18 August 2022

Hamburg Commercial Bank

Press release

First half of 2022: Hamburg Commercial Bank generates group net result of EUR 207 million

- Good start to first year after completing transformation: income before taxes of EUR 178 (H1 2021: 168) million
- RoE after taxes 20.5 / before taxes[1] 17.6% – CET1 ratio[2] 24.2%
- CEO Stefan Ermisch: “Profitability still on a very good trajectory – conservative business policy pays off: well prepared for economic slowdown – strong capitalization offers strategic flexibility and future dividend potential”
- FY 2022 forecast raised: pre-tax profit in excess of EUR 300 million and group net result around EUR 350 million

HAMBURG – Hamburg Commercial Bank AG (HCOB) published its financial figures for the first six months of 2022 on Thursday and got off to a good start in the first year after completing its transformation with a **group net result** of EUR 207 million (prior-year period: EUR 194 million). The favorable result was primarily driven by a further increase in profitability in the operating business, net reversals of loan loss provisions as a result of better-than-expected risk development, and moderate one-off effects, mainly in the tax result. The bank has a strong capital position and has improved the quality of its portfolio and risk ratios from an already high level in the first half of the year, despite a significantly gloomier economic environment. In view of potential further macroeconomic challenges and ongoing uncertainties, HCOB will continue to pursue its conservative business policy.

“Hamburg Commercial Bank performed well in the first half of the year and achieved a result that exceeds our expectations in an increasingly complex market environment. The profitable operating business contributed to this, as did our conservative risk management and the highly diversified portfolio, which we set up in a very resilient manner during the transformation years,” said Stefan Ermisch, Chief Executive Officer of Hamburg Commercial Bank. “Our core businesses have developed very solidly to date. We are on a very good trajectory with a return on equity before taxes of almost 18 percent and we intend to remain on this path of moderate growth in the future. In doing so, we will continue to act prudently and manage the bank with the utmost care and caution. This is because the ongoing war in Ukraine, gas shortages and the related arduous restructuring of energy supplies, the current tensions in global trade, high inflation rates and lower growth forecasts are temporarily placing a heavy burden on the entire economy, with unforeseeable consequences. Nevertheless, we today expect to generate net income before taxes in excess of EUR 300 million in the current year. Looking to the future, our good operating performance and strong capitalization offer strategic flexibility and dividend potential.”

Contact

Katrin Steinbacher
Head of Press
Phone +49 40 3333-11130
katrin.steinbacher@hcob-bank.com

hcob-bank.com

Hamburg Commercial Bank

Strong net interest income – better-than-expected risk development – positive one-off effects

An increasingly profitable operating business, moderate reversals in loan loss provisions, and the other operating result were the main factors contributing to **net income before taxes** of EUR 178 (168) million. **Income tax expenses** of EUR 29 (26) million, which benefited from one-off effects, had an additional positive impact on the result, so that the **Group net result** of EUR 207 (194) million for the first half-year was noticeably higher than expected. The **RoE**[1] reflects the positive trend in the bank's profitability: RoE after taxes[1] was 20.5% (19.8%), while RoE before taxes[1] also reached a solid level of 17.6% (17.1%).

Total income amounted to EUR 304 (338) million and was driven by strong **net interest income** of EUR 286 (269) million. Despite a lower average balance sheet total compared to the first half of the previous year, net interest income increased by 6% due to improved operating net interest margins. The other items under total income amounted to a total of EUR 18 (69) million. This includes the **result from financial instruments categorized as FVPL**, which had a moderate negative impact on total income of EUR -9 (28) million due to valuation effects in connection with high volatility in the capital markets. **Net commission income** remained nearly stable at EUR 18 (22) million.

As a result of better-than-expected risk development**, loan loss provisions** made a positive contribution to the Group net result at EUR 30 (22) million. On the one hand, this was due to a low level of new defaults and thus only moderate additions for Stage 3 (SLLP). On the other hand, thanks to its conservative risk provisioning policy and the improved portfolio quality, the bank was able to make partial reversals in Stage 1 and 2 (GLLP). Nevertheless, HCOB continues to hold a high stock of loan loss provisions (including model overlays) for potential second-round effects resulting from the war in Ukraine and adverse economic developments. HCOB has no direct exposure to Russia or Ukraine.

