Interim Report
as at 30 June

2020

HSBC Trinkaus & Burkhardt Group

HSBC

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	01.01. to 30.06.2020	01.01. to 30.06.2019**	Change in %
Income statement in €m			
Operating revenues*	464.7	385.2	20.6
Net loan impairment provision	66.7	29.2	> 100.0
Administrative expenses	315.1	320.0	–1.5
Pre-tax profit	98.6	47.2	> 100.0
Tax expenses	34.1	16.6	> 100.0
Net profit for the year	64.5	30.6	> 100.0
Ratios			
Cost efficiency ratio of usual business activity in %	65.5	80.7	–
Return on equity before tax in % (projected for the full year)	8.3	4.2	–
Net fee income in % of operating revenues	57.8	57.6	–
No. of employees at the reporting date	3,017	3,104	–2.8
Share information			
Average number of shares in circulation in €m	34.1	34.1	0.0
Earnings per share (€)	1.42	0.68	> 100.0
Share price at the reporting date in €	62.5	52.0	20.2
Market capitalisation at the reporting date in €m	2,131.3	1,773.2	20.2

	30.06.2020	31.12.2019	Change in %
Balance sheet figures in €m			
Total assets	32,914.5	26,592.8	23.8
Shareholders' equity	2,519.0	2,488.6	1.2
Regulatory ratios			
Tier 1 capital in €m	2,054.1	1,998.2	2.8
Regulatory capital in €m	2,362.2	2,314.2	2.1
Risk-weighted assets in €m	15,963.4	15,897.2	0.4
Tier 1 ratio in %	12.9	12.6	–
Equity ratio in %	14.8	14.6	–

* Operating revenues include net interest income, net fee income, net trading income and the balance of other operating income and expenses.
** Comparative figures adjusted. The adjustments are explained in the note on adjustments to accounting methods in the presented reporting periods.

Contents

4 **Letter to Shareholders**

7 **Interim Management Report**
- 8 Economic Report
- 14 Outlook and Opportunities
- 16 Risk Report

29 **Condensed Consolidated Interim Financial Statements**
- 30 Consolidated Balance Sheet
- 32 Consolidated Statement of Comprehensive Income
- 34 Consolidated Statement of Changes in Equity
- 35 Condensed Consolidated Cash Flow Statement
- 36 Selected Notes to the Condensed Consolidated Interim Financial Statements

68 **Responsibility Statement by the Management Board**

69 **Auditor's Report**

70 **Key Dates**

71 **Imprint**

72 **Locations**

Dear Shareholders,

The Covid-19 pandemic had a significant impact on the financial performance of the Bank in the first half of 2020. The historic economic slump caused net loan impairment provisions to rise by 128 % to €66.7 million. Nevertheless, the Bank was able to fully leverage the strengths of its diversified business model in a very difficult market environment. Thanks mainly to its thriving capital market business, operating revenues climbed compared to the first half of 2019 by 20.6 % to €464.7 million. Pre-tax profit increased to €98.6 million (previous year: €47.2 million) despite the higher net loan impairment provisions.

Through this economic crisis, we have demonstrated the quality of our client relationships. In these difficult times, we have not only provided our clients with liquidity, but have also increasingly supported them in tapping into capital markets and helped to protect them against sharp fluctuations in the markets. However, as there is still no end in sight to the macroeconomic dry spell, we will have to continue to live with great uncertainty for the rest of the year.

Despite the strong first half of the year, HSBC Germany expects only a slight year-on-year increase in operating revenues for the full year. This results from the effect that the second half of 2019 was significantly more successful than the first half of last year. The increase in operating revenues for the full year will be more than offset by credit risk provisions well above original planning. As a result, pre-tax profit for the year as a whole is expected to be slightly below the previous year's level.

Net fee income in particular improved significantly in the first half of the year, increasing to €268.4 million (previous year: €221.7 million). The main factors contributing to this rise were activities related to HSBC Securities Services, which increased the number of securities transactions settled to 104 million (previous year: 31 million), and Capital Financing, which was able to build on the very good results of previous years and more than quadrupled net fee income.

By the same token, trading benefited from higher volatility in almost all relevant markets. Net trading income almost doubled to €75.1 million (previous year: €40.7 million). Of that total, €64.5 million alone (previous year: €22.3 million) was attributable to trading with equities and equity/index derivatives.

Net interest income increased slightly to €115.6 million (previous year: €113.5 million) despite the ongoing impact of the negative interest rate. The pressure on the interest margin was more than offset by higher volumes. Loans and advances to customers rose by 8 % to €11.7 billion.

As in the second half of 2019, the efficiency programme to further enhance processes and structures resulted in relief on the cost side, with administrative expenses decreasing by €4.9 million to €315.1 million. Personnel expenses fell by €7.4 million to €189.5 million. Other administrative expenses amounted to €107.8 million, slightly higher than in the previous year (€104.5 million). The cost efficiency ratio improved year on year from 80.7 % to 65.5 %.

In the individual divisions, Commercial Banking (CMB) was able to increase operating revenues by around 13% to €108.7 million. Net fee income increased particularly strongly by 50 % to €39.8 million. In response to the economic turbulence, however, net loan impairment provisions also rose significantly by around €28 million. As a result, the division reports a pre-tax loss of €3.8 million, as compared to €7.9 million pre-tax profit in the same period of the previous year.

The Global Banking & Markets segment (GB&M) recorded the strongest growth in the first half of the year. Operating revenues increased by 28 % to €296.9 million. Net fee income rose by €32 million to €178.6 million (previous year: €146.1 million), and net trading income also improved by more than €30 million to €68.6 million (previous year: €37.8 million). As many clients made intense use of the capital market, Capital Financing was able to increase net fee income by €26.7 million to €34.8 million. Growth was also achieved in HSBC Securities Services. The portfolio business and the traditional transaction business recorded a significant increase in fee income. However, it was not possible to repeat the excellent results of the previous year in the arrangement of business involving alternative investments.

The strong revenue growth was offset by an increase in net loan impairment provisions in GB&M to €7.8 million. At the same time, administrative expenses decreased by €4 million. All in all, the segment more than tripled its pre-tax profit to €98.8 million (previous year: €28.7 million).

In the Private Banking & Asset Management division, operating revenues fell slightly to €55.3 million (previous year: €57.0 million). While net interest income was €0.7 million lower, net fee income benefited from revenue growth in the area of asset management for private clients as well as business with special funds, increasing by €0.8 million. Since administrative expenses fell by €2.6 million at the same time, the division recorded a €2.7 million increase in pre-tax profit to €10.2 million at mid-year.

The total assets of HSBC Germany increased from €26.6 billion to €32.9 billion in the first six months of the year. This corresponds to an increase of €6.3 billion, or 23.8 %, and is largely related to the Covid-19 crisis. In the wake of the turmoil on the capital markets, many institutional customers who keep their funds with HSBC Germany have increased their cash register positions. This has led to higher deposits. The Tier 1 capital ratio increased to 12.9 % (end of 2019: 12.6 %) and the equity ratio to 14.8 % (end of 2019: 14.6 %). The return on equity is 8.3 %.

The fact that the Bank mastered the tremendous challenges in the first half of 2020 is first and foremost the result of our employees' hard work and dedication, for which we thank them most sincerely. Through their pragmatism, flexibility and stellar commitment, they have played an instrumental role in helping HSBC Germany make it through the crisis in good shape so far.

We know that many of our employees have had to bear tremendous private burdens as a result of the measures to combat the coronavirus pandemic. Those who have had to care for family members or children stuck at home following school and daycare closures have often faced difficult situations despite being able to work remotely. We will continue to find pragmatic solutions for our employees so as to keep the strain for each individual person as low as possible in these challenging times.

Following the outbreak of the coronavirus pandemic in Germany, the Bank enabled nearly all of its employees to work from home. Thomas Runge, our Chief Operating Officer (COO), is responsible for the Bank's coronavirus-related crisis management activities. He joined HSBC Germany in May 2019 and was promoted from the Executive Committee to Management Board member with effect from 1 June 2020. The move underscores the importance of technology and process efficiency in HSBC Germany's transformation process.

At the present time, no one is quite able to reliably predict how the coronavirus pandemic will continue to develop. We are still in the midst of the crisis. The HSBC Group's clear sign of its commitment to Germany, especially in these times, sends a strong signal. In late May, the Group announced its intent to acquire a 100 % stake in HSBC Germany. The first step involved buying the block of shares held by Landesbank Baden-Württemberg. Moreover, the plans call for the Group to buy out the remaining shares that are currently still in free float by way of a squeeze out. The change in the ownership structure marks the start of a new chapter in our 235-year company history. We look forward to the future and would like to thank you, our shareholders, for your trust and long-standing loyalty.

Yours faithfully,

The Management Board

Carola Gräfin v. Schmettow **Dr. Rudolf Apenbrink** **Nicolo Salsano**

Fredun Mazaheri **Thomas Runge**

Interim Management Report

8 Economic Report

8 General economic and sector-related framework

9 Business performance and situation
9 Profitability
11 The asset situation
12 The financial position

14 Outlook and Opportunities

16 Risk Report

16 Risk management at the HSBC Trinkaus & Burkhardt Group
16 Principles of risk management policy
16 Internal Capital Adequacy Assessment Process

17 Risk categories
17 Counterparty credit risk
24 Market risks
25 Liquidity risks
26 Operational risks
27 Overall picture of the risk situation

Economic Report

General economic and sector-related framework

In the wake of the Covid-19 pandemic and the lockdown measures adopted by many governments to contain it, the first quarter of 2020 saw a historic collapse in economic output in the Eurozone, with a quarter-on-quarter decline of 3.6 %. By contrast, the decline in gross domestic product in Germany (– 2.0 % compared to the previous quarter) was somewhat less dramatic because the restrictions on public life were implemented later and less drastically. The slump is likely to have worsened considerably in Q2, with the low point of economic activity probably being in April, as suggested by some high-frequency indicators such as electricity consumption, freight traffic and mobility data, as well as by company-related leading economic indicators such as the purchasing managers' indices. The latter initially fell to record lows across countries, both in manufacturing and in the service sector, which was particularly affected by social distancing measures, only to recover noticeably from May onwards with successive loosening of the lockdown. Although the Eurozone and Germany should return to a path of growth, partly due to extensive fiscal policy measures in the third quarter of 2020, the economy is unlikely to already return to its pre-crisis level in 2021. In order to contain the negative effects on labour markets to the greatest extent possible, many governments have introduced or simplified access to short-time working arrangements. Nevertheless, this has not been able to prevent unemployment rates from shooting up during the crisis. The resulting uncertainty is likely to continue to make households cautious about consumer activity for the time being. As a consequence, the savings rate has risen to record levels in many countries. Only when the Covid-19 pandemic comes to an end or a vaccine becomes widely available can a sustained normalisation of consumption be expected. In view of extremely low capacity utilisation and fragile global demand, companies are likely to exercise restraint when it comes to investments for the time being. However, the German government has attempted to actively counteract this by adopting more favourable depreciation rules. All in all, the gross domestic product (GDP) in the Eurozone is expected to decline by 8.1 % this year, followed by an expansion of 6.5 % in 2021. The equivalent estimates for Germany are – 7.2 % for 2020 and + 5.2 % in 2021. This would mean that the GDP level at the end of 2019 would not be reached again before 2022. The risks with these forecasts lie mainly in the potential occurrence of new waves of contagion that could force a reintroduction of lockdown measures. In addition, renewed escalation of the trade dispute between the US and mainland China and intensification of the conflict between the US and the EU would make the situation difficult for global trade and create a new burden, especially for an export-oriented economy such as that of Germany.

Having purchased securities worth €20 billion per month since November 2019, the European Central Bank (ECB) decided to take additional extensive new liquidity measures in view of the serious slump in growth and the resulting downward risks to inflation. In addition to an announcement (12 March 2020) to buy up an additional €120 billion in securities by the end of 2020, it announced on 18 March 2020 a "pandemic emergency purchase programme" (PEPP) in the amount of €750 billion with a term until the end of 2020. The PEPP was expanded by €600 billion on 4 June, and the term of the purchases was extended to mid-2021, as it threatened to already reach the set limit in the autumn due to heavy purchases to stem the distortions, especially of Italian government bonds. Subsequently, the capital markets experienced a noticeable calming of the yields of government bonds from the periphery. The US Federal Reserve also acted very decisively to counteract the distortions in the economy and capital markets. After initially purchasing unlimited government bonds and mortgage-backed securities (MBS), the Fed announced in June that it would reduce the monthly purchase volume to USD 80 billion (Treasuries) and USD 40 billion (MBS). We do not expect either the Fed or the ECB to adjust key rates before the end of 2021.

Business performance and situation

Profitability

The HSBC Trinkaus & Burkhardt Group recorded a pre-tax profit of €98.6 million in the first half of 2020. This significant increase of €51.4 million as compared with the weak result for the same period of the previous year is mainly due to a year-on-year increase in net fee income and a significant improvement in net trading income, despite a significant increase in net loan impairment provision. Net profit amounted to €64.5 million and was therefore €33.9 million above the adjusted previous-year figure of €30.6 million.

Business performance in the first half of 2020 was largely shaped by the Covid-19 pandemic and the resulting negative impact on the global economy, but also by the associated business opportunities. The difficult economic situation confronts many companies with real challenges, as reflected in a corresponding rise in risk provisioning requirements. At the same time, however, the turbulence on the global capital markets also led to a significant increase in our customers' activities on the capital markets, which had a positive impact on the Bank's revenues. Nevertheless, the intensity of competition and the pressure this exerts on margins remain high. Negative interest rates in the Eurozone, as well as the significant reduction in USD money market interest rates, continue to put pressure on margins in the deposit-taking business. High investments in customer projects continue to burden income in the current reporting period, but will lead to higher revenues with a time lag.

Our efficiency programme aimed at improving processes and structures and guiding the Bank towards a more profitable growth path continues to move ahead.

Changes in individual items of the income statement:

At €115.6 million, net interest income improved slightly compared to the previous year (€113.5 million) despite the ongoing burdensome low interest rate. In the client lending business, improved interest income was recorded due to higher volumes, especially in syndicated loans. The increase in volumes is due in particular to increased utilisation of lending facilities granted in the wake of the Covid-19 crisis. On the other hand, interest income from financial assets declined again. In the current market environment, it was only possible to replace maturing bonds with bonds offering a comparable risk profile with a far lower coupon. In the deposit-taking business, margins on euro sight deposits improved as a result of passing on negative interest rates. Margins on USD sight deposits fell sharply in the first half of the year as interest rates were cut. All in all, the low interest rate environment continues to be a considerable burden.

After net expenses for net loan impairment provisions of €29.2 million in the first six months of the previous year, the net expenses of €66.7 million in the reporting period constituted a significant increase of €37.5 million. The net expense from the creation of net loan impairment provisions in the amount of €31.3 million in the reporting period (previous year: €22.6 million) was attributable to a small number of credit exposures with itemised valuation allowance. The net additions to collectively assessed impairments, including direct write-offs, amounted to €35.5 million (previous year: €6.6 million) as a result of the deterioration in the forecast for the macroeconomic environment relevant for the Bank, particularly in view of the Covid-19 pandemic. Our conservative orientation is unchanged in relation to the assessment of default risks. Against the backdrop of the difficult economic environment and the different levels of concentration within our lending portfolio, a small number of problem cases can lead to individual impairments, as per the forecast report.

Despite the difficult market conditions, net commission income improved significantly by €46.7 million, or 21.1%, to €268.4 million (previous year: €221.7 million).

In the securities portfolio business, income rose year on year to €65.5 million (previous year: €61.5 million). The rise was mainly the result of volume-related higher income in the securities custody business.

Transactions with securities and other financial instruments saw slight year-on-year growth, resulting in net fee income of €55.9 million (previous year: €55.3 million). While fee income, particularly in the equities business, grew year on year due to a significant increase in transaction volumes in the wake of the market turbulence caused by the Covid-19 crisis, fee income from the arrangement of alternative investments declined significantly.

In the commission business with exchange rates, we recorded €40.3 million (previous year: €31.5 million), which corresponded to an increase of €8.8 million, or 27.9%. Against the backdrop of the difficult economic environment, the increase was due in particular to an increased need on the part of our customers to hedge against exchange rate fluctuations.

With competition intensity showing no signs of abating, net fee income from asset management amounted to €36.2 million in the first half of the year (previous year: €35.2 million).

