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Research

Bulletin:

Hamburg Commercial Bank's 2020 Performance Moves It Closer To Transitioning To The Private Sector Protection Scheme

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FRANKFURT (S&P Global Ratings) Feb. 11, 2021--Hamburg Commercial Bank AG today released its preliminary 2020 result of €102 million net income. S&P Global Ratings believes that, together with its strong capitalization, the results should support the bank's eventual transition from the public sector deposit protection scheme to the private one (BdB, Association of German Banks) toward the end of 2021. Our assumption of a successful transition also forms our opinion underlying the current ratings (BBB/Negative/A-2).

Although the 2020 result itself has no impact on the transition to the private protection scheme, it supports the bank's year-end common equity tier 1 ratio of 27% that underlines our current assessment of its capital strength. Despite some