598	6,234	5,485
	thereof FVOCI Mandatory	730	109	–	–
	Financial investments				
	thereof AC assets	–	–	44	25
	thereof FVOCI Mandatory	2,121	1,757	500	47
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	11	79
	Other assets				
	thereof AC assets	–	56	–	–
	No holding category				
	Receivables under finance lease transactions	–	35	–	–
	Contingent liabilities	10	128	137	59
	Irrevocable loan commitments	52	851	1,802	1,007
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers				
	thereof AC assets	–	–	693	1,064
	thereof FVOCI Mandatory	6	–	–	–
	No holding category				
	Contingent liabilities	–	–	9	4
	Irrevocable loan commitments	–	–	90	79
Credit-impaired (LECL Stage 3)	Loans and advances to customers				
	thereof AC assets	–	–	–	119
	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		**6,859**	**8,156**	**9,522**	**7,974**

Credit quality

(€ m) 30.06.2021		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve			
	thereof AC assets	–	–	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to customers			
	thereof AC assets	31	28	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets			
	Other assets			
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	–	–
	Irrevocable loan commit-ments	3	–	8
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers			
	thereof AC assets	480	220	–
	thereof FVOCI Mandatory	–	–	–
	No holding category			
	Contingent liabilities	2	6	–
	Irrevocable loan commit-ments	24	23	–
Credit-impaired (LECL Stage 3)	Loans and advances to customers			
	thereof AC assets	8	–	460
	No holding category			
	Contingent liabilities	–	–	26
	Irrevocable loan commit-ments	2	–	44
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	15
Total		**550**	**277**	**553**

Credit quality

(€ m) 31.12.2020		1(AAA) to 1(AA+)	1(AA) to 1(A–)	2 to 5	6 to 9
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve				
	thereof AC assets	1,741	–	–	–
	Loans and advances to banks				
	thereof AC assets	854	406	269	7
	thereof FVOCI Mandatory	22	–	–	–
	Loans and advances to customers				
	thereof AC assets	562	3,899	7,296	5,785
	thereof FVOCI Mandatory	937	112	–	–
	Financial investments				
	thereof AC assets	–	–	55	31
	thereof FVOCI Mandatory	2,598	1,564	638	3
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	351	258
	Other assets				
	thereof AC assets	–	245	–	–
	No holding category				
	Receivables under finance lease transactions	–	50	–	–
	Contingent liabilities	11	128	139	48
	Irrevocable loan commitments	122	481	1,891	1,424
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers				
	thereof AC assets	–	–	613	872
	thereof FVOCI Mandatory	–	–	6	–
	Non-current assets held for sale and disposal groups				
	thereof AC assets	–	–	–	17
	No holding category				
	Contingent liabilities	–	–	13	6
	Irrevocable loan commitments	–	–	90	67
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		**6,847**	**6,885**	**11,361**	**8,518**

Credit quality

(€ m) 31.12.2020		10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12M ECL)	Cash reserve			
	thereof AC assets	–	–	–
	Loans and advances to banks			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Loans and advances to customers			
	thereof AC assets	121	57	–
	thereof FVOCI Mandatory	–	–	–
	Financial investments			
	thereof AC assets	–	–	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	Other assets			
	thereof AC assets	–	–	–
	No holding category			
	Receivables under finance lease transactions	–	–	–
	Contingent liabilities	–	–	–
	Irrevocable loan commitments	8	5	–
Financial instruments with a significant deterioration in credit quality (LECL Stage 2)	Loans and advances to customers			
	thereof AC assets	922	310	–
	thereof FVOCI Mandatory	–	–	–
	Non-current assets held for sale and disposal groups			
	thereof AC assets	–	–	–
	No holding category			
	Contingent liabilities	2	10	–
	Irrevocable loan commitments	49	23	–
Credit-impaired (LECL Stage 3)	Loans and advances to customers			
	thereof AC assets	–	–	545
	No holding category			
	Contingent liabilities	–	–	27
	Irrevocable loan commitments	–	–	48
Financial instruments that are purchased or originated credit-impaired (POCI)	Loans and advances to customers			
	thereof AC assets	–	–	16
Total		**1,102**	**405**	**636**

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		
30.06.2021	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	–	–	–	–
Financial investments	41	–	–	–
FVPL Other				
Loans and advances to customers	300	43	–	–
Financial investments	525	–	–	–
Non-current assets held for sale and disposal groups	8	–	–	–
FVPL Held For Trading				
Trading assets	1,002	174	21	100
No holding category				
Positive fair values of hedging derivatives	25	–	–	–
Value adjustments from the portfolio fair value hedge	68	–	–	–
Total assets	**1,969**	**217**	**21**	**100**

Financial assets and associated collateral

(€ m)		Value of collateral received		
31.12.2020	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
FVPL Designated				
Loans and advances to customers	61	–	–	–
Financial investments	62	–	–	–
FVPL Other				
Loans and advances to customers	314	50	–	–
Financial investments	510	–	–	–
Non-current assets held for sale and disposal groups	8	–	–	–
FVPL Held For Trading				
Trading assets	1,544	180	24	298
No holding category				
Positive fair values of hedging derivatives	2	–	–	–
Value adjustments from the portfolio fair value hedge	108	–	–	–
Total assets	**2,609**	**230**	**24**	**298**

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		
30.06.2021	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
AC assets				
Loans and advances to customers	602	186	–	42
No holding category				
Contingent liabilities	26	3	2	8
Irrevocable loan commitments	46	–	–	–
Total assets	**674**	**189**	**2**	**50**

For loans and advances to customers amounting to € 27 million (31 December 2020: € 42 million), no impairment losses were recognised despite default due to the collateral available.