Administrative expenses were slightly lower year-on-year at EUR 150 (153) million. Operating expenses (including depreciation of property, plant and equipment and amortization of intangible assets) decreased to EUR 80 (85) million, with ("run the bank") costs of ongoing operations in particular being reduced once again. Personnel expenses were in line with expectations at EUR 70 (68) million. As of June 30, 2022, the bank employed 862 (31/12/2021: 919) FTEs (full-time equivalents). The **cost-income ratio** (CIR) decreased to 44% (31/12/2021: 50%).

The **other operating result** amounted to EUR 40 (5) million and noticeably boosted the Group net result in the first half of the year. One-off effects from the reversal of provisions (mainly for legal risks) and interest income in connection with aperiodic taxes had a positive impact. **Expenses for regulatory affairs, deposit guarantee fund and banking associations** were slightly below the previous year's level at EUR 29 (31) million, and already include the full annual contributions for the bank levy and deposit guarantee fund. The **result from restructuring and transformation** impacted earnings as planned by EUR 17 (13) million and mainly includes project costs in connection with the migration of the payment transaction system.

NPE ratio reduced – comfortable coverage ratios – strong CET1 ratio of 24.2%

Despite a significantly gloomier macroeconomic environment, the bank's portfolio quality improved in the first half of the year from an already sound level. The **NPE volume** declined to EUR 409 (31/12/2021: 467) million in the course of the continued reduction of non-performing loans and a very low volume of new defaults. The **NPE ratio** thus decreased to 1.3% (31/12/2021: 1.4%), underlining the resilience of HCOB's loan portfolio. The NPE coverage ratio (based on Stage 3 SLLP) further increased and reached a comfortable level of 63.6% (31/12/2021: 55.8%) as of the half-year reporting date. Including collaterals, the ratio was 140% (31/12/2021: 136%). Existing extensive overlays for portfolio risks are not included in these coverage ratios.

The **CET1 capital ratio**[2] was 24.2% as at 30 June 2022, down from the exceptionally high 28.9% as at 31 December 2021, as expected. The main driver of the change was the technically driven increase in aggregate risk-weighted assets (**RWA**) to EUR 16.1 (31 December 2021: 14.0) billion as a result of the switch in the rating model landscape completed in the first half of 2022. The very solid **leverage ratio** of 12.8% (31/12/2021: 12.7%) also demonstrates the bank's extremely robust capital position, which is well above the regulatory requirements.

The bank has maintained high capital buffers in the course of its transformation, which are to be normalized in the future. A clear roadmap has been established for the development of the capital position, which envisages a normalized, still strong CET1 capital ratio above 17% in the medium term. In the coming year, the bank intends to start **dividend payments** for the 2022 financial year subject to business performance and market conditions.

Total assets of EUR 30.3 (31/12/2021: 30.3) billion remained stable at the level of year-end 2021.

Segment results: profitability increased overall – new business selectively expanded

New business in the market segments developed positively in the first half of the year and contributed to further increases in **net interest margins** in all four segments. Total income remained almost stable at EUR 254 (257) million, despite lower average segment assets of EUR 19.2 (21.2) billion. The share of total income contributed by the market segments increased to 83% (76%), demonstrating the continued improvement in the bank's recurring earnings capacity. Due to the selective business approach according to clear risk-return criteria and reduced refinancing costs, the RoE after taxes[1] in the lending units improved overall to 11.3% (10.5%). Net income after taxes for all market segments rose by approximately 14% to EUR 104 (91) million. The bank-wide group net result of EUR 207 (194) million and the bank-wide RoE of 20.5% (19.8%) stem from the positive risk result and the positive tax result, which are not reported in the respective market segments, but in reconciliation. At EUR 19.3 (19.3) billion, segment assets as at 30 June 2022 matched the value as at 31 December 2021. **New business** in the four market segments was selectively expanded and, at a total of EUR 2.9 (1.8) billion, was noticeably higher than in the prior-year period.

Net income after taxes in the **Real Estate segment** increased to EUR 40 (37) million, although segment assets remained almost stable at EUR 7.9 (31/12/2021: 8.0) billion. Despite a selective and risk-conscious approach, gross new business of EUR 0.7 (0.4) billion was concluded, with margins developing positively, also as a result of lower funding costs. RoE after taxes[1] fell slightly to 12.4% (12.8%) in the wake of the switch in the rating model landscape.

In the **Shipping segment**, net income after taxes rose by over 25% to EUR 38 (30) million. The increase was driven by a strong operating performance, positive valuation effects on loans and advances to customers categorized at fair value and lower risk costs. Operating profitability, measured in terms of RoE after taxes[1], thus increased significantly to 19.4% (15.7%). In view of the strong demand for shipping transport services, the focused gross new business with national and international shipping companies with good credit ratings remained stable at EUR 0.6 (0.7) billion. Segment assets increased slightly to EUR 3.8 (31/12/2021: 3.7) billion.

In the **Project Finance segment**, HCOB focuses on projects to expand digital and traditional infrastructure as well as on the financing of sustainable energy generation and sees a high demand for these future investments. The segment achieved net income after taxes of EUR 10 (12) million, with legacy exposures sold in 2021 contributing to the previous year's result. Segment assets were EUR 3.6 (31/12/2021: 3.9) billion and new business was expanded to EUR 0.5 (0.3) billion. RoE after taxes[1] of 6.9% (7.4%) was slightly below the level of the prior-year period.

The **Corporates segment** makes an important contribution to diversifying earnings and risk in the bank's overall portfolio and comprises the Corporates Germany and Corporates International business. At EUR 16 (12) million, net income after taxes was around one third above the previous year's level. Gross new business was expanded, especially in the international area, and at EUR 1.0 (0.4) billion was more than twice as high as in the prior-year period. Segment assets rose accordingly to EUR 4.0 (31/12/2021: 3.7) billion. RoE after taxes[1] improved to 6.5% (5.2%) and reflects the positive margin development in the Corporates segment.

Debut for ship covered Pfandbrief – ESG activities stepped up – Award for Excellence

In the first half of the year, HCOB was regularly active in the capital market and has already issued a large proportion of the long-term bond volume planned for the year. With the first-time issue of a ship covered Pfandbrief and two mortgage covered Pfandbriefe, each in benchmark format (volume EUR 500 million), HCOB refinanced two of its core business areas in a cost-efficient manner and strengthened its **refinancing structure**.

In order to further strengthen the topic of **sustainability** at HCOB, the bank has bundled and stepped up its ESG activities (Environment, Social, Governance) in a separate organizational unit. Among other things, the internal ESG scoring tool was further developed and integrated into the bank's business processes.

HCOB received a gratifying award in July this year with the "Award for Excellence" in the category "**World's Best Bank Transformation**". The trade magazine Euromoney awarded the bank the prestigious prize, stating: "Following its 2018 privatization and subsequent rebranding, by early 2022 Hamburg Commercial Bank could boast some of the best financial metrics in banking in Germany – if not Europe."

Outlook

HCOB has a diversified portfolio, high coverage ratios for credit risks and a comfortable capital position and is thus, from today's perspective, resilient to adverse influences. In addition, the bank expects stronger earnings in the medium term as interest rates rise. Therefore, and in view of the good business performance in the first half of the year, the bank is raising its earnings forecast for full year 2022. Net income before taxes is expected in excess of EUR 300 (previously: 280) million. Based on an improved outlook for the income tax expense position, HCOB now also expects to achieve a Group net result after taxes of around EUR 350 (previously: 250) million.

All forecasts are subject to any unforeseeable or significantly more adverse than expected effects, for example from economic or geopolitical developments.

Hamburg Commercial Bank

Group Statement of income (IFRS) H1 2022

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

Further key figures of the Group	30/06/2022	31/12/2021
Total assets (€ bn)	30.3	30.3
Risk assets (RWA, € bn)	16.1	14.0
CET1 capital ratio[2] (%)	24.2	28.9
Overall capital ratio[2] (%)	30.3	35.7
Return on Equity (RoE) after / before taxes[1] (in %)	20.5 / 17.6	19.8 / 17.1
Leverage Ratio[2] (%)	12.8	12.7
Liquidity Coverage Ratio (%)	163	164
Net Stable Funding Ratio (%)	122	114
Employees (Full-time equivalent)	862	919

1) RoE before/after taxes are based on CET1 ratio of 13 % | 2) Voluntarily excludes results FY 2021 and 1H 2022 in preparation for a potential dividend payment in 2023.

Please visit our website for further information related to our financials.