Following the subdued development in the M&A market and in business involving corporate financing transactions throughout the industry in the first half of 2019, we were able to significantly increase net fee income from capital financing by €26.7 million to €34.8 million in the reporting period. A significant contribution to the improvement in income is due to the support provided for a major corporate transaction in the first half of 2020.

Net fee income from the lending business stood at €23.7 million in the first half of the year and was therefore up significantly year on year (previous year: €11.8 million). The increase is mainly due to higher credit fees in connection with the financing of a corporate transaction.

At €10.4 million, net fee income from payments and the documentary business fell slightly year on year by €0.4 million (previous year: €10.8 million).

Net trading income improved significantly by €34.4 million to €75.1 million (previous year: €40.7 million).

At €64.5 million, the result from trading with equity/ index derivatives significantly exceeded the result of €22.3 million recorded in the same period in the previous year. The increase is mainly due to the higher volatilities on almost all relevant markets compared with the previous year, from which the sale of and trading in share and share index certificates benefited in particular.

In bonds, money market transactions and interest rate derivatives trading, the result fell by €3.4 million from €13.8 million to €10.4 million in the current interest rate environment.

Foreign exchange trading was negative at €0.1 million (previous year: positive at €4.6 million).

The hedge result amounts to €0.3 million (previous year: € 0.1 million).

All told, administrative expenses decreased by €4.9 million, or 1.5 %, from €320.0 million to €315.1 million.

Despite general salary increases, personnel expenses amounted to €189.5 million in the first half of 2020, up €7.4 million as compared to the same period of the previous year (previous year: €196.9 million). This improvement is attributable to the need to process comparatively higher expenses for the efficiency programme launched at the time in the first half of 2019 and to lower expenses for variable compensation components in the current reporting period.

Other administrative expenses stood at €107.8 million and were up slightly year on year (previous year: €105.4 million). The significant year-on-year increase in expenses for services increasingly sourced from the HSBC Group and the renewed slight year-on-year increase in regulatory expenses were not fully offset by the cost savings achieved elsewhere.

The first release of the core banking system went live in early 2020. The introduction of the SAP module S/4HANA Finance saw the first parts of accounting and controlling placed on a new technical platform, with various processes digitalised. The next release, planned for Easter 2022, was no longer realistic in view of the resource and cost burden caused by the Covid-19 pandemic. For this reason, the Management Board decided to pause the current programme and to focus initially on stabilising the current systems as part of a follow-up programme.

Depreciation and amortisation on property, plant and equipment and intangible assets stood at €17.8 million and were €0.8 million lower year on year.

Income from financial assets increased by €11.4 million year on year to €16.5 million (previous year: €5.1 million) due to the realisation of valuation gains on bonds and other fixed-income securities in the financial investment portfolio.

Net expense from other financial assets measured mandatorily at fair value through profit or loss stood at €0.7 million (previous year: net income of €6.2 million). Expenses from the valuation of debt instruments in the current economic environment are offset by almost the same amount of income from the valuation of equity securities.

In the year under review, gains or losses from the disposal of financial assets measured at amortised cost stood at €0.0 million (previous year: €0.0 million).

Other net operating income stood at €5.6 million (previous year: €9.3 million). Despite higher income from customer-related projects, declining rental income due to the sale of a property in the second half of 2019 is a major factor in the decline in income. As in the corresponding previous-year period, other net income is negative at €0.1 million.

Income tax expenditure in the financial year amounted to €34.1 million and was €17.5 million higher year on year, equating to an unchanged tax rate of 34.6 %.

The cost efficiency ratio stood at 65.6 % (previous year: 80.7%).

Please refer to the "Customer Groups" section of the Notes for more information on the results of the individual groups.

The asset situation

Total assets increased by €6.3 billion and amounted to €32.9 billion as of the balance sheet date, compared with €26.6 billion at the end of the previous year.

Customer accounts remain the Bank's most important source of refinancing and amounted to €22.1 billion as at the reporting date (previous year: €17.7 billion), which is around 67.1% of the balance sheet total.

We regard the size of these deposits as a clear commitment on the part of the Bank's clients to its solid business policy and high credit standing.

As part of the HSBC Group, the Bank continues to enjoy a very good Fitch rating of "AA– (negative)".

At €4.1 billion, deposits by banks increased significantly compared to the previous year (€2.6 billion). This is due in particular to the increase in money market transactions and current accounts as at the reporting date.

Trading liabilities amounted to €1.8 billion, unchanged from the previous year. The negative market values of derivative financial instruments increased by €0.2 billion to €1.3 billion.

Provisions stood at €150.1 million and were up by €21.2 million compared to the previous year. The rise related primarily to provisions for pensions and similar obligations and is due to the negative development of plan assets and lower interest rates used to calculate obligations.

Subordinated capital fell from €551.3 million in the previous year to €527.7 million, mainly due to the scheduled repayment of promissory note loans.

Shareholders' equity increased by 1.2 % to €2,519.0 million (previous year's figure: €2,488.6 million). The achieved pre-tax return on equity of 8.3 % is significantly higher than the previous year's level (4.2 %) and, as forecast, is below the 10 % mark.

Share capital was €91.4 million, as in the previous year. Capital reserves remained unchanged at €720.9 million. The item Additional Tier 1 (AT 1) capital did not change in comparison with the previous year (€435 million). In the second quarter, a distribution on the Additional Tier 1 (AT 1) capital in the amount of approximately €22.5 million was made to the HSBC Group. The valuation reserve for debt instruments recognised at fair value through other comprehensive income amounted to €50.1 million and saw an increase of €2.3 million compared to the previous year's figure. The reserve for remeasuring the net pension obligation fell by €13.8 million compared to the previous year to €–110.1 million. This is due to the negative development of the plan assets compared to the forecast at the beginning of the year (€–9.7 million) and the effect of further reduced interest rates for the calculation of obligations (€–4.1 million).

The increase in the cash reserve due to the balance sheet date by €4.8 billion to €10.5 billion is related to the increase in customer accounts.

The loans and advances to banks in the amount of €2.0 billion remained at the same level as the previous year.

Loans and advances to customers after net loan impairment provisioning increased further from €10.9 billion to €11.7 billion. With a share of 35.6% (previous year: 40.9%), they are the largest item on the assets side of the balance sheet.

Trading assets amounted to €2.7 billion, a decline of €0.1 billion compared with the previous year. At €1.4 billion, the positive market values from derivative financial instruments increased by €0.3 billion compared with the previous year.

Financial assets of €4.0 billion (previous year: €3.5 billion) represented a €0.5 billion rise due to additions to bonds. Most of the financial assets consist of listed bonds eligible for refinancing with central banks and serve as a liquidity cushion.

The decline in property, plant and equipment by €5.3 million to €132.0 million is mainly due to write-downs on right-of-use assets (leasing).

The financial position

Our main shareholder, the HSBC Group, increased its stake in the Bank by 18.66 % to 99.33 %.

Parallel to the announcement of the increase in its shareholding, HSBC announced that it also intends to acquire the remaining shares that are still in free float. The AG is then to be delisted from the stock exchange. As the legal threshold for a squeeze-out in Germany is 95 % and HSBC now owns over 99 %, our main shareholder has called on the Management Board to take all measures necessary for a resolution to transfer the shares of the minority shareholders to the main shareholder. The Management Board is responding to this request. The intention is to convene an extraordinary general meeting before the end of the current year, which will adopt the resolution.

The Group's risk positions to be backed by capital stood at €15,963.4 million as at 30 June 2020 (31 December 2019: €15,897.2 million), of which €13,827.3 million related to risk-weighted assets (31 December 2019: €13,638.8 million), €711.0 million to the market risk equivalent (31 December 2019: €817.7 million) and €1,425.2 million to operational risk (31 December 2019: €1,440.7 million). This results in a Tier 1 capital ratio of 12.9% (31 December 2019: 12.6%) and a regulatory capital ratio of 14.8% (31 December 2019: 14.6%).

Since the Single Supervisory Mechanism (SSM) came into force in November 2013, there has been greater harmonisation of supervisory practice in Europe. Supervision is carried out directly or indirectly by the European Central Bank in close cooperation with the national supervisory authorities. HSBC Germany is still subject primarily to national banking supervision and has once again undergone a Supervisory Review and Evaluation Process (SREP). As a result of this process, BaFin has notified the HSBC Trinkaus & Burkhardt Group that it has to maintain an equity ratio of at least 9.0%.

In spring 2016, the Governing Council of the ECB announced a further series of targeted longer-term refinancing operations (TLTRO II) intended to strengthen the transmission of monetary policy by further incentivising bank lending. The Bank had borrowed a total of €450 million in the first TLTRO II operation, a total of €300 million in the second TLTRO II operation and a total of €800 million in the third TLTRO II operation to finance the targeted growth in lending volumes. After €450 million was repaid in 2019, the other TLTRO II allotment amounts were also fully repaid in the first half of 2020.

On 7 March 2019, the Governing Council of the ECB decided to conduct a new series of targeted longer-term refinancing operations (TLTRO III) in order to create favourable credit conditions. Accordingly, seven TLTRO III operations will be conducted on a quarterly basis from September 2019 to March 2021, each with a maturity of three years. Early voluntary repayments are possible twelve months after the value date of a TLTRO III transaction, but no earlier than September 2021. Most recently, on 30 April 2020, the Governing Council of the ECB adjusted the terms and conditions of TLTRO III in order to continue to support the permanent access of firms and households to bank credit in the current difficult economic environment. For the special interest rate period from 24 June 2020 to 23 June 2021, a discount of 50 basis points will therefore be applied to the average main refinancing rate during this period, subject to a corresponding development in net lending. The Bank participated in the fourth TLTRO III with a total volume of €2.2 billion.

The leverage ratio measures the ratio between regulatory Tier 1 capital and the unweighted asset items on and off the balance sheet (including derivatives). The leverage ratio is to be reported to the supervisory authorities as an observation and published by the institutions. With the revision of the CRR, the minimum requirement for the leverage ratio was set at a binding 3%. This is to be applied for the first time two years after the CRR II comes into force. As at 30 June 2020, the regulatory leverage ratio stood at 4.7 % (31 December 2019: 5.0%).

The Bank maintains a strong and liquid balance sheet.

Outlook and Opportunities

In the wake of the Covid-19 pandemic and the lockdown measures adopted by many governments to contain it, the first half of 2020 saw a historic collapse in economic output. As a consequence of the pandemic, the gross domestic product (GDP) in the Eurozone is expected to decline by 8.1 % this year, followed by an expansion of 6.5 % in 2021. Equivalent estimates for Germany are – 7.2 % for 2020 and + 5.2 % in 2021. These forecasts are subject to considerable uncertainty. The risks lie in particular in the possible occurrence of a second wave of infection, but also in the rising geopolitical risks and an increasing escalation in the conflicts between the US and mainland China.

The consequences of the pandemic will have a significant impact on the business figures of customers and banks, the full extent of which is still difficult to predict. For the rest of the 2020 financial year, we expect this to have the following effects in particular on HSBC Germany.

The Bank's solid deposit base again expanded significantly during the Covid-19 crisis. This is due to the fact that our institutional clients in particular reduced risks in their investment portfolios in times of turbulent capital markets and reduced risk-bearing securities in favour of deposits with the Bank. The resulting significant increase in deposits has led to a temporary significant increase in the balance sheet. As we expect these effects to be partially reversed in the second half of the year, we anticipate that the deposit base will return to normal at the end of the year, hence resulting in a smaller balance sheet total. The marked overfulfillment on average of the Liquidity Coverage Ratio requirements is nevertheless likely to continue. The Bank has significant scope for refinancing with the ECB and corresponding funding as a result of its repeated participation in the Targeted Longer-Term Refinancing Operations (TLTRO III) initiated this year.

In the wake of the Covid-19 pandemic, we expect an increase in risk-weighted assets by year-end. The impact of the pandemic on our customers' business figures will result in rating downgrades on average for our loan portfolios and for the banking industry as a whole, which will lead to an increase in risk-weighted assets. However, the Bank's capital base is well prepared for this expected increase. HSBC Germany has complied with the request by the banking regulators not to pay a dividend for the 2019 financial year and has used the retained dividend to strengthen its capital base. In view of this, we expect capital ratios to decline slightly as at the end of the year. In addition, the possibility of a capital strengthening by the HSBC Group was further underscored with the acquisition of LBBW's stake.

As a leading international bank, the Bank will continue to focus on the further expansion of its market position, particularly in Corporate Banking, in accordance with our earnings-oriented growth strategy. We stand by our customers as a stable and reliable partner. We also plan to further expand the Institutional Banking and Global Markets business. The more intense competitive situation in the lending business is making the client lending business far less attractive with the combination of long loan periods required in the market, less stringent loan terms and lower margins. We will therefore manage the growth in lending very much according to value-oriented standards and strive for sufficiently large additional business.

In terms of net interest income, the potential growth in income in an environment of negative euro interest rates and sharply falling USD interest rates will be very limited. The highly positive net fee and trading income of the first half of the year will not be repeated in the second half. The turbulence on the global capital markets in the first half of the year resulted in an increase in our customers' activities on the capital markets which we no longer expect to see in the second half of the year. Similarly, no major corporate transactions are expected in investment banking in the current market environment in the second half of the year.

Our cost development will continue to be characterised by rigid cost management. In particular, we will continue to push ahead with our efficiency program. This will also result in significant costs in the second half of the year, from which sustainable cost savings will be generated for the coming years. We expect the cost efficiency ratio to remain above 70 %.

Thanks to the strong first half of the year, HSBC Germany expects a slight year-on-year increase in operating revenues for the full year. This positive effect will be more than offset by net loan impairment provisions well above original planning. As a result, pre-tax profit for the year as a whole is expected to be slightly below the previous year's level. We therefore continue to expect a return on equity before tax below the 10 % mark. In view of the initial economic situation in the wake of the Covid-19 pandemic, as described above, this forecast is naturally subject to a high degree of uncertainty. In particular, this forecast does not include the occurrence of a second wave of infection or a further intensification of the conflicts between the US and mainland China.

Having performed very well in the first half of the year in a challenging market environment, we are moderately optimistic in our base scenario for the rest of 2020 and are rising to the challenges of the Covid-19 pandemic, our ambitious business development targets and the comprehensive projects that have been started to modernise the Bank.

Risk Report

Risk management at the HSBC Trinkaus & Burkhardt Group

Principles of risk management policy

One of the key functions of a bank is to consciously accept risk, actively control it and systematically transform it. We regard counterparty, market and liquidity risks, as well as operative, strategic and pension risks, as the principal risks of our banking business. Active risk control entails identifying the nature, amount and extent of any risk and structuring the risk in such a way that it not only conforms to the Group's risk-bearing capacity, but also offers corresponding risk premium and return.

In accordance with these risk principles, we are ready to actively enter into market and counterparty credit risk. We want to minimise operational risks if there is a reasonable balance between risk avoidance and the related costs. Furthermore, adequate insurance has been taken out. Avoiding legal and compliance risks is one of the basic approaches with respect to our business policy. We avoid liquidity risks as far as possible and are prepared to accept lower profits as a consequence. Strategic risk, which can arise among other things from changes in laws and regulations, the competitive situation and macroeconomic framework data, as well as market conditions, is taken into consideration when determining our business strategy as part of the planning process. Pension risks arise for the HSBC Trinkaus & Burkhardt Group from commitments based on the company pension scheme. These risks are taken in a targeted manner, as the company pension scheme is an attractive component of employee compensation that helps retain qualified personnel at the Bank.

The extent of the Bank's overall risk is limited by the Management Board in consultation with the Supervisory Board. The appropriateness of taking on a given risk is also assessed in particular against the backdrop of the Group's risk-bearing capacity on the one hand and the special risk management expertise in our core lines of business on the other. These principles continue to apply.

The risk management and risk reporting procedures described in the latest consolidated financial statements still correspond to the current conditions.

Internal Capital Adequacy Assessment Process

We continue to adjust the calculation of the economic capital requirement to meet the growing challenges we face. Risk-bearing capacity is analysed comprehensively on a quarterly basis and constantly updated. The significant decline in unallocated risk cover funds, as illustrated in the following table, results from the expectation of rising credit risk over the course of the year and the associated increase in regulatory capital requirement needs.

in €m	**30.06.2020**	**31.12.2019**
Risk cover funds	**2,578.8**	**2,593.1**
minus regulatory capital requirement	−1,700.1	−1,538.2
Unallocated risk cover funds	**878.7**	**1,054.9**
Risks		
Credit risk	173.1	161.5
Market risk (incl. illiquid investment risk)	85.5	80.9
Liquidity risk	14.5	16.5
Operational risk	69.3	67.9
Pension risk	2.0	1.8
Business risk	24.7	38.9
Economic capital requirement	**369.2**	**367.5**
Utilisation of unallocated risk cover funds (in %)	**42.0**	**34.8**

Risk categories

Counterparty credit risks

(a) Maximum default risk

The maximum default risk for financial instruments including loan commitments and financial guarantees as at 30 June 2020 is shown in the following table. The maximum default risk on a specific reporting date corresponds to the book value of the financial assets on the balance sheet, including the reported positive market values of derivative financial instruments on that date. Exchange-traded derivatives are not exposed to default risk on account of the margin system, but have been included in the following table in this section. Collateral received and other credit improvements are not taken into account to mitigate risk in this presentation.

Trading assets, positive market values from derivative financial instruments and financial assets requiring measurement at fair value through profit or loss are not subject to the IFRS 9 impairment provisions. Collateral arises in connection with derivatives, which we show in the Notes "Deposits by Banks" and "Customer Accounts".

We report loans and advances to banks as well as loans and advances to customers in the Risk Report before the deduction of net loan impairment provisions. Netting agreements or agreements concerning guarantees for market values in the form of collateral are concluded specifically in the derivatives business. With netting agreements, offsetting contracts with the same customer or counterparty can be netted against each other under certain conditions. These agreements significantly reduce the maximum default risk shown above.

	30.06.2020		31.12.2019	
	in €m	in %	in €m	in %
Loans and advances	**13,881.3**	**40.2**	**12,907.0**	**38.3**
to banks	2,035.6	5.9	1,987.2	5.9
to customers	11,845.7	34.3	10,919.8	32.4
Trading assets	**2,708.0**	**7.8**	**2,801.9**	**8.3**
Bonds and other fixed-income securities	926.5	2.7	853.4	2.5
Equities and other non-fixed-income securities	492.5	1.4	826.7	2.5
Tradable receivables	1,289.0	3.7	1,121.8	3.3
Positive market values of derivative financial instruments	**1,435.6**	**4.1**	**1,164.2**	**3.5**
Exchange-traded derivatives	345.8	1.0	190.3	0.6
OTC derivatives	1,086.3	3.1	970.0	2.9
Derivatives in hedging relationships	3.5	0.0	3.9	0.0
Financial assets	**3,966.4**	**11.5**	**3,509.4**	**10.4**
Bonds and other fixed-income securities	3,863.5	11.2	3,405.1	10.1
Promissory note loans	79.1	0.2	80.6	0.2
Investments	23.8	0.1	23.7	0.1
Other financial assets that must be measured at fair value through profit or loss	**101.1**	**0.3**	**120.9**	**0.4**
Bonds and other fixed-income securities	45.6	0.1	62.1	0.2
Hybrid financial instruments	22.8	0.1	34.6	0.1
Investment certificates	11.1	0.0	7.3	0.0
Equities and other non-fixed-income securities	0.0	0.0	0.0	0.0
Investments	21.6	0.1	16.9	0.1
Contingent liabilities	**3,035.2**	**8.8**	**3,057.9**	**9.1**
Loan commitments	**9,435.3**	**27.3**	**10,099.8**	**30.0**
Total	**34,562.9**	**100.0**	**33,661.1**	**100.0**

As at the balance sheet date, the Bank's maximum default risk breaks down by sector and region as follows:

	30.06.2020		31.12.2019	
	in €m	in %	in €m	in %
Risk concentration by sector				
Companies and self-employed professionals	21,392.5	61.9	21,570.2	64.1
Banks and financial institutions	9,788.8	28.3	8,756.0	26.0
Public sector	3,084.9	8.9	3,023.2	9.0
Employed private individuals	296.7	0.9	311.7	0.9
Total	**34,562.9**	**100.0**	**33,661.1**	**100.0**

The breakdown by sector shows that the maximum default risk exists essentially vis-à-vis companies and self-employed professionals on the one hand and banking organisations on the other.

It can be seen from the breakdown by region that a substantial part of the maximum default risk is concentrated in Germany as well as in EU countries plus Norway and Switzerland.

	30.06.2020		31.12.2019	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	23,930.1	69.2	22,442.7	66.8
Other EU (plus Norway and Switzerland)	8,267.2	23.9	8,784.9	26.1
North America	1,170.1	3.4	1,091.4	3.2
Asia	641.2	1.9	779.6	2.3
Africa	404.8	1.2	411.3	1.2
South America	73.6	0.2	83.8	0.2
Rest of Europe	62.5	0.2	52.8	0.2
Oceania	13.4	0.0	14.6	0.0
Total	**34,562.9**	**100.0**	**33,661.1**	**100.0**

(b) Credit quality of the financial instruments

The following overviews show the credit quality of the financial instruments that are subject to the IFRS 9 impairment provisions, broken down by the three levels and the related net loan impairment provisions. In addition, the credit quality of the debt instruments at fair value through profit or loss is shown on the respective reporting dates.

Purchased or originated credit-impaired financial instruments (POCI) were not included in the reporting period.

Financial instruments measured at amortised cost:

30.06.2020 in €m	Gross book value/nominal amount						Net loan impairment provision and other credit risk provisions	Net book value/ nominal amount
Balance sheet item/level	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total		
Loans and advances to banks	1.778.0	70.1	183.7	3.8	0.0	2,035.6	0.5	2,035.1
Level 1	1,778.0	58.5	181.2	0.0	0.0	2,017.7	0.1	2,017.6
Level 2	0.0	11.6	2.5	3.8	0.0	17.9	0.4	17.5
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	3,505.7	3,930.9	3,594.3	464.0	350.8	11,845.7	110.4	11,735.3
Level 1	3,505.7	3,098.1	2,278.7	133.1	0.0	9,015.6	1.3	9,014.3
Level 2	0.0	832.8	1,315.6	330.9	0.0	2,479.3	27.5	2,451.8
Level 3	0.0	0.0	0.0	0.0	350.8	350.8	81.6	269.2
Contingent liabilities	1,045.3	1,158.9	589.2	155.2	86.6	3,035.2	2.8	3,032.4
Level 1	1,045.3	874.6	346.7	18.4	0.0	2,285.0	0.1	2,284.9
Level 2	0.0	284.3	242.5	136.8	0.0	663.6	1.3	662.3
Level 3	0.0	0.0	0.0	0.0	86.6	86.6	1.4	85.2
Loan commitments	3,345.3	4,345.7	1,408.2	244.7	91.4	9,435.3	12.7	9,422.6
Level 1	3,345.3	1,772.6	381.7	33.8	0.0	5,533.4	0.5	5,532.9
Level 2	0.0	2,573.1	1,026.5	210.9	0.0	3,810.5	10.1	3,800.4
Level 3	0.0	0.0	0.0	0.0	91.4	91.4	2.1	89.3
Total	**9,674.3**	**9,505.6**	**5,775.4**	**867.7**	**528.8**	**26,351.8**	**126.4**	**26,225.4**

31.12.2019 in €m	Gross book value/nominal amount						Net loan impairment provision and other credit risk provisions	Net book value/nominal amount
Balance sheet item/level	**Very good credit quality**	**Good credit quality**	**Moderate credit quality**	**Low credit quality**	**Loan default**	**Total**		
Loans and advances to banks	1,806.3	73.6	107.3	0.0	0.0	1,987.2	0.2	1,987.0
Level 1	1,806.3	73.6	102.1	0.0	0.0	1,982.0	0.2	1,981.8
Level 2	0.0	0.0	5.2	0.0	0.0	5.2	0.0	5.2
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	3,660.4	3,362.8	3,420.4	261.0	215.2	10,919.8	53.3	10,866.5
Level 1	3,660.4	3,353.5	2,894.2	106.1	0.0	10,014.2	1.7	10,012.5
Level 2	0.0	9.3	526.2	154.9	0.0	690.4	4.9	685.5
Level 3	0.0	0.0	0.0	0.0	215.2	215.2	46.7	168.5
Contingent liabilities	1,227.1	1,028.0	530.2	268.8	3.8	3,057.9	1.0	3,056.9
Level 1	1,227.1	1,022.0	403.2	110.7	0.0	2,763.0	0.2	2,762.8
Level 2	0.0	6.0	127.0	158.1	0.0	291.1	0.2	290.9
Level 3	0.0	0.0	0.0	0.0	3.8	3.8	0.6	3.2
Loan commitments	4,305.2	4,188.8	1,507.0	89.9	8.9	10,099.8	10.3	10,089.5
Level 1	4,305.2	4,013.5	1,095.9	6.0	0.0	9,420.6	0.6	9,420.0
Level 2	0.0	175.3	411.1	83.9	0.0	670.3	1.4	668.9
Level 3	0.0	0.0	0.0	0.0	8.9	8.9	8.3	0.6
Total	**10,999.0**	**8,653.2**	**5,564.9**	**619.7**	**227.9**	**26,064.7**	**64.8**	**25,999.9**

Debt instruments at fair value through other comprehensive income:

30.06.2020 in €m	Fair value						Net loan impairment provision and other credit risk provisions
Balance sheet item/level	**Very good credit quality**	**Good credit quality**	**Moderate credit quality**	**Low credit quality**	**Loan default**	**Total**	
Financial assets	3,331.2	566.2	45.2	0.0	0.0	3,942.6	4.4
Level 1	3,331.2	178.4	22.3	0.0	0.0	3,531.9	1.6
Level 2	0.0	387.8	22.9	0.0	0.0	410.7	2.8
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

31.12.2019

in €m	Fair value						Net loan impairment provision and other credit risk provisions
Balance sheet item/level	**Very good credit quality**	**Good credit quality**	**Moderate credit quality**	**Low credit quality**	**Loan default**	**Total**	
Financial assets	3,034.8	376.5	74.4	0.0	0.0	3,485.7	1.1
Level 1	3,034.8	347.6	65.8	0.0	0.0	3,448.2	0.4
Level 2	0.0	28.9	8.6	0.0	0.0	37.5	0.7
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Debt instruments measured at fair value through profit or loss:

30.06.2020

in €m	Fair value					
Balance sheet item	**Very good credit quality**	**Good credit quality**	**Moderate credit quality**	**Low credit quality**	**Loan default**	**Total**
Trading assets	2,164.3	9.9	41.3	0.0	0.0	2,215.5
Other financial assets that must be measured at fair value through profit or loss	2.1	25.3	18.2	0.0	0.0	45.6

31.12.2019

in €m	Fair value					
Balance sheet item	**Very good credit quality**	**Good credit quality**	**Moderate credit quality**	**Low credit quality**	**Loan default**	**Total**
Trading assets	1,892.1	0.0	83.1	0.0	0.0	1,975.2
Other financial assets that must be measured at fair value through profit or loss	2.2	36.8	23.1	0.0	0.0	62.1

(c) Determining the net loan impairment provision requirements

Net loan impairment provision requirements are determined and recognised on the balance sheet on the basis of the expected loss model in accordance with IFRS 9. Assets (debt) that are carried at amortised cost or reported at fair value directly in equity showing the changes in value are affected by the regulations on the recognition of impairment under IFRS 9. Loan commitments and financial guarantees granted are also affected.

The reporting of impairments is based on a three-level model. Under IFRS 9, net loan impairment and other credit risk provisions in the amount of the 12-month expected credit losses are recognised for financial assets in the event that the credit risk on the balance sheet date has not increased significantly since initial recognition and has not met the default definition at initial recognition (Level 1). Net loan impairment and other credit risk provisions in the amount of the lifetime expected credit losses are recognised for financial assets whose credit risk has increased significantly since initial recognition (Level 2) and for credit-impaired assets on the balance sheet date (Level 3).

The procedure for allocating a financial instrument to Levels 1 to 3, as well as the methodological, procedural and systemic implementation for determining the net loan provision, has not changed compared with the information provided in the consolidated financial statements as at 31 December 2019.

The assessment of counterparty credit risks is based on appropriate and reliable information about previous events, prevailing conditions and forecasts about the future economic environment, in so far as they are significant for assessing expected credit defaults.

In view of the deterioration in the overall economic situation and the current uncertainties, the net loan provisions of Levels 1 and 2 are significantly more important than in previous periods. In this context, future-oriented scenarios for key macroeconomic indicators are taken into account. The key macroeconomic indicators for the Bank are currently the development of gross domestic product, the unemployment rate and the stock markets. At the same time, the uncertainty of forecasts is currently unusually high due to a whole range of factors. These include the further development of the spread of Covid-19, the medium-term effects on global trade and the effectiveness of government support measures in combating the economic effects of Covid-19.

Due to the Covid-19 pandemic, the expectations for the development of the macroeconomic indicators have changed significantly compared to 31 December 2019.

The scenario with the highest weighting is the central scenario (weighting: 70%; previous year: 80%), which reflects our predominant expectation of the development of the parameters. It is based on the assumption of a relatively significant decline, followed by a relatively rapid economic recovery. Here, we assume an average annual growth rate of the gross domestic product of – 6.3 % in 2020 and + 5.2 % in 2021 (previous year: + 0.6%). The unemployment rate is expected to average 5.60 % in 2020 and 5.64 % in 2021 (previous year: 4.98%). The stock markets are subject to an average annual growth rate of – 10.6 % in 2020 and – 12.0 % in 2021 (previous year: – 0.8%).

The upside scenario (weighting: 10%; previous year: 10%) assumes a development of economic conditions that is expected to be slightly more favourable than in the central scenario. Here, we assume an average annual growth rate of the gross domestic product of – 6.1% in 2020 and + 6.4% in 2021 (previous year: + 0.6%). The unemployment rate is expected to average 5.35 % in 2020 and 4.70 % in 2021 (previous year: 4.98%). The stock markets are subject to an average annual growth rate of – 3.2 % in 2020 and – 10.5 % in 2021 (previous year: – 0.8%).

The downside scenario (weighting: 15%; previous year: 10%) assumes a development of economic conditions that is expected to be unfavourable as compared to that of the central scenario. Here, we assume an average annual growth rate of the gross domestic product of – 6.8% in 2020 and + 3.6% in 2021 (previous year: 0.6%). The unemployment rate is expected to average 5.82 % in 2020 and 6.46 % in 2021 (previous year: 4.98%). The stock markets are subject to an average annual growth rate of – 17.7% in 2020 and – 32.4% in 2021 (previous year: – 0.8%).

The severe downside scenario (weighting: 5%; previous year: not included), included for the first time since 30 June 2020 due to the Covid-19 pandemic, assumes that the economy will recover much later. Here, we assume an average annual growth rate of gross domestic product of – 12.0 % in 2020 and – 6.2 % in 2021 (previous year: 0.6%). The unemployment rate is expected to average 6.07 % in 2020 and 7.93 % in 2021 (previous year: 4.98%). The stock markets are subject to an average annual growth rate of – 17.2% in 2020 and – 45.0% in 2021 (previous year: – 0.8%).

The weighting of the individual scenarios is expert-based. On the basis of this weighting, this results in loan loss provisions for Levels 1 and 2 of €45.7 million. By comparison, the following loan loss provisions would result for the individual scenarios: central scenario: €39.8 million; upside scenario: €31.6 million; downside scenario: €49.8 million; severe downside scenario: €143.9 million. Level 3 exposures were disregarded for the sensitivity analysis.

Net loan impairment and other credit risk provisions compared with the gross book values and nominal amounts of the loan exposure as at 30 June 2020 are shown in the following table taking into account the allocation to the levels. Please see the Note “Net Loan Impairment and Other Credit Risk Provisions” for information on the evolution of the net loan impairment and other credit risk provisions.

Calculating expected credit losses is naturally a subsection of accounting policies which is subject to significant estimation uncertainties and discretionary decisions. As a result, considerable additional risk provisioning requirements can be expected if the forecasts for the German economy deteriorate significantly.

30.06.2020	Gross book value/nominal amount in €m				Net loan impairment provision and other credit risk provisions in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and advances to banks	2,017.7	17.9	0.0	2,035.6	0.1	0.4	0.0	0.5	0.0	2.2	0.0	0.0
Loans and advances to customers	9,015.6	2,479.3	350.8	11,845.7	1.3	27.5	81.6	110.4	0.0	1.1	23.3	0.9
Contingent liabilities	2,285.0	663.6	86.6	3,035.2	0.1	1.3	1.4	2.8	0.0	0.2	1.6	0.1
Loan commitments	5,533.4	3,810.5	91.4	9,435.3	0.5	10.1	2.1	12.7	0.0	0.3	2.3	0.1
Total	**18,851.7**	**6,971.3**	**528.8**	**26,351.8**	**2.0**	**39.3**	**85.1**	**126.4**	**0.0**	**0.6**	**16.1**	**0.5**

31.12.2019	Gross book value/nominal amount in €m				Net loan impairment provision and other credit risk provisions in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and advances to banks	1,982.0	5.2	0.0	1,987.2	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Loans and advances to customers	10,014.2	690.4	215.2	10,919.8	1.7	4.9	46.7	53.3	0.0	0.7	21.7	0.5
Contingent liabilities	2,763.0	291.1	3.8	3,057.9	0.2	0.2	0.6	1.0	0.0	0.1	15.8	0.0
Loan commitments	9,420.6	670.3	8.9	10,099.8	0.6	1.4	8.3	10.3	0.0	0.2	93.3	0.1
Total	**24,179.8**	**1,657.0**	**227.9**	**26,064.7**	**2.7**	**6.5**	**55.6**	**64.8**	**0.0**	**0.4**	**24.4**	**0.2**

30.06.2020	Fair value in €m				Net loan impairment provision and other credit risk provisions in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets	3,531.9	410.7	0.0	3,942.6	1.6	2.8	0.0	4.4	0.0	0.7	0.0	0.1

31.12.2019	Fair value in €m				Net loan impairment provision and other credit risk provisions in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets	3,448.2	37.5	0.0	3,485.7	0.4	0.7	0.0	1.1	0.0	1.9	0.0	0.0

Market risks

The Group's market risks are broken down by risk category at trading book and banking book level in the following table:

in €m		2020		
		30.06.	Maximum	Average
Trading book	Interest rate risk	0.8	1.0	0.6
	Currency risk	0.1	0.3	0.1
	Equity/index risk	0.8	1.9	0.8
	Credit spread risk	2.0	2.2	1.4
	Commodities risk	0.1	1.6	0.1
	Diversification	0.6	2.0	1.0
	Overall risk	**3.2**	**3.8**	**1.9**
Banking book	Interest rate risk	7.2	8.6	7.0
	Currency risk	0.0	0.1	0.0
	Equity/index risk	0.2	1.1	0.6
	Credit spread risk	4.4	4.9	3.3
	Commodities risk	(–)	(–)	(–)
	Diversification	1.0	3.6	1.9
	Overall risk	**10.8**	**11.4**	**9.0**

in €m		2019		
		31.12.	Maximum	Average
Trading book	Interest rate risk	0.4	0.7	0.5
	Currency risk	0.1	0.1	0.1
	Equity/index risk	0.8	1.3	0.6
	Credit spread risk	0.8	1.5	1.0
	Commodities risk	0.0	0.1	0.0
	Diversification	1.0	1.5	1.0
	Overall risk	**1.0**	**1.8**	**1.2**
Banking book	Interest rate risk	5.0	6.9	5.4
	Currency risk	0.1	0.1	0.1
	Equity/index risk	0.9	3.9	1.3
	Credit spread risk	1.7	2.3	1.9
	Commodities risk	(–)	(–)	(–)
	Diversification	2.3	4.3	3.0
	Overall risk	**5.3**	**6.7**	**5.7**

The market risk potential is calculated for all market risk categories using a standardised internal model, which we are constantly developing further.

We use a value-at-risk approach to measure market risks in our trading book under normal market conditions.

We understand value-at-risk to be the potential loss that will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions, in the event of an unfavourable market trend. Taking correlations into consideration, the overall market risk potential is lower than the sum of the risks per risk category.

In the first half of 2020, there was an increase in the value at risk figures shown in the model due to the significant rise in market volatility. Two negative back-testing anomalies were found for the trading book. These arose as a result of extreme market movements on individual trading days in March, in particular movements on equity markets. The anomalies should therefore not be interpreted as a weakness of the internal risk model.

Liquidity risks

(a) Definition

We understand liquidity risk as the danger of insolvency that arises if long-term assets are financed on a short-term basis or unexpected outflows of funds cannot be compensated. Liquidity risk can also exist in possible losses arising as the result of active measures against impending insolvency.

(b) Internal liquidity risk management and liquidity cushion

Our internal liquidity risk management is based consistently on two central regulatory management ratios: the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). Internal liquidity management is enhanced by information about the largest investors and the greatest investments in liquid securities, and through prices for refinancing sources (additional liquidity monitoring metrics (ALMM)). The regulatory management ratios are supplemented by internal analyses such as maturity concentration. The expected development of the ratios is observed continuously in the Bank's rolling liquidity forecasts. The Bank's liquidity transfer pricing is also based on the regulatory logic of the LCR and the NSFR.

Similarly, the liquidity cushion is determined based on the regulatory requirements of the LCR and the NSFR. The inflows and outflows to be forecast therefore correspond to the net outflow of funds of the stress scenario implicitly modelled in the LCR, which shows both idiosyncratic and systemic stress elements. The net outflow of funds modelled in this stress scenario of the LCR is offset by the liquidity cushion. This consists of cash and central bank balances as well as the High Quality Liquid Asset (HQLA) Position according to the LCR and allows for the same (differing) mark-downs on the non-pledged market value. The liquidity cushion therefore consists to a large extent of government and corporate bonds and Pfandbriefe, as well as highly liquid equities, all of which are eligible for central bank borrowing with a few exceptions. Correspondingly, the net balance of the inflows and outflows after the realisation of the liquidity cushion would clearly be positive. The Bank regularly makes sure whether the operational requirements of the LCR are fulfilled to guarantee that the liquidity cushion can be accessed and realised at any time. Financial instruments with a value of (31 December 2019: €377.8 million) were available for use as collateral for peak funding facilities on the balance sheet date. Since January 2018, the minimum regulatory LCR has been 100 %

The LCR is a ratio used by banks for evaluating short-term liquidity risk and puts the portfolio of highly liquid financial assets in relation to the overall net outflow of funds in the next 30 days in a stress scenario defined by the regulatory authorities. The LCR determined for internal risk management came to 156.7% as at 30 June 2020 (31 December 2019: 124.9%).

	Liquidity coverage ratio	
in%	**30.06.2020**	**31.12.2019**
As at the balance sheet date	156.7	124.9
Minimum	122.7	115.0
Maximum	156.7	142.4
Average	141.3	130.4

While the NSFR cannot yet be finally quantified on the basis of the CRR, an NSFR calculated on the basis of the BCBS-295 paper is already being used for internal controlling purposes.

Operational risks

We define "operational" risk as the risk of not achieving the objective of our strategy or goals due to the inadequacy or failure of internal processes, people and systems, or due to external events. Operational risk is relevant in every area of business and covers a wide range of problems. Losses resulting from fraud, unauthorised activities, errors, omissions, inefficiencies or internal events fall under the definition of operational risk.

The Operational Risk Working Group is responsible for the control of operational risks across the board. The Working Group stipulates the guidelines and standards for monitoring the internal control environment and is responsible for the further development of the methods, systems and processes of operational risk management. Its key tasks also include monitoring the risk profile throughout the Bank and introducing suitable measures if the risk profile moves outside the set framework.

The Bank deploys various instruments within the scope of managing operational risk: analysing internal events helps to draw lessons from past mistakes and to intercept existing process and control weaknesses. Audit reports provide valuable evidence of process and system weaknesses. The observation of external events helps to identify hitherto-unknown process and control weaknesses as well as risks which have arisen at other banks at an early stage and to avoid similar events affecting HSBC Trinkaus & Burkhardt.

One central method of proactively determining material risk is so-called "risk and control assessment". As part of a structured process, the core risks including the key controls are identified and documented for each division or process which is significant from a risk perspective, and documented in a central IT system.

HSBC minimises operational risk via the constant control of working processes, security measures and not least the employment of highly qualified staff.

HSBC monitors developments relating to the coronavirus very closely and liaises with government representatives and the health authorities. Our top priority is the health and well-being of our customers and employees. We also ensure that business operations function properly and are resilient to external influences. We have well-practised emergency procedures in place to ensure that critical processes are maintained. These include agreements on site sharing and working from home, international travel restrictions and self-quarantine regulations for employees. We have also further raised our employees' awareness of the need for important hygiene measures. The relevant aids are made available.

It has been shown that the transition to working from home has been virtually seamless for up to 90 % of employees. The necessary infrastructure (e.g. expansion of the bandwidth for dialling in for those working from home) was expanded at the very beginning of the pandemic. A video conferencing tool has been increasingly used successfully for internal and external communication. This was subjected to strict due diligence by third parties, including security checks as well as technical and architectural checks on cybersecurity. HSBC tool deployment is configured to meet the latest recommendations from the manufacturer – including default settings, additional security settings and installation of the latest updates and versions. HSBC retains administrative control of the HSBC tool version.

A task force has been set up to deal with process adjustments required by the new work situation within the Bank and with our customers. Any acute process adjustments that have been required or are required due to the impact of the pandemic, including the definition of mitigating measures, are carefully reflected and considered by various relevant parts of the Bank. An ongoing inventory of the temporary regulations and mitigating measures that have been adopted is carried out.

Overall picture of the risk situation

Based on the information available in July 2020, the following statements can be made regarding the overall picture of the risk situation. Changes may occur over the further course of the financial year owing to changes in the Bank's environment or business activities.

Although the global economic risk drivers which dominated in the course of 2019 and still dominated at the beginning of 2020 (trade conflicts between the US and China, the Iran crisis, Brexit) will continue to exist to some extent, they are now strongly overlaid by the pandemic spread of the coronavirus (Covid-19). The economic effects of the coronavirus crisis are now affecting almost all risk categories.

We assess the risk situation below based in principle on the dimensions of the probability of the risk occurring and the impact on the Bank should the risk occur.

Counterparty credit risks have increased in recent months as a result of the Covid-19 pandemic, although the extent to which individual sectors are affected varies greatly. Due to the substantial government support measures – in Germany mainly via the KfW's specific coronavirus programmes – the direct impact on the liquidity of impaired companies has been initially mitigated. By contrast, long-term debt sustainability will depend decisively on the further economic development and possible changes on the demand side. All in all, we expect an increased probability of losses from counterparty credit risks, which may also be reflected in a noticeably higher net loan impairment provision due to risk concentrations in the portfolio. The insolvency of one of our customers in July 2020 resulted in a value adjustment of €1.8 million that was recognised after the date on which this report was prepared.

The market risk measured by the model has risen due to the increase in market volatility; this applies to the equity markets in particular. Due to the restrictions resulting from the Covid -19 pandemic and the resulting effects on companies, it can also be assumed that specific equity risks have increased. With regard to interest rates and credit spreads, the government support measures, and above all the ECB's pandemic emergency purchase programme (PEPP), have led to a stabilisation of the markets. Commodity risks play a subordinate role overall; the clear exception was the extreme price movements observed for WTI crude oil, with market prices at times even negative. All in all, the higher volatility of the markets is reflected in the market risk model in an increase in the value at risk figures. In summary, we expect a slightly increased probability of losses from market risks.

The increased volume of loan drawdowns in the wake of the Covid-19 pandemic and new lending business has been cushioned in recent months by the strong growth in the deposit base, especially from institutional investors, in response to the market turbulence. In summary, we expect a moderate probability of occurrence of adverse effects from liquidity risks.

In the period under review, the coronavirus pandemic did not result in any material operational problems, significant losses or customer complaints. Costs have so far been incurred primarily for additional hygiene measures and additional IT hardware.

In the overall assessment, the Bank's risk profile is therefore currently at an elevated level, which may also change dynamically over the course of the year depending on the further development of the pandemic and other risk factors and their impact on the global economy. Due to the high level of uncertainty, it is not yet possible to conclusively assess the effects on the 2020 business result and the medium-term income trend. For this reason, an active, permanent risk management process continues to be of great importance.

The Bank continues to be well prepared for the challenges in risk management thanks to its functioning control system, solid equity and liquidity position, and open communication and responsibility culture.

Düsseldorf, 31 July 2020

The Management Board

Carola Gräfin v. Schmettow **Dr. Rudolf Apenbrink** **Nicolo Salsano**

Fredun Mazaheri **Thomas Runge**

Condensed Consolidated Interim Financial Statements

30 Consolidated Balance Sheet

32 Consolidated Statement of Comprehensive Income

- **32 Consolidated Income Statement**
- **33 Reconciliation from net income to comprehensive income**

34 Consolidated Statement of Changes in Equity

35 Condensed Consolidated Cash Flow Statement

36 Selected Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Balance Sheet

Assets in €m	(Notes)	30.06.2020	31.12.2019	Change	
				in €m	in %
Cash reserve		10,509.5	5,731.5	4,778.0	83.4
Loans and advances to banks	(11), (23)	2,035.1	1,987.0	48.1	2.4
Loans and advances to customers	(12), (23)	11,735.3	10,866.5	868.8	8.0
of which pledged as collateral		2,521.0	1,871.4	649.6	34.7
Trading assets	(13)	2,708.0	2,801.9	–93.9	–3.4
of which pledged as collateral		39.7	120.9	–81.2	–67.2
Positive market values of derivative financial instruments	(14)	1,435.6	1,164.2	271.4	23.3
Other financial assets mandatorily measured at fair value through profit or loss	(15)	101.1	120.9	–19.8	–16.4
Financial assets	(16)	3,966.4	3,509.4	457.0	13.0
of which pledged as collateral		905.7	241.7	664.0	>100
Property, plant and equipment	(17)	132.0	137.3	–5.3	–3.9
Intangible assets	(17)	91.4	86.3	5.1	5.9
Taxation recoverable		92.7	119.1	–26.4	–22.2
of which current		6.5	61.9	–55.4	>100.0
of which deferred		86.2	57.2	29.0	50.7
Other assets		107.4	68.7	38.7	56.3
Total assets		**32,914.5**	**26,592.8**	**6,321.7**	**23.8**

Liabilities in €m	(Notes)	30.06.2020	31.12.2019	Change	
				in €m	in %
Deposits by banks	(18)	4,127.2	2,608.1	1,519.1	58.2
Customer accounts	(19)	22,090.0	17,650.8	4,439.2	25.2
Trading liabilities	(20)	1,780.0	1,793.8	–13.8	–0.8
Negative market values of derivative financial instruments	(21)	1,345.9	1,070.0	275.9	25.8
Provisions	(22),(23)	150.1	128.9	21.2	16.4
Taxation		64.1	34.9	29.2	83.7
of which current		64.1	34.8	29.3	84.2
of which deferred		0.0	0.1	–0.1	>100
Other liabilities		310.5	266.4	44.1	16.6
Subordinated capital		527.7	551.3	–23.6	–4.3
Shareholders' equity		2,519.0	2,488.6	30.4	1.2
Share capital		91.4	91.4	0.0	0.0
Capital reserve		720.9	720.9	0.0	0.0
Additional Tier 1 capital		435.0	435.0	0.0	0.0
Retained earnings		1,324.9	1,282.9	42.0	3.3
Valuation reserve for debt instruments measured at fair value through other comprehensive income		50.1	47.8	2.3	4.8
Valuation reserve for equity instruments measured at fair value through other comprehensive income		6.8	6.6	0.2	3.0
Valuation reserve for the remeasurement of the net pension obligation		–110.1	–96.3	–13.8	14.3
Valuation reserve from currency conversion		–0.1	0.2	–0.3	>100
Total before non-controlling interests		2,518.9	2,488.5	30.4	1.2
Non-controlling interests		0.1	0.1	0.0	0.0
Total liabilities		**32,914.5**	**26,592.8**	**6,321.7**	**23.8**

Consolidated Statement of Comprehensive Income

Consolidated income statement

in €m	(Notes)	01.01. to 30.06.2020	01.01. to 30.06.2019*	Change	
				in €m	in %
Interest income from financial instruments measured at amortised cost and at fair value through other comprehensive income		157.8	165.9	−8.1	−4.9
Interest income from other financial instruments mandatorily measured at fair value through profit or loss		2.6	3.1	−0.5	−16.1
Interest income		160.4	169.0	−8.6	−5.1
Interest expense		44.8	55.5	−10.7	−19.3
Net interest income	(1)	115.6	113.5	2.1	1.9
Net loan impairment provision in the lending and securities business	(2)	66.7	29.2	37.5	> 100.0
Fee income		390.7	324.7	66.0	20.3
Fee and commission expenses		122.3	103.0	19.3	18.7
Net fee income	(3)	268.4	221.7	46.7	21.1
Net trading income	(4)	75.1	40.7	34.4	84.5
Gains and losses from the disposal of financial assets measured at amortised cost		0.0	0.0	0.0	–
Net profit from other financial assets mandatorily measured at fair value through profit or loss	(5)	−0.7	6.2	−6.9	> 100.0
Income from financial assets	(7)	16.5	5.1	11.4	> 100.0
Administrative expenses	(6)	315.1	320.0	−4.9	−1.5
Net other income	(8)	5.5	9.2	−3.7	−40.2
Pre-tax profit		98.6	47.2	51.4	> 100.0
Tax expenses*		34.1	16.6	17.5	> 100.0
Net profit for the year		**64.5**	**30.6**	**33.9**	**> 100.0**
Consolidated profit/loss attributable to minority shareholders		0.0	0.0	0.0	–
Consolidated profit/loss attributable to HSBC Trinkaus & Burkhardt shareholders		64.5	30.6	33.9	> 100.0

*Comparative figures adjusted. The adjustments are explained in the note on adjustments to accounting methods in the presented reporting periods.

Earnings per share in €	**01.01. to 30.06.2020**	**01.01. to 30.06.2019***
Undiluted	1.42	0.68
Diluted	1.42	0.68
Average number of shares in circulation in million	**34.1**	**34.1**

Reconciliation from net income to comprehensive income

in €m	**01.01. to 30.06.2020**	**01.01. to 30.06.2019***
Net profit for the year	64.5	30.6
Gains/losses after tax reclassified in the income statement	2.0	39.0
of which from debt instruments measured at fair value through other comprehensive income	2.3	41.5
of which from currency conversion	–0.3	–2.5
Gains/losses after tax not reclassified in the income statement	–13.6	–15.5
of which from equity instruments measured at fair value through other comprehensive income	0.2	0.1
of which from the remeasurement of the net pension obligation	–13.8	–15.6
Other income for the period	–11.6	23.5
Comprehensive income	**52.9**	**54.1**
Attributable to:		
minority shareholders	0.0	0.0
HSBC Trinkaus & Burkhardt shareholders	52.9	54.1

* Comparative figures adjusted. The adjustments are explained in the note on adjustments to accounting methods in the presented reporting periods.

Consolidated Statement of Changes in Equity

					Valuation reserve						
in €m	Share capital	Capital reserve	Additional Tier 1 capital	Retained earnings*	for debt instruments measured at fair value through other comprehensive income	for equity instruments measured at fair value through other comprehensive income	for the remeasurement of the net pension obligation	from currency conversion	Total before non-controlling interests	Non-controlling interests	Total including non-controlling interests
As at 31.12.2018	**91.4**	**720.9**	**235.0**	**1,294.2**	**25.2**	**6.6**	**−100.7**	**0.4**	**2,273.0**	**0.1**	**2,273.1**
Distributed profit				−98.5**					−98.5		−98.5
Addition from net profit for the year				30.6					30.6		30.6***
Capital increase			200.0						200.0		200.0
Other income for the period					41.5	0.1	−15.6	−2.5	23.5		23.5
Other changes											0.0
As at 30.06.2019	**91.4**	**720.9**	**435.0**	**1,226.3**	**66.7**	**6.7**	**−116.3**	**−2.1**	**2,428.6**	**0.1**	**2,428.7**

* incl. consolidated profit available for distribution
** incl. distribution on Additional Tier 1 capital of €13.3 million
*** Comparative figures adjusted. The adjustments are explained in the note on adjustments to accounting methods in the presented reporting periods.

					Valuation reserve						
in €m	Share capital	Capital reserve	Additional Tier 1 capital	Retained earnings*	for debt instruments measured at fair value through other comprehensive income	for equity instruments measured at fair value through other comprehensive income	for the remeasurement of the net pension obligation	from currency conversion	Total before non-controlling interests	Non-controlling interests	Total including non-controlling interests
As at 31.12.2019	**91.4**	**720.9**	**435.0**	**1,282.9**	**47.8**	**6.6**	**−96.3**	**0.2**	**2,488.5**	**0.1**	**2,488.6**
Distributed profit**	0.0	0.0	0.0	−22.5	0.0	0.0	0.0	0.0	−22.5	0.0	−22.5
Addition from net profit for the year	0.0	0.0	0.0	64.5	0.0	0.0	0.0	0.0	64.5	0.0	64.5
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income for the period	0.0	0.0	0.0	0.0	2.3	0.2	−13.8	−0.3	−11.6	0.0	−11.6
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2020	**91.4**	**720.9**	**435.0**	**1,324.9**	**50.1**	**6.8**	**−110.1**	**−0.1**	**2,518.9**	**0.1**	**2,519.0**

* incl. consolidated profit available for distribution
** incl. distribution on Additional Tier 1 capital of €22.5 million

Condensed Consolidated Cash Flow Statement

in €m	2020	2019
Cash and cash equivalents as at 01.01.	**5,731.5**	**3,750.5**
Cash flow from operating activities	4,857.2	3,612.0
Cash flow from investing activities	–18.7	–21.5
Cash flow from financing activities	–60.5	63.0
Cash and cash equivalents as at 30.06.	**10,509.5**	**7,404.0**

Selected Notes to the Condensed Consolidated Interim Financial Statements

This Interim Report for the HSBC Trinkaus & Burkhardt Group as at 30 June 2020 was drawn up in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union. The report takes particular account of the requirements of IAS 34 relating to interim financial reporting. Furthermore, the report satisfies the requirements of a half-year financial report pursuant to Section 115 German Securities Trading Act (WpHG). The report was reviewed by PricewaterhouseCoopers GmbH. For the results, please refer to the section Auditor's Report.

When drawing up this Interim Report, including the comparable figures for the previous-year periods, we generally applied the same accounting, valuation and consolidation methods as in the consolidated financial statements as at 31 December 2019. This excludes the adjustments described below resulting from the amendments to the accounting standards listed below, which are to be applied for the first time as of 1 January 2020.

Our main shareholder, the HSBC Group, increased its stake in the Bank by 18.66 % to 99.33 %.

Parallel to the announcement of the increase in its shareholding, HSBC has announced that it also intends to acquire the remaining shares that are still in free float. The AG is then to be delisted from the stock exchange. As the legal threshold for a squeeze-out in Germany is 95 % and HSBC now owns over 99 %, our main shareholder has called on the Management Board to take all measures necessary for a resolution to transfer the shares of the minority shareholders to the main shareholder. The Management Board is responding to this request. The intention is to convene an extraordinary general meeting before the end of the current year, which will adopt the resolution.

The scope of consolidation has not changed compared to the consolidated financial statements as at 31 December 2019.

The condensed consolidated interim financial statements as at 30 June 2020 should be read in connection with the annual financial statements of the HSBC Trinkaus & Burkhardt Group as at 31 December 2019.

The preparation of IFRS financial statements requires management to provide assessments, assumptions and estimates. This is necessary with regard to the determination of the fair values of financial instruments, the classification in fair value Levels 1–3, the impairment of financial instruments and other assets, the recognition of provisions (including provisions for current taxes) and other obligations, the net loan impairment provision in the lending and securities business, the calculation of deferred taxes, the assessment of the control of structured entities within the meaning of IFRS 10 and the estimation of the expected duration of lease agreements. These assumptions, estimates and assessments influence the reported amounts of assets and liabilities, as well as the income and expenses of the reporting period. The actual results may deviate from the management's assessment. Estimates are subject to forecast uncertainties. This applies all the more so in view of the current Covid-19 pandemic and the economic consequences of this pandemic, which are only gradually becoming apparent. In order to keep the risk of forecast uncertainty to a minimum, available objective information, as well as experience, is drawn upon as much as possible. The estimation procedures used are reviewed regularly and adjusted if necessary.

In the first half of 2020, the Covid-19 pandemic heavily influenced the global economy and consequently also the present interim financial statements as at 30 June 2020. In order to take account of the increased forecasting uncertainties caused by the pandemic and to provide financial information that is useful for decision-making, we have expanded or adjusted our financial reporting accordingly at those points that we consider relevant. We refer in particular to the presentations in the economic report, the net assets, financial position and results of operations, the risk report and the Outlook and Opportunities report.

Recognition and measurement were based on the going concern assumption.

The presentation currency is euro. For greater clarity, we generally report all amounts in millions of euros. The figures have been rounded commercially, which may result in minor deviations in the calculation of totals and percentages in this Interim Report.

Adjustments to accounting methods in the presented reporting periods

First-time application of amended standards and interpretations

Following the G20 request to the Financial Stability Board, a fundamental review and reform of the main reference interest rates (Interbank Offered Rates, abbreviated form: IBOR) is taking place in the world's largest financial markets. As a result, the reference interest rates that have been customary in the market up to now are being adjusted or replaced by newly developed, alternative interest rates. In the euro area, for example, a new reference interest rate has been introduced in the form of the Euro Short Term Rate (€STR), which is recommended to replace the reference rate EONIA (Euro OverNight Index Average). €STR is based on the money market statistics of the Eurosystem and has been published by the ECB since 2 October 2019. At the same time, the calculation of the EONIA was changed so that it is now calculated from the €STR plus a fixed spread of 8.5 basis points. Publication of the EONIA is expected to be discontinued at the turn of 2021/2022. By contrast, market participants will continue to have the reference interest rate EURIBOR (Euro InterBank Offered Rate). In November 2019, however, the determination procedure for the latter was adjusted to the effect that it now meets the requirements of the EU benchmarks regulation.

As a first reaction to possible effects of the so-called IBOR reform, the IASB issued various amendments to IFRS 9, IAS 39 and IFRS 7 on 26 September 2019. These are a number of temporary exceptions to the application of specific hedge accounting rules and clarifications as to how to apply them in these circumstances. One of the consequences of these amendments is that relationships in hedge accounting must be continued which might otherwise have had to be terminated due to the uncertainty resulting from the IBOR reform. In addition, as part of these amendments, IFRS 7 was supplemented by disclosure requirements that relate in particular to the nature and extent of the effects of the IBOR reform on the reporting entity. The amendments are to be applied for the first time for financial years beginning on or after 1 January 2020. The amended provisions have been endorsed by the EU.

In the HSBC Trinkaus & Burkhardt Group, hedge accounting rules are applied to hedge the market interest rate risk of fixed-interest bonds, loans and registered bonds issued with hedging instruments on an individual transaction basis (so-called micro fair value hedge accounting). In doing so, we make use of the option under IFRS 9 to continue to apply the regulations under IAS 39 for hedge accounting. As a result, the amended regulations lead to temporary simplifications in the application of the regulations in the consolidated financial statements during the uncertainty period before the replacement of a valid reference interest rate by an alternative interest rate. As part of these temporary exceptions, it can be assumed, among other things, that the reference interest rates for the purpose of hedge accounting will remain unchanged for as long as the period of uncertainty exists.

In the first half of 2020, the majority of the hedging instruments recognised in hedge accounting at HSBC Trinkaus & Burkhardt Group were based on the EURIBOR reference interest rate, which will be adjusted as a result of the reform but not replaced by another reference interest rate. Other hedging instruments recognised in hedge accounting already refer to the new reference interest rate €STR, so the amended provisions will not have any effects here either. The new rules are therefore only of significance for a small number of hedging relationships recognised in the consolidated financial statements which are based on the reference interest rate EONIA on the variable side of the hedging instrument (31 December 2019: two hedging instruments with a nominal value of €105 million; 30 June 2020: unchanged). As these transactions extend beyond 2021 in accordance with the contract, they will have to be converted with regard to the reference interest rate used. It is currently expected that the EONIA reference rate of these hedging instruments will be changed to a €STR reference rate by the end of 2021. The conversion of transactions affected by the IBOR reform to alternative interest rates is being carried out as part of a project in coordination with the HSBC Group. We do not expect the conversion of the reference interest rates for the few hedging relationships affected by the IBOR reform to have a significant impact on the HSBC Trinkaus & Burkhardt consolidated financial statements.

The extent to which the change in the reference interest rates will also have an impact on the HSBC Trinkaus & Burkhardt Group's consolidated financial statements, for example in terms of the adjustment of contracts outside hedge accounting, depends among other things on further possible changes to existing accounting standards, which the IASB presented for discussion in April 2020. The further effects of the IBOR reform, also in view of possible changes to accounting standards, are currently being analysed as part of the project.

Against the backdrop of the Covid-19 pandemic, the IASB published an amendment to IFRS 16 "Leases" on 28 May 2020 which will make it easier for lessees to account for rental concessions, for example in the form of rent deferrals or rent relief. According to this amendment, lessees have an option to waive the assessment of whether a rental concession in connection with the Covid-19 pandemic constitutes a modification of an existing lease with respect to lease payments that were originally due by 30 June 2021. Providing no other material changes to the lease agreement have been agreed, such a rent concession is not accounted for as a modification of the lease if the option is exercised. The amendment is to be applied retrospectively for the first time in reporting periods beginning on or after 1 June 2020. The amended regulations have not yet been adopted into EU law. The amendments to IFRS 16 do not have a material impact on the consolidated financial statements of HSBC Trinkaus & Burkhardt.

Other standards and interpretations that became mandatory in the EU from 1 January 2020 were taken into consideration in the preparation of the Interim Report and did not have any effect on the HSBC Trinkaus & Burkhardt consolidated financial statements. This concerns the changes to the framework for IFRS standards, the amendments to IAS 1 and IAS 8 on the definition of materiality and the amendments to IFRS 3 "Business Combinations".

Other adjustments

As a consequence of the sale of a property in Brisbane, Australia, which is held in a closed-end, consolidated real estate fund, completed in September 2019, it became apparent that the tax effects resulting from the sale deviated significantly from the tax effects expected up to that point. In the light of more recent information on the tax treatment of the gain on the sale of the property in Australia, the consolidated accounts of the consolidated financial statements as at 31 December 2019 had to be adjusted retroactively. In this Interim Report, the retrospective adjustments in the comparative period are mainly reflected in the income statement. As a result of the necessary adjustments, we are reporting income tax expense of €16.6 million in this Interim Report for the first half of 2019, €0.3 million higher than in the half-yearly financial statements published at that time, which reduces the net profit after taxes for the prior-year period accordingly.

Adjustments to accounting methods for future reporting periods

IAS 8.30 requires the reporting of known or reasonably estimable information relevant to assessing the possible impact the application of a new standard will have on the financial statements of companies in the period of initial application. The following presentation on the expected impact of the initial application of new accounting principles is based on the current status of the preparations for their introduction and the current frameworks. However, the facts and circumstances at the respective time of initial application are decisive for the actual effects of the initial application of new accounting principles. Depending on future developments, the actual effects of the initial application of new accounting principles can vary substantially from the expectations described below.

The IASB published the new accounting standard IFRS 17 "Insurance Contracts" in mid-May 2017. IFRS 17 redefines the accounting treatment of insurance contracts and the measurement of insurance liabilities, thus replacing IFRS 4. Published in 2017, the standard provides for mandatory application of the new accounting standards for financial years beginning on or after 1 January 2021. However, the IASB published amendments to IFRS 17 on 25 June 2020. Among other things, the amendments provide for the mandatory first-time adoption of IFRS 17 to be postponed by two years to reporting periods beginning on or after 1 January 2023. Furthermore, the amendments to IFRS 17 introduce additional exemptions from the area of application of IFRS 17, for example for credit card contracts and certain loan agreements. At the same time as publishing the amendments to IFRS 17, the IASB published amendments to IFRS 4, which extend the provisions on temporary exemptions from the application of IFRS 9 by two years. EU endorsement is still pending. The effects of IFRS 17, including the changes to the accounting standards mentioned above, on the HSBC Trinkaus & Burkhardt consolidated financial statements are currently being analysed.

Furthermore, on 23 January 2020 the IASB issued amendments to IAS 1 concerning the classification of liabilities as current or non-current. The aim of the amendments is to introduce a more general approach to the classification of liabilities according to IAS 1, based on the contractual agreements existing at the respective reporting date. Accordingly, a liability is to be classified as non-current if, at the balance sheet date, the reporting entity has a right to defer settlement of the liability for at least twelve months after the balance sheet date. According to the original plan, the amendments were to take effect on 1 January 2022. In July 2020, the IASB decided to postpone the effective date of the amendments to IAS 1 with regard to the classification of liabilities by one year to annual reporting periods beginning on or after 1 January 2023. The amendments have not yet been adopted into EU law. The impact on the HSBC Trinkaus & Burkhardt consolidated financial statements is currently being analysed.

On 14 May 2020, the IASB published amendments to various accounting standards. These firstly involve amendments to IFRS 3 "Business Combinations", IAS 16 "Property, Plant and Equipment" and IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Secondly, the IASB completed the annual improvement process in the 2018-2020 cycle and adopted amendments with, in the IASB's opinion, at most minor effects on companies preparing their financial statements. The accounting standards affected by these changes are IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IFRS 16 "Leases" and IAS 41 "Agriculture". Subject to the adoption of these amendments into EU law, the amended standards will be effective for the first time for reporting periods beginning on or after 1 January 2022. Voluntarily application earlier than this is not permitted. According to an initial assessment, these changes do not have a significant impact on the HSBC Trinkaus & Burkhardt consolidated financial statements.

1 Net Interest Income

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Interest income	**160.4**	**169.0**
Interest income from financial assets measured at amortised cost	**107.8**	**126.4**
Interest income from the lending business and money market transactions	107.8	126.4
Interest income from the securities business	0.0	0.0
Interest income from financial instruments recognised as liabilities	**36.8**	**20.6**
Interest income from financial assets measured at fair value through other comprehensive income	**13.2**	**14.9**
Interest income from the lending business and money market transactions	2.0	2.1
Interest income from the securities business	11.2	12.8
Other interest income	**0.0**	**4.0**
Interest income from other financial assets mandatorily measured at fair value through profit or loss	2.6	3.1
Interest income from the lending business and money market transactions	0.0	0.0
Interest income from the securities business	2.6	3.1
Interest expense	**44.8**	**55.5**
Interest expense from financial liabilities measured at amortised cost	**21.1**	**38.2**
Interest expense from the deposit-taking business	13.6	30.1
Interest expense from the securities business (subordinated capital)	7.5	8.1
Interest expense from financial instruments recognised as assets	**20.5**	**14.9**
Interest expense from hedge accounting	**0.7**	**0.3**
Interest expense from lease liabilities	**0.0**	**0.3**
Other interest expense	**2.5**	**2.1**
Net interest income	**115.6**	**113.5**

2 Net Loan Impairment Provision

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Additions	75.8	33.3
Reversals	11.0	4.1
Direct write-offs	2.0	0.0
Recoveries on loans and advances previously written off	0.1	0.0
Total	**66.7**	**29.2**

Under direct write-downs, we show an expense from the write-off of a receivable from a contract with a customer (IFRS 15) in the amount of €2.0 million.

Net loan impairment provision requirements are determined and recognised on the balance sheet on the basis of the expected loss model in accordance with IFRS 9. Assets (debt) that are carried at amortised cost or reported at fair value directly in equity showing the changes in value are affected by the regulations on the recognition of impairment under IFRS 9. Loan commitments and financial guarantees granted are also affected.

The reporting of impairments is based on a three-level model. Under IFRS 9, net loan impairment and other credit risk provisions in the amount of the 12-month expected credit losses are recognised for financial assets in the event that the credit risk on the balance sheet date has not increased significantly since initial recognition and has not met the default definition at initial recognition (Level 1). Net loan impairment and other credit risk provisions in the amount of the lifetime expected credit losses are recognised for financial assets whose credit risk has increased significantly since initial recognition (Level 2) and for credit-impaired assets on the balance sheet date (Level 3).

The procedure for allocating a financial instrument to Levels 1 to 3, as well as the methodological, procedural and systemic implementation for determining the net loan provision, has not changed compared with the information provided in the consolidated financial statements as at 31 December 2019.

The assessment of counterparty credit risks is based on appropriate and reliable information about previous events, prevailing conditions and forecasts about the future economic environment, in so far as they are significant for assessing expected credit defaults.

In view of the deterioration in the overall economic situation and the current uncertainties, the net loan provisions of Levels 1 and 2 are significantly more important than in previous periods. In this context, future-oriented scenarios for key macroeconomic indicators are taken into account. The key macroeconomic indicators for the Bank are currently the development of gross domestic product, the unemployment rate and the stock markets. At the same time, the uncertainty of forecasts is currently unusually high due to a whole range of factors. These include the further development of the spread of Covid-19, the medium-term effects on global trade and the effectiveness of government support measures in combating the economic effects of Covid-19.

Due to the Covid-19 pandemic, the expectations for the development of the macroeconomic indicators have changed significantly compared to 31 December 2019.

The scenario with the highest weighting is the central scenario (weighting: 70%; previous year: 80%), which reflects our predominant expectation of the development of the parameters. It is based on the assumption of a relatively significant decline, followed by a relatively rapid economic recovery. Here, we assume an average annual growth rate of the gross domestic product of – 6.3 % in 2020 and + 5.2 % in 2021 (previous year: + 0.6%). The unemployment rate is expected to average 5.60 % in 2020 and 5.64 % in 2021 (previous year: 4.98%). The stock markets are subject to an average annual growth rate of – 10.6 % in 2020 and – 12.0 % in 2021 (previous year: – 0.8%).

The upside scenario (weighting: 10%; previous year: 10%) assumes a development of economic conditions that is expected to be slightly more favourable than in the central scenario. Here, we assume an average annual growth rate of the gross domestic product of – 6.1% in 2020 and + 6.4% in 2021 (previous year: + 0.6%). The unemployment rate is expected to average 5.35 % in 2020 and 4.70 % in 2021 (previous year: 4.98%). The stock markets are subject to an average annual growth rate of – 3.2 % in 2020 and – 10.5 % in 2021 (previous year: – 0.8%).

The downside scenario (weighting: 15%; previous year: 10%) assumes a development of economic conditions that is expected to be unfavourable as compared to that of the central scenario. Here, we assume an average annual growth rate of the gross domestic product of – 6.8% in 2020 and + 3.6% in 2021 (previous year: 0.6%). The unemployment rate is expected to average 5.82 % in 2020 and 6.46 % in 2021 (previous year: 4.98%). The stock markets are subject to an average annual growth rate of – 17.7% in 2020 and – 32.4% in 2021 (previous year: –0.8%).

The severe downside scenario (weighting: 5%; previous year: not included), included for the first time since 30 June 2020 due to the Covid-19 pandemic, assumes that the economy will recover much later. Here, we assume an average annual growth rate of gross domestic product of – 12.0 % in 2020 and – 6.2 % in 2021 (previous year: 0.6%). The unemployment rate is expected to average 6.07 % in 2020 and 7.93 % in 2021 (previous year: 4.98%). The stock markets are subject to an average annual growth rate of – 17.2% in 2020 and – 45.0% in 2021 (previous year: –0.8%).

The weighting of the individual scenarios is expert-based. On the basis of this weighting, this results in loan loss provisions for Levels 1 and 2 of €45.7 million. By comparison, the following loan loss provisions would result for the individual scenarios: central scenario: €39.8 million; upside scenario: €31.6 million; downside scenario: €49.8 million; severe downside scenario: €143.9 million. Level 3 exposures were disregarded for the sensitivity analysis.

3 Net Fee Income

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Securities portfolio transactions	65.5	61.5
Securities transactions	55.9	55.3
Foreign exchange trades	40.3	31.5
Asset management	36.2	35.2
Capital financing	34.8	8.1
Lending	23.7	11.8
Domestic/international payments	10.4	10.8
Other services	1.6	7.5
Total	**268.4**	**221.7**

Fee income consists of the following:

in €m		PB & AM	CMB	GB & M	CC/ Consoli-dation	Total
Income from securities portfolio transactions	30.06.2020	2.2	0.1	130.1	0.1	132.5
	30.06.2019	2.2	0.1	117.3	0.2	119.8
Income from securities transactions	30.06.2020	5.3	1.3	95.1	0.0	101.7
	30.06.2019	4.1	4.0	79.2	−0.1	87.2
Income from asset management	30.06.2020	38.1	1.3	0.0	−0.1	39.3
	30.06.2019	37.7	1.1	−0.3	0.0	38.5
Income from foreign exchange trades	30.06.2020	3.4	9.2	30.3	0.1	43.0
	30.06.2019	4.2	8.1	22.5	0.0	34.8
Income from lending business	30.06.2020	1.0	21.3	3.2	0.0	25.5
	30.06.2019	2.4	11.5	1.6	0.0	15.5
Income from capital financing	30.06.2020	0.0	6.0	28.5	0.1	34.6
	30.06.2019	0.0	1.0	7.7	0.0	8.7
Income from domestic/international payments	30.06.2020	0.3	8.2	3.8	−0.1	12.2
	30.06.2019	0.3	8.0	4.2	0.0	12.5
Income from other services	30.06.2020	0.0	0.7	1.3	−0.1	1.9
	30.06.2019	3.1	0.1	4.5	0.0	7.7
Total	**30.06.2020**	50.3	48.1	292.4	−0.1	390.7
	30.06.2019	**54.0**	**33.9**	**236.7**	**0.1**	**324.7**

4 Net Trading Income

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Equities and equity-/index-linked derivatives	64.5	22.3
Bonds and interest rate derivatives	10.4	13.8
Foreign exchange	–0.1	4.6
Hedge result	0.3	0.1
Derivatives held in the banking book	0.0	–0.1
Total	**75.1**	**40.7**

Interest and dividend income attributable to trading activities is included in net trading income.

5 Net Profit from Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Bonds and other fixed-income securities	–4.3	1.9
Hybrid financial instruments	–0.7	3.0
Investment certificates	–0.6	0.9
Equities and other non-fixed-income securities	1.0	0.2
Investments	3.9	0.2
Total	**–0.7**	**6.2**

6 Gains and Losses from the Disposal of Financial Assets Measured at Amortised Cost

In the year under review, losses from the disposal of financial assets measured at amortised cost amounting to €40 thousand (previous year: €0.0 thousand) were recorded.

7 Administrative Expenses

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Staff expenses	189.5	196.9
Wages and salaries	152.7	161.2
Social security costs	20.1	20.3
Expenses for retirement pensions and other employee benefits	16.7	15.4
Other administrative expenses	107.8	104.5
Depreciation and amortisation	17.8	18.6
Total	**315.1**	**320.0**

Depreciation and amortisation include the following amounts:

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Operational and business equipment	7.7	9.0
Land and buildings	0.9	0.9
Intangible assets	3.5	2.9
Rights of use	5.7	5.8
Total	**17.8**	**18.6**

8 Income from Financial Assets

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Bonds and other fixed-income securities	16.5	5.1
Promissory note loans	0.0	0.0
Investments	0.0	0.0
Total	**16.5**	**5.1**

9 Net Other Income

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Other operating income	8.4	12.8
Other operating expenses	2.8	3.5
Other net operating income	**5.6**	**9.3**
Other income	0.2	0.2
Other expenses	0.3	0.3
Other net income	**–0.1**	**–0.1**
Net other income	**5.5**	**9.2**

10 Customer Groups

in €m		PB & AM	CMB	GB & M	CC/Con-solida-tion**/***	Total*
Net interest income	30.06.2020	4.4	66.9	45.2	–0.9	115.6
	30.06.2019	5.1	65.8	41.8	0.8	113.5
Net fee income	30.06.2020	50.0	39.8	178.6	0.0	268.4
	30.06.2019	49.2	26.4	146.1	0.0	221.7
Net trading income	30.06.2020	0.9	1.8	68.6	3.8	75.1
	30.06.2019	1.5	2.5	37.8	–1.1	40.7
Other net operating income	30.06.2020	0.0	0.2	4.5	0.9	5.6
	30.06.2019	1.2	1.7	6.5	–0.1	9.3
Gains and losses from the disposal of financial assets measured at amortised cost	30.06.2020	0.0	0.0	0.0	0.0	0.0
	30.06.2019	0.0	0.0	0.0	0.0	0.0
Operating revenues	30.06.2020	55.3	108.7	296.9	3.8	464.7
	30.06.2019	57.0	96.4	232.2	–0.4	385.2
Net loan impairment provision in the lending and securities business	30.06.2020	0.1	55.7	7.8	3.1	66.7
	30.06.2019	0.2	27.3	0.3	1.4	29.2
Administrative expenses	30.06.2020	47.4	61.8	202.0	3.9	315.1
	30.06.2019	50.0	62.5	206.3	1.2	320.0
Operating result	30.06.2020	7.8	–8.8	87.1	–3.2	82.9
	30.06.2019	6.8	6.6	25.6	–3.0	36.0
Net profit from other assets mandatorily measured at fair value through profit or loss	30.06.2020	0.0	0.0	0.0	–0.7	–0.7
	30.06.2019	0.0	0.0	0.0	6.2	6.2
Income from financial assets	30.06.2020	2.4	5.0	11.7	–2.6	16.5
	30.06.2019	0.7	1.3	3.1	0.0	5.1
Other net income	30.06.2020	0.0	0.0	0.0	–0.1	–0.1
	30.06.2019	0.0	0.0	0.0	–0.1	–0.1
Pre-tax profit	**30.06.2020**	**10.2**	**–3.8**	**98.8**	**–6.6**	**98.6**
	30.06.2019	**7.5**	**7.9**	**28.7**	**3.1**	**47.2**
Tax expenses*	30.06.2020	3.6	–1.4	34.2	–2.3	34.1
	30.06.2019	2.5	2.7	9.9	1.5	16.6
Net profit for the year*	**30.06.2020**	**6.6**	**–2.4**	**64.6**	**–4.3**	**64.5**
	30.06.2019	**5.0**	**5.2**	**18.8**	**1.6**	**30.6**

* Comparative figures adjusted. The adjustments are explained in the note on adjustments to accounting methods in the presented reporting periods.

** No material consolidation effects were recorded in the reporting period.

*** In line with the changed presentation in the HSBC Group and in line with internal management, the results of money market trading (balance sheet management) for this half year and retrospectively for the first half of the previous year were removed from the Corporate Centres / Consolidation segment and reallocated to the Bank's Customer Groups.

In addition to the bank levy, in line with the changed presentation in the HSBC Group and in line with internal management, the results of money market trading for this half year, and retrospectively for the first half of the previous year, were removed from the Corporate Centres/Consolidation segment and reallocated to the Bank's Customer Groups. This leads to high earnings in the core segments, particularly in net income from financial investments, which resulted from the successful positioning of money market trading during the Covid-19-related market turbulence.

Business performance in the first half of 2020 was significantly affected by the Covid-19 pandemic and the resulting negative impact on the global economy, but also by the associated business opportunities. The difficult economic situation confronts many companies with real challenges, which is reflected in a higher need for net loan impairment provision, especially in our Commercial Banking area. At the same time, however, turbulence on the global capital markets also led to a significant increase in our customers' activities on the capital markets, which had a positive impact on the Bank's revenues – in particular in Global Banking and Markets. The improvement in results achieved despite these difficult conditions is evidence of the balance and stability of the Bank's diversified business model.

The Global Banking and Markets segment was particularly successful year on year, both in commission business from investment banking and related lending business, as well as in the settlement of equity transactions for our customers and in customer-related trading business with equity derivatives and in interest business, due to increased lending and the passing on of negative credit interest to our customers. However, it was not possible to repeat the high level of results from fixed-income business as achieved in the previous year. In Commercial Banking, the volume and margin-driven increase in net interest income in lending business and the significantly higher net fee income in investment banking and lending business were not sufficient to fully offset the higher allocation to the net loan impairment provision. The Global Private Banking & Asset segment generated higher revenues from asset management for private customers as well as from business with special funds. It also benefited from the reallocation of the high money market revenues to the customer segments, which was offset by declining revenues from lending and foreign exchange trades involving private customers.

The slight decline in staff and non-staff expenses across the Bank as a whole was recorded in all of the Bank's core segments and is evidence of the success of the efficiency programme launched in the first half of 2019 and continued this year.

11 Loans and Advances to Banks

in €m	30.06.2020	31.12.2019
Current accounts	889.7	1,438.8
Money market transactions	3.1	85.8
of which overnight money	3.1	0.0
of which term deposits	0.0	85.8
Other receivables	239.7	258.4
Collateral items in the derivatives trading business	903.1	204.2
Total (before net loan impairment provision)	**2,035.6**	**1,987.2**
Net loan impairment provision for loans and advances	0.5	0.2
Total (net)	**2,035.1**	**1,987.0**

Loans and advances to banks also include deposits within the HSBC Group.