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

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

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

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

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

Hamburg Commercial Bank received collateral from counterparties with a total fair value of € 189 million (31 December 2020: € 326 million). The collateral received is split up as follows: € 189 million (31 December 2020: € 326 million) relates to OTC derivatives and structured transactions. Neither as at the reporting date nor as at 31 December 2020 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 € 85 million (31 December 2020: € 326 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 2020: € 96 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) 30.06.2021	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	702	437	1,139
Irrevocable and revocable loan commitments	57	40	97
Total	**759**	**478**	**1,237**

Forbearance exposure

(€ m) 31.12.2020	Rating class 1–15	Rating class 16–18	Total
Loans and advances to customers	645	460	1,105
Irrevocable and revocable loan commitments	36	41	77
Total	681	501	1,182

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 287 million have already been set up for the portfolios measured at amortised cost (31. December 2020: € 322 million).

42. Contingent liabilities and irrevocable loan commitments

Contingent liabilities

(€ m)	30.06.2021	31.12.2020
Contingent liabilities	824	968
Loan commitments	3,986	4,209
Total	**4,810**	**5,177**

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

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

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

I. Entities with a significant influence over the Bank

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

Companies with a significant influence – Assets

(€ m)	30.06.2021	31.12.2020
Liabilities to customers	–	1
Total	**-**	**1**

Companies with a significant influence – Statement of income

(€ m)	January–June 2021	January–June 2020
Net interest income	-1	-1
Total	**-1**	**-1**

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

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

II. Subsidiaries

As in the prior-year period, transactions with non-consolidated subsidiaries were insignificant as at the reporting date. The transactions with unconsolidated subsidiaries are shown below:

(€ m)	30.06.2021	31.12.2020
Liabilities to customers	7	1
Other liabilities	1	1
Total	**8**	**2**

III. Associates

The transactions with unconsolidated subsidiaries associated are shown below:

Associates – Liabilities

(€ m)	30.06.2021	31.12.2020
Liabilities to customers	4	4
Total	**4**	**4**

IV. Joint ventures

The following tables show the transactions with joint ventures:

Joint ventures – Assets

(€ m)	30.06.2021	31.12.2020
Loans and advances to customers	11	12
Total	**11**	**12**

Joint ventures – Liabilities

(€ m)	30.06.2021	31.12.2020
Liabilities to customers	1	3
Total	**1**	**3**

Joint ventures – Income statement

(€ m)	January–June 2021	January–June 2020
Result from financial instruments categorised as FVPL	-1	-1
Total	**-1**	**-1**

V. Other related parties and companies

No transactions were entered into with individuals in key positions at Hamburg Commercial Bank AG and their close relatives or companies controlled by them at the balance sheet date, as in previous year, there were no material transactions (less than € 1 million).

VI. Pension plans

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

Management Board members

STEFAN ERMISCH
Born in 1966
Chief Executive Officer (CEO)

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

IAN BANWELL
Born in 1963
Chief Financial Officer (CFO)

CHRISTOPHER BRODY
Jahrgang 1968
Chief Investment Officer (CIO)

DR. NICOLAS BLANCHARD
Born in 1968
Chief Clients and Products Officer (CCO)
(by 31th March 2021)

Hamburg, 17 August 2021

Stefan Ermisch	Ulrik Lackschewitz
Ian Banwell	Christopher Brody

Review report

To Hamburg Commercial Bank AG, Hamburg
We have reviewed the condensed consolidated interim 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 period 1 January to 30 June 2021 which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act ap-plicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Hamburg, den 17. August 2021
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber	ppa. Tim Brücken
Wirtschaftsprüfer	Wirtschaftsprüfer

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, 17 August 2021

Stefan Ermisch | Ulrik Lackschewitz

Ian Banwell | Christopher Brody

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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 19 August 2021 and is available for download from **www.hcob-bank.com.**

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

Forward-looking Statements

This Financial Report includes certain forward-looking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forward-looking statement involves information that does not simply reflect historical facts, information relating to possible or anticipated future growth and future economic development.

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are beyond our control. Therefore actual events may differ from those forecast in the forward-looking statements. In view of this, you are advised never to rely to an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this Financial Report. Furthermore, we are not obliged to update the forward-looking statements following the publication of this information.
In addition, information contained in this Financial Report does not represent any kind of offer for the acquisition or sale of any type of securities of Hamburg Commercial Bank AG.

Hamburg Commercial Bank AG

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