

**Rating Action: Moody's upgrades Hamburg Commercial Bank's senior unsecured debt ratings to Baa1; outlook remains positive**

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20 Jul 2021

Frankfurt am Main, July 20, 2021 -- Moody's Investors Service (Moody's) has today upgraded Hamburg Commercial Bank AG (HCOB)'s long-term senior unsecured debt, issuer and deposit ratings to Baa1 from Baa2. The outlook on these ratings remains positive. At the same time, the rating agency upgraded HCOB's Baseline Credit Assessment (BCA) and Adjusted BCA to ba1 from ba2.

Ratings of liabilities issued by HCOB's predecessor banks under a public law guarantee were unaffected by today's rating action.

A full list of affected ratings and rating inputs can be found at the end of this press release.

**RATINGS RATIONALE**

**-- UPGRADE OF HCOB'S BASELINE CREDIT ASSESSMENT**

The upgrade of HCOB's BCA to ba1 from ba2 reflects the bank's strengthened solvency profile as of year-end 2020, resulting from the sustained progress towards meeting its overall transformation plan targets for the final assessment of its application as a full member by the German private banks' deposit guarantee scheme. The bank concluded a drastic deleveraging of its balance sheet, which resulted in a significant enhancement of its capitalisation and asset quality, and is on track to establish a meaningfully improved profitability prior to cost of risk.

HCOB's ba1 BCA is underpinned by its very strong capitalisation, which the rating agency considers to remain a key strength of the bank's financial profile in the medium term. Moody's believes that the bank's Tangible Common Equity (TCE) ratio will approach 30% of risk-weighted assets by year-end 2021 and that its leverage ratio remains above 10%. Moody's expects the bank's capitalisation to remain strong but to consolidate somewhat from its exceptionally strong current level when benchmarked with domestic peers.

HCOB has yet to establish a track record of sustained profit generation. However, reduced operating and funding costs have improved its capacity to absorb the industry-wide pressure on net interest income, the bank's dominant source of revenues. HCOB's focused underwriting of higher-yielding lending activities should generate rising margins and supports the plausibility of the bank's ambitious profitability targets.

HCOB's asset risk profile is marked by the bank's focus on higher yielding loans, predominantly asset-based lending activities, in particular to commercial real estate (CRE) and shipping finance. The rating agency considers these to be generally more exposed to cyclical risks. Consequently, HCOB's nonperforming loan ratio, which has been around 2%-3% in recent years, can be vulnerable to increases from concentrated exposure risks in these areas. Moody's continues to view concentration risk as a key vulnerability for HCOB and thus the very high focus on asset-based finance is a key constraint for HCOB's BCA. Moody's reflects this in a negative qualitative adjustment due to HCOB's quasi monoline business model.

**-- UPGRADE OF HCOB'S SENIOR UNSECURED DEBT AND LONG-TERM DEPOSIT RATINGS**

The upgrade of HCOB's ratings reflects the upgrade of its BCA and Adjusted BCA, unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis and unchanged results from the rating agency's assumption for government support.

The rating agency's Advanced LGF analysis results in three notches of uplift for deposits and senior unsecured debt for HCOB, based on an extremely low loss given failure. For junior senior unsecured debt instruments, a very low loss given failure results in two notches of uplift from HCOB's ba1 Adjusted BCA. These results mostly reflect the sizeable volume of subordinated debt instruments outstanding, relative to HCOB's tangible banking assets.

Because Moody's considers HCOB an institution with limited systemic relevance, the rating agency assumes a

low probability of government support, resulting in no additional uplift to the bank's ratings.

#### -- OUTLOOK REMAINS POSITIVE

The positive outlook reflects Moody's expectation that HCOB will continue to fully execute its transformation plan, ultimately leading to a structurally improved efficiency, a sustainably raised profitability and an overall strengthened solvency.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

HCOB's rating could be upgraded in case of an upgrade of its ba1 BCA, which could result from further progress in sustainable profit generation in line with the management's targets and without incurring significant renewed asset risks, the maintenance of a strong capitalisation and an unchanged liquidity profile.

HCOB's ratings could be downgraded if the bank's BCA is downgraded or if the transformation of its liability structure leads to a less favourable outcome under Moody's Advanced LGF analysis, which could for example result from a significant reduction in the volume of subordinated debt instruments.

A downgrade of HCOB's BCA would require a pronounced negative deviation of HCOB's future financial performance from the solvency and liquidity metrics that Moody's currently expects. In particular, underperformance within HCOB's cyclical exposures to CRE and shipping loans, a rushed ramp up of lending activities that have not been core to the bank's operations or a failure of HCOB to execute its transition plan for its funding profile may result in a BCA downgrade. Furthermore, currently unexpected adverse consequences for the bank or current key employees in the case of a re-opening of previously concluded tax-evasion investigations against HCOB's predecessor HSH Nordbank AG could lead to a downgrade of HCOB's BCA.

#### LIST OF AFFECTED RATINGS

Issuer: Hamburg Commercial Bank AG

##### ..Upgrades:

- ....Long-term Counterparty Risk Ratings, upgraded to Baa1 from Baa2
- ....Long-term Bank Deposits, upgraded to Baa1 from Baa2, outlook remains Positive
- ....Long-term Counterparty Risk Assessment, upgraded to Baa1(cr) from Baa2(cr)
- ....Long-term Issuer Ratings, upgraded to Baa1 from Baa2, outlook remains Positive
- ....Baseline Credit Assessment, upgraded to ba1 from ba2
- ....Adjusted Baseline Credit Assessment, upgraded to ba1 from ba2
- ....Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2, outlook remains Positive
- ....Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2
- ....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Baa3
- ....Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3
- ....Subordinate Medium-Term Note Program, upgraded to (P)Ba2 from (P)Ba3

##### ..Affirmations:

- ....Short-term Counterparty Risk Ratings, affirmed P-2
- ....Short-term Bank Deposits Rating, affirmed P-2
- ....Short-term Counterparty Risk Assessment, affirmed P-2(cr)
- ....Short-term Issuer Ratings, affirmed P-2
- ....Other Short Term, affirmed (P)P-2

..Outlook Action:

....Outlook remains Positive

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1269625](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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