12 Loans and Advances to Customers

in €m	30.06.2020	31.12.2019
Current accounts	2,733.2	2,301.3
Money market transactions	1,259.3	974.9
of which overnight money	35.3	15.5
of which term deposits	1,224.0	959.4
Loan accounts	6,857.3	6,780.6
Other receivables	746.0	742.0
Lease receivables	14.3	15.6
Collateral items in the derivatives trading business	235.6	105.4
Total (before net loan impairment provision)	**11,845.7**	**10,919.8**
Net loan impairment provision for loans and advances	110.4	53.3
Total (net)	**11,735.3**	**10,866.5**

13 Trading Assets

in €m	30.06.2020	31.12.2019
Bonds and other fixed-income securities	926.5	853.4
Equities and other non-fixed-income securities	492.5	826.7
Tradable receivables	1,289.0	1,121.8
Total	**2,708.0**	**2,801.9**

14 Positive Market Values of Derivative Financial Instruments

in €m	30.06.2020	31.12.2019
Positive market values of derivatives	1,432.1	1,160.3
of which OTC derivatives	1,086.3	970.0
of which exchange-traded derivatives	345.8	190.3
Derivatives in hedging relationships	3.5	3.9
Derivatives held in the banking book	0.0	0.0
Total	**1,435.6**	**1,164.2**

15 Other Financial Assets Mandatorily Measured at Fair Value through Profit or Loss

in €m	30.06.2020	31.12.2019
Bonds and other fixed-income securities	45.6	62.1
Hybrid financial instruments	22.8	34.6
Investment certificates	11.1	7.3
Equities and other non-fixed-income securities	0.0	0.0
Investments	21.6	16.9
Total	**101.1**	**120.9**

16 Financial Assets

in €m	30.06.2020	31.12.2019
Bonds and other fixed-income securities	3,863.5	3,405.1
Promissory note loans	79.1	80.6
Investments	23.8	23.7
Total	**3,966.4**	**3,509.4**

17 Investments

in €m	30.06.2020	31.12.2019
Land and buildings	66.4	66.9
Right-of-use assets	21.9	27.2
Operational and business equipment	43.7	43.2
Property, plant and equipment	132.0	137.3
Intangible assets	91.4	86.3
Total	**223.3**	**223.6**

18 Deposits by Banks

in €m	30.06.2020	31.12.2019
Current accounts	975.6	350.2
Money market transactions	2,240.0	1,414.1
of which overnight money	0.0	0.0
of which term deposits	2,240.0	1,414.1
Other liabilities	756.1	816.3
Collateral items in the derivatives trading business	155.5	27.5
Total	**4,127.2**	**2,608.1**
of which domestic banks	3,212.3	1,925.3
of which foreign banks	914.9	682.8

19 Customer Accounts

in €m	30.06.2020	31.12.2019
Current accounts	19,754.0	15,308.0
Money market transactions	2,067.8	1,973.5
of which overnight money	818.9	435.8
of which term deposits	1,248.9	1,537.7
Savings deposits	2.9	2.9
Other liabilities	210.2	308.4
Collateral items in the derivatives trading business	55.1	58.0
Total	**22,090.0**	**17,650.8**
of which domestic customers	20,898.8	16,478.5
of which foreign customers	1,191.2	1,172.3

20 Trading Liabilities

in €m	30.06.2020	31.12.2019
Promissory note loans	260.3	260.9
Bonds	497.9	556.2
Certificates and warrants	939.6	956.5
Delivery obligations arising from securities sold short	82.2	20.2
Total	**1,780.0**	**1,793.8**

21 Negative Market Values of Derivative Financial Instruments

in €m	30.06.2020	31.12.2019
Negative market values of derivatives	1,298.4	1,040.2
of which OTC derivatives	1,057.1	894.3
of which exchange-traded derivatives	241.3	145.9
Derivatives in hedging relationships	47.5	29.8
Total	**1,345.9**	**1,070.0**

22 Provisions

in €m	30.06.2020	31.12.2019
Provisions for pensions and similar obligations	60.4	34.6
Provisions for off-balance sheet commitments in the lending business	15.5	11.3
Other provisions	74.2	82.9
Total	**150.1**	**128.9**

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations developed as follows in the first half of 2020:

in €m	Pensions and similar obligations	Partial retirement	Statutory retirement age	Other	Total
As at 01.01	**22.9**	**1.9**	**3.7**	**6.0**	**34.6**
Change in the plan assets	0.1	0.0	–0.6	0.0	–0.5
Pensions paid	–6.0	–0.6	0.0	0.0	–6.6
Additions (incl. projected income)	8.8	0.6	3.1	0.2	12.7
Transfers/other	–0.1	0.0	0.0	0.3	0.1
Changes recognised through other comprehensive income arising from the remeasurement of the net pension obligation	20.1	0.0	0.0	0.0	20.1
As at 30.06	**45.8**	**1.9**	**6.2**	**6.5**	**60.4**

Other provisions

Other provisions developed as follows in the first half of 2020:

in €m	As at 01.01.2020	Utilisation	Reversals	Additions	Compounding	Transfers/ others	As at 30.06.2020
Provisions for trade payables for software and hardware	11.7	2.4	0.7	2.1	0.0	0.0	10.7
Provisions for expected interest on retrospective tax payments	10.5	0.0	0.0	0.1	0.0	0.0	10.6
Provisions for trade payables for goods and services	14.8	2.8	0.3	0.0	0.0	0.0	11.7
Provisions for goodwill and legal risks	9.8	0.4	0.7	0.5	0.0	0.0	9.2
Provisions for the efficiency programme (IAS 37)	10.1	4.2	2.5	7.8	0.0	0.0	11.2
Provisions for the efficiency programme and other compensations (IAS 19)	12.4	3.0	2.9	1.4	0.0	0.0	7.9
Provisions created in conjunction with the discontinuation of certain business activities in Luxembourg	2.2	0.0	0.0	0.0	0.0	0.0	2.2
Provisions for restoration obligations	6.1	0.0	0.0	0.0	0.0	0.0	6.1
Provisions for archiving	2.8	0.0	0.0	0.0	0.0	0.0	2.8
Provisions for other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Miscellaneous other provisions	2.4	0.4	0.8	0.5	0.0	0.0	1.7
Total	**82.9**	**13.2**	**7.9**	**12.4**	**0.0**	**0.0**	**74.2**

The assessment of the expected maturities for the outflow of economic benefits for the remaining provisions is subject to a high level of uncertainty and is estimated at up to five years on average.

No material legal disputes and associated litigation risks were pending as at 30 June 2020.

23 Net Loan Impairment Provision

Net loan impairment provision for loans and advances

in €m	Gross book values				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2020	**11,996.2**	**695.6**	**215.2**	**12,907.0**	**1.9**	**4.9**	**46.7**	**53.5**
(Net) transfer between levels	–1,526.5	1,515.3	11.2	0.0	–0.3	–0.9	1.2	0.0
Portfolio changes and changes related to credit quality	563.6	286.3	124.4	974.3	–0.2	23.9	33.7	57.4
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2020	**11,033.3**	**2,497.2**	**350.8**	**13,881.3**	**1.4**	**27.9**	**81.6**	**110.9**

in €m	Gross book values				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2019	**11,467.9**	**571.6**	**201.7**	**12,241.2**	**1.1**	**1.9**	**27.7**	**30.7**
(Net) transfer between levels	–254.7	235.0	19.7	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	587.2	31.6	10.6	629.4	1.1	3.0	22.6	26.7
Utilisation	0.0	0.0	–0.2	–0.2	0.0	0.0	–0.2	–0.2
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2019	**11,800.4**	**838.2**	**231.8**	**12,870.4**	**2.2**	**4.9**	**50.1**	**57.2**

Net loan impairment provision for financial assets

in €m	Fair value				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2020	**3,448.2**	**37.5**	**0.0**	**3,485.7**	**0.4**	**0.7**	**0.0**	**1.1**
(Net) transfer between levels	–362.5	362.5	0.0	0.0	–0.1	0.1	0.0	0.0
Portfolio changes and changes related to credit quality	446.2	10.7	0.0	456.9	1.3	2.0	0.0	3.3
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2020	**3,531.9**	**410.7**	**0.0**	**3,942.6**	**1.6**	**2.8**	**0.0**	**4.4**

in €m	Fair value				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2019	**3,480.7**	**27.7**	**0.0**	**3,508.4**	**0.4**	**0.5**	**0.0**	**0.9**
(Net) transfer between levels	–24.8	24.8	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	40.5	7.4	0.0	47.9	0.1	1.3	0.0	1.4
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2019	**3,496.4**	**59.9**	**0.0**	**3,556.3**	**0.5**	**1.8**	**0.0**	**2.3**

Provisions for off-balance sheet commitments in the lending business

in €m	Nominal amount				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2020	**12,183.6**	**961.4**	**12.7**	**13,157.7**	**0.8**	**1.6**	**8.9**	**11.3**
(Net) transfer between levels	–4,124.1	4,000.8	123.3	0.0	–0.2	0.2	0.0	0.0
Portfolio changes and changes related to credit quality	–241.1	–488.1	42.0	–687.2	0.0	9.6	–5.4	4.2
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2020	**7,818.4**	**4,474.1**	**178.0**	**12,470.5**	**0.6**	**11.4**	**3.5**	**15.5**

in €m	Nominal amount				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2019	**12,747.4**	**784.6**	**38.1**	**13,570.1**	**0.6**	**0.8**	**4.5**	**5.9**
(Net) transfer between levels	–262.9	262.9	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	–100.7	187.3	–20.5	66.1	0.5	0.7	–0.1	1.1
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2019	**12,383.8**	**1,234.8**	**17.6**	**13,636.2**	**1.1**	**1.5**	**4.4**	**7.0**

24 Fair Value of Financial Instruments

The fair value in accordance with IFRS is the price that would be received or paid when an asset is sold or a liability transferred within the scope of an arm's-length transaction between market participants on the valuation date. The fair value concept is therefore based on a hypothetical transaction on the valuation date. Due to the orientation towards representative market participants, the fair value must abstract from an undertaking's individual assumptions. After determining the object to be assessed, which is the equivalent of an individual financial asset or an individual financial liability, the main market is determined. This is the market with the largest trading volume and the most market activity for the valuation object. When determining the main market, all information that is accessible without any excessive effort is taken into consideration. As many relevant observable input factors as possible are taken into account when selecting suitable valuation methods. Based on the origins of the input factors used, three levels are differentiated in the fair value hierarchy.

The three fair value levels provided by IFRS 13 can be distinguished by the input factors used for the measurement.

Where the measurement is based on unadjusted quoted prices on active markets for identical financial instruments, the fair value is allocated to Level 1.

The fair value is allocated to Level 2 if input factors that are directly or indirectly observable on the market are included in the measurement that cannot be allocated to Level 1. The entire fair value may be allocated to Level 2, provided all significant input factors for the measurement process are observable.

If unobservable key market parameters are included in the measurement, classification is in Level 3.

Assessments by the management are necessary when determining the fair value. The areas for which management decisions are necessary to a significant extent are identified, documented and reported to senior management within the scope of valuation controls and the monthly reporting cycles.

Management assessments are only required to a minor extent to determine the fair value of financial instruments, the prices of which are quoted in an active market. Similarly, only a small number of subjective measurements or assessments for financial instruments are necessary, which are measured using models that are typical for the industry and whose input parameters originate in active markets.

The necessary measure of subjective measurement and assessment by management are more important for those financial instruments that are measured using special and complex models and where at least one material input parameter is not observable. The selection and application of appropriate parameters, assumptions and model techniques must be assessed by the management.

Remeasurements are an integral part of the process for determining the fair value that forms the basis for assessments. Remeasurements of the fair value are undertaken in the HSBC Trinkaus & Burkhardt Group if value-adjusting circumstances occur that market participants might expect to be included in the determination of the fair value but that are not taken into account directly in the valuation model. When calculating adequate remeasurements, the Group uses procedures that take into account factors such as bid/ask spreads, counterparty risk, own credit or financing risk. These remeasurements are not calculated on the basis of individual transactions but on a net basis in accordance with the steering committee.

Remeasurements of the fair value to take counterparty risks into consideration (credit valuation adjustment, CVA) are undertaken for OTC derivatives in order to take into account the default probability of our contractual partner.

Remeasurements of the fair value to take into consideration the risk that HSBC Trinkaus & Burkhardt defaults as a contractual party (debit valuation adjustment, DVA) are also undertaken for OTC derivatives to take into account the probability of the Bank's default.

Funding fair value adjustments (FFVA) are necessary to take into account the funding costs implied by the market when measuring the unsecured derivative positions at fair value.

Key valuation issues are dealt with by the Bank's Valuation Committee.

Product Control is responsible, among other things, for the fair value measurements of financial instruments and reports to the Chief Financial Officer in this context.

Product Control carries out the following controls:

- verifying observable prices
- validating the plausibility of model valuations
- reviewing and releasing new valuation models and changing existing models
- adjusting to changed input parameters and comparing model results and observable market transactions
- analysing and examining key measurement fluctuations
- verifying significant factors that are not observable on the market, and validating the plausibility of instruments classified as Level 3

Product Control assesses information provided by third parties, such as price offers or pricing services that are used for pricing, to ensure such external information meets the qualitative requirements.

There were no significant changes to the valuation methods used compared with 31 December 2019.

30.06.2020	Level 1	Level 2	Level 3	Total
in €m				
Assets				
Trading assets	**489.5**	**2,215.5**	**3.0**	**2,708.0**
Bonds and other fixed-income securities	0.0	926.5	0.0	926.5
Equities and other non-fixed-income securities	489.5	0.0	3.0	492.5
Tradable receivables	0.0	1,289.0	0.0	1,289.0
Positive market values of derivative financial instruments	**345.8**	**1,087.2**	**2.6**	**1,435.6**
Positive market values of derivatives	345.8	1,083.7	2.6	1,432.1
of which interest rate transactions	0.0	309.0	0.0	309.0
of which foreign exchange-based transactions	0.0	733.0	2.6	735.6
of which equity-/index-related transactions	345.8	0.0	0.0	345.8
of which commodity-related transactions	0.0	41.7	0.0	41.7
Derivatives in hedging relationships	0.0	3.5	0.0	3.5
Financial assets	**10.9**	**3,955.5**	**0.0**	**3,966.4**
Bonds and other fixed-income securities	0.0	3,863.5	0.0	3,863.5
Promissory note loans	0.0	79.1	0.0	79.1
Investments	10.9	12.9	0.0	23.8
Other financial assets mandatorily measured at fair value through profit or loss	**17.9**	**61.9**	**21.3**	**101.1**
Bonds and other fixed-income securities	0.0	39.1	6.5	45.6
Equities and other non-fixed-income securities	0.0	0.0	0.0	0.0
Investment certificates	11.1	0.0	0.0	11.1
Hybrid financial instruments	0.0	22.8	0.0	22.8
Investments	6.8	0.0	14.8	21.6
Liabilities				
Trading liabilities	**51.6**	**1,710.1**	**18.3**	**1,780.0**
Promissory note loans	0.0	260.3	0.0	260.3
Bonds	0.0	497.9	0.0	497.9
Certificates and warrants	0.0	921.3	18.3	939.6
Delivery obligations arising from securities sold short	51.6	30.6	0.0	82.2
Negative market values of derivative financial instruments	**241.3**	**1,102.0**	**2.6**	**1,345.9**
Negative market values of derivatives	241.3	1,054.5	2.6	1,298.4
of which interest rate transactions	0.0	262.6	0.0	262.6
of which foreign exchange-based transactions	0.0	749.8	2.6	752.4
of which equity-/index-related transactions	241.3	0.4	0.0	241.7
of which commodity-related transactions	0.0	41.7	0.0	41.7
Derivatives in hedging relationships	0.0	47.5	0.0	47.5

31.12.2019	Level 1	Level 2	Level 3	Total
in €m				
Assets				
Trading assets	**823.5**	**1,975.2**	**3.1**	**2,801.9**
Bonds and other fixed-income securities	0.0	853.4	0.0	853.4
Equities and other non-fixed-income securities	823.5	0.0	3.1	826.7
Tradable receivables	0.0	1,121.8	0.0	1,121.8
Positive market values of derivative financial instruments	**190.3**	**972.2**	**1.7**	**1,164.2**
Positive market values of derivatives	190.3	968.3	1.7	1,160.3
of which interest rate transactions	0.0	302.4	0.0	302.4
of which foreign exchange-based transactions	0.0	646.7	1.7	648.4
of which equity-/index-related transactions	190.3	0.4	0.0	190.7
of which commodity-related transactions	0.0	18.8	0.0	18.8
Derivatives in hedging relationships	0.0	3.9	0.0	3.9
Financial assets	**10.8**	**3,498.6**	**0.0**	**3,509.4**
Bonds and other fixed-income securities	0.0	3,405.1	0.0	3,405.1
Promissory note loans	0.0	80.6	0.0	80.6
Investments	10.8	12.9	0.0	23.7
Other financial assets mandatorily measured at fair value through profit or loss	**10.2**	**90.1**	**20.6**	**120.9**
Bonds and other fixed-income securities	0.0	55.5	6.6	62.1
Equities and other non-fixed-income securities	0.0	0.0	0.0	0.0
Investment certificates	7.3	0.0	0.0	7.3
Hybrid financial instruments	0.0	34.6	0.0	34.6
Investments	2.9	0.0	14.0	16.9
Liabilities				
Trading liabilities	**0.0**	**1,778.6**	**15.2**	**1,793.8**
Promissory note loans	0.0	260.9	0.0	260.9
Bonds	0.0	553.9	2.3	556.2
Certificates and warrants	0.0	943.6	12.9	956.5
Delivery obligations arising from securities sold short	0.0	20.2	0.0	20.2
Negative market values of derivative financial instruments	**145.8**	**922.5**	**1.7**	**1,070.0**
Negative market values of derivatives	145.8	892.7	1.7	1,040.2
of which interest rate transactions	0.0	232.9	0.0	232.9
of which foreign exchange-based transactions	0.0	639.4	1.7	641.1
of which equity-/index-related transactions	145.8	1.6	0.0	147.4
of which commodity-related transactions	0.0	18.8	0.0	18.8
Derivatives in hedging relationships	0.0	29.8	0.0	29.8

The fair value of some financial instruments is calculated using valuation models, where at least one significant input parameter cannot be observed on the market (Level 3). These instruments include currency-hedged certificates (quanto certificates), as parameters for the correlation between the underlying and the foreign currency are not quoted on the market, and options, the measurement of which depends significantly on unobservable volatilities.

In addition, we classify illiquid equity investments and certificates that have illiquid equity instruments as underlyings under Level 3.

	Assets			Liabilities					
30.06.2020	**Fair value of trading assets (in €m)**	**Fair value of other financial assets mandatorily measured at fair value through profit or loss (in €m)**	**Fair value of positive market values from derivative financial instruments (in €m)**	**Fair value of trading liabilities (in €m)**	**Fair value of negative market values from derivative financial instruments (in €m)**	**Valuation method**	**Significant unobservable parameters (Level 3)**	**Uncertainty interval margin (in €m)**	**Range of estimates for unobservable input factors**
Illiquid equity instruments/ private equity certificates	3.0			3.0		Modified asset value method	–	0.0 to 0.0	– 5 to 5 % price change
FX options			2.6		2.6	Analytical Black-Scholes approach	FX volatility	–0.2 to 0.2	95 % confidence interval relating to the average prices for unobservable volatilities
Illiquid debt instruments		6.5				Present value method	Credit spread	–0.1 to 0.1	– 10 to 10 % credit spread change
Illiquid equity instruments		14.8				Modified asset value method	–	– 0.7 to 0.7	– 5 to 5 % price change
Currency-hedged certificates				15.3		Analytical Black-Scholes approach	Correlation between underlyings	–0.0 to 0.0	– 58 % to 25 % (12 %)

	Assets			Liabilities					
31.12.2019	**Fair value of trading assets (in €m)**	**Fair value of other financial assets mandatorily measured at fair value through profit or loss (in €m)**	**Fair value of positive market values from derivative financial instruments (in €m)**	**Fair value of trading liabilities (in €m)**	**Fair value of negative market values from derivative financial instruments (in €m)**	**Valuation method**	**Significant unobservable parameters (Level 3)**	**Uncertainty interval margin (in €m)**	**Range of estimates for unobservable input factors**
Illiquid equity instruments/ private equity certificates	3.1			3.1		Modified asset value method	–	0.0 to 0.0	–5% to 5% price change
FX options			1.7		1.7	Analytical Black-Scholes approach	FX volatility	0.1 to 0.1	95% confidence interval relating to average prices of unobservable volatilities
Illiquid debt instruments		6.6				Present value method	Credit spread	–0.1 to 0.1	–10% to 10% credit spread change
Illiquid equity instruments		14.0				Modified asset value method	–	–0.7 to 0.7	–5% to 5% price change
Volatility-dependent options				2.3		Analytical Black-Scholes approach	Volatility	–0.0 to 0.0	14 % to 18 % (16 %)
Currency-hedged certificates				9.8		Analytical Black-Scholes approach	Correlation between underlyings	–0.0 to 0.0	– 44 % to 25 % (1 %)

The uncertainty interval margin for correlation-dependent currency-hedged certificates that require a correlation that is not observable on the market is calculated by shifting the estimated correlations by + / – 10 %.

The estimate range for non-derivative financial instruments is derived by changing the credit spread by + / – 10 %.

If FX volatilities are not observable for FX options, we derive the uncertainty interval margin by applying a confidence interval of 95 % to the available average prices.

The portfolio of Level 3 financial instruments developed as follows in the reporting period:

	Assets			Liabilities	
in €m	Trading assets	Other financial assets mandatorily measured at fair value through profit or loss	Positive market values from derivative financial instruments	Trading liabilities	Negative market values from derivative financial instruments
01.01.2020	**3.1**	**20.6**	**1.7**	**15.2**	**1.7**
Changes in the carrying amount					
recognised in the income statement	−0.1	0.9	−0.6	3.8	−0.6
recognised directly in equity	0.0	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	0.0	0.0
Issuance	0.0	0.0	0.0	1.6	0.0
Sales	0.0	0.0	0.0	0.0	0.0
Maturities/repayments	0.0	0.2	0.0	2.3	0.0
Transfers to Level 3	0.0	0.0	1.6	0.0	1.6
Transfers out of Level 3	0.0	0.0	0.1	0.0	0.1
30.06.2020	**3.0**	**21.3**	**2.6**	**18.3**	**2.6**

	Assets			Liabilities	
in €m	Trading assets	Other financial assets mandatorily measured at fair value through profit or loss	Positive market values from derivative financial instruments	Trading liabilities	Negative market values from derivative financial instruments
01.01.2019	**10.8**	**18.5**	**1.2**	**29.2**	**1.2**
Changes in the carrying amount					
recognised in the income statement	−0.4	0.4	−0.2	−3.0	−0.2
recognised directly in equity	0.0	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	3.1	0.0
Issuance	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0
Maturities/repayments	4.7	0.0	0.0	16.3	0.0
Transfers to Level 3	0.0	0.0	1.3	0.0	1.3
Transfers out of Level 3	0.0	0.0	1.0	0.0	1.0
30.06.2019	**5.7**	**18.9**	**1.3**	**13.0**	**1.3**

A transfer out of Level 1 to Level 2 takes place if prices on active markets are no longer available for identical financial instruments. Such a transfer is necessary, for example, if market activity is low in the respective financial instrument. If at least one significant market parameter is no longer observable in the Level 2 measurement, a transfer is made out of Level 2 to Level 3.

Derivatives with positive and negative market values of €1.6 million respectively (previous year: €1.3 million) were transferred out of Level 2 to Level 3 in the reporting period. By the same token, derivatives with positive and negative market values of €0.1 million respectively (previous year: €1.0 million) were transferred out of Level 3 to Level 2 in the same period.

Due to the short maturities as well as fixed-interest periods for large parts of the loans and advances and liabilities in the business with customers and banks, the difference between fair value and present value is often immaterial for this item. The differences between present values and fair values are derived from the following table:

in €m	**30.06.2020**		**31.12.2019**	
	Book value	**Fair value**	**Book value**	**Fair value**
Assets				
Loans and advances to banks (gross)	2,036.8	2,037.0	1,987.2	1,987.5
Loans and advances to customers (gross)	11,621.4	11,645.1	10,919.8	11,079.4
Liabilities				
Deposits by banks	4,127.2	4,127.2	2,608.1	2,594.7
Customer accounts	22,090.0	22,095.0	17,650.8	17,653.7
Subordinated capital	527.7	546.9	551.3	571.9

The fair values of these items are calculated using the present value method. These items are allocated to Level 3, as the credit spread changes are not regularly observable on the market. Contingent liabilities amount to €3,035.2 million (previous year: €3,057.9 million), and irrevocable loan commitments amount to €9,435.3 million (previous year: €10,099.8 million).

25 Business Relationships with Companies and Persons Defined as Related Parties

Companies and persons are defined as related parties, provided one party exercises direct or indirect control or can exercise a significant influence on their business or operating decisions.

As part of its ordinary course of business, HSBC Trinkaus & Burkhardt AG and/or its consolidated companies enter into business relationships with companies and persons defined as related parties. These include HSBC Group companies as well as persons in key positions and their relatives. Persons in key positions comprise exclusively the active members of the Management and Supervisory Boards of HSBC Trinkaus & Burkhardt AG in the financial year.

Business transactions with companies and persons defined as related parties are carried out under the same terms and conditions as business transactions with independent business partners.

Particularly intensive business relations are maintained with other companies in the HSBC Group. These business relationships relate firstly to normal bank transactions, which are usually unsecured. Derivative transactions, however, are generally concluded and collateralised under master agreements that allow netting. There are also cooperation and agency agreements with various companies of the HSBC Group. The consolidated income statement includes mainly the following income and expenses from transactions with HSBC Holdings plc, London, and its affiliated companies.

in €m	01.01. to 30.06.2020	01.01. to 30.06.2019
Interest income	0.5	0.5
Interest expense	1.9	4.5
Fee income	46.3	40.7
Fee expenses	3.9	0.5
Administrative expenses	8.1	9.3
Net trading income	0.0	0.0
Net other income	0.0	0.0
Total	**32.9**	**26.9**

Assets include the following amounts:

	Affiliated companies		Associated companies	
in €m	**30.06.2020**	**31.12.2019**	**30.06.2020**	**31.12.2019**
Loans and advances to banks	1,066.0	1,523.4	0.0	0.0
Loans and advances to customers	33.0	0.2	91.9	92.2
Other assets	3.9	8.2	0.0	0.0
Total	**1,102.9**	**1,531.8**	**91.9**	**92.2**

Loans and advances to banks comprise mainly short-term deposits with other HSBC units.

Liabilities include the following amounts:

	Affiliated companies		Associated companies	
in €m	**30.06.2020**	**31.12.2019**	**30.06.2020**	**31.12.2019**
Deposits by banks	324.7	410.2	0.0	0.0
Customer accounts	35.9	5.3	14.2	14.3
Other liabilities	360.0	357.9	0.0	0.0
Total	**720.6**	**773.4**	**14.2**	**14.3**

Deposits by banks comprise mainly short-term deposits of other HSBC units. Other liabilities primarily include subordinate deposits of HSBC Bank plc.

Trading assets/liabilities and financial assets do not include any transactions concluded with affiliated companies. The following table shows derivative transactions concluded with affiliated companies (predominantly interest and foreign exchange-based derivatives):

	Derivatives	
in €m	**30.06.2020**	**31.12.2019**
Derivatives with positive market values	583.7	576.9
Derivatives with negative market values	665.6	499.7
Total	**1,249.3**	**1,076.6**

26 Day-1 Profit or Loss

A day-1 profit or loss can arise from traded financial assets measured on the basis of an internal model, where at least one key measurement parameter is unobservable on the market.

The day-1 profit or loss is determined as the difference between the theoretical price and the price actually traded.

in €m	**2020**	**2019**
As at 01.01	**0.0**	**0.3**
New business	0.0	0.0
Day-1 profit or loss recognised through profit or loss	0.0	–0.3
of which positions closed out	0.0	0.0
of which matured transactions	0.0	–0.3
of which observable market parameters	0.0	0.0
As at 30.06	**0.0**	**0.0**

27 Derivatives Trading Business

	Nominal amounts by residual term				Positive market values
in €m	Up to 1 year	1 to 5 years	More than 5 years	Total	
Interest-rate transactions					
30.06.2020	3,814.0	7,104.8	3,702.8	14,621.6	312.5
31.12.2019	3,109.5	8,549.0	3,325.8	14,984.3	306.3
Foreign exchange-based transactions					
30.06.2020	91,140.8	5,553.6	118.8	96,813.2	735.6
31.12.2019	87,506.9	5,253.1	201.8	92,961.8	648.4
Commodity-related transactions					
30.06.2020	739.1	408.1	0.0	1,147.2	41.7
31.12.2019	750.5	68.7	0.0	819.2	18.8
Equity-/index-related transactions					
30.06.2020	5,267.0	1,516.4	0.1	6,783.5	0.0
31.12.2019	6,349.9	1,528.8	0.0	7,878.7	0.4
Total					
30.06.2020	**100,960.9**	**14,582.9**	**3,821.7**	**119,365.5**	**1,089.8**
31.12.2019	**97,716.8**	**15,399.6**	**3,527.6**	**116,644.0**	**973.9**

Deals with both positive and negative market values are taken into account in the determination of the nominal amounts. The stated positive market values of deals represent the replacement values that may arise in the event of the default of all OTC counterparties, regardless of their individual credit rating. The values consist of current interest, foreign currency and equity-/index-related deals which include a settlement risk as well as corresponding market price risks. No account is taken of netting agreements. Exchange-traded products and short positions are not listed here due to their limited risk of default.

28 Contingent Liabilities and Other Obligations

in €m	30.06.2020	31.12.2019
Contingent liabilities on guarantees and indemnity agreements	3,035.2	3,057.9
Irrevocable loan commitments	9,435.3	10,099.8
Total	**12,470.5**	**13,157.7**

29 Supplementary Report

Material events occurring after the balance sheet date

No transactions materially affecting the assets, financial position and profitability of the company took place during the period between the balance sheet date and the date on which these accounts were prepared.

Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Düsseldorf, 30 July 2020

The Management Board

Carola Gräfin v. Schmettow **Dr. Rudolf Apenbrink** **Nicolo Salsano**

Fredun Mazaheri **Thomas Runge**

Auditor's Report

To HSBC Trinkaus & Burkhardt AG, Düsseldorf

We have conducted a review of the consolidated interim financial statements – consisting of the balance sheet, statement of comprehensive income, condensed cash flow statement, statement of changes in equity and selected explanatory notes to the financial statements – and the Group interim management report of HSBC Trinkaus & Burkhardt AG for the period from 1 January to 30 June 2020, which are components of the Interim Report pursuant to Section 115 German Securities Trading Act (WpHG). The Management Board of the company is responsible for preparing the condensed interim financial statements in accordance with the IFRS for interim reporting as applicable in the EU and the Group interim management report in accordance with the provisions of the German Securities Trading Act (WpHG) that are applicable for Group interim management reports. Our duty is to issue a report on the condensed consolidated interim financial statements and the Group interim management report on the basis of our review.

We conducted the review of the condensed consolidated interim financial statements and the Group interim management report in accordance with the Generally Accepted Standards for the Review of Financial Statements promulgated by the Institut der Wirtschaftsprüfer (IDW). According to the standards, the review must be planned and performed in such a manner that we are able to rule out with a certain degree of assurance after conducting a critical assessment that the condensed consolidated interim financial statements are not in compliance in material respects with the IFRS for interim reporting as applicable in the EU and that the Group interim management report is not in compliance in material respects with the applicable provisions of the German Securities Trading Act (WpHG) for Group interim management reports. A review is limited primarily to questioning of company staff and analytical assessments and therefore does not provide the assurance obtainable through an audit of financial statements. In accordance with the engagement, we did not conduct an audit of the financial statements. Therefore, we are unable to issue an audit opinion.

On the basis of our review, we are not aware of any matters that could lead us to conclude that the condensed consolidated interim financial statements are not in compliance in material respects with the IFRS for interim reporting as applicable in the EU and that the Group interim management report is not in compliance in material respects with the applicable provisions of the German Securities Trading Act (WpHG) for Group interim management reports.

Düsseldorf, 17 August 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Christoph Lehmann
Auditor

p.p. Susanne Beurschgens
Auditor

Key Dates

February 2021
Results Press Conference

Subject to changes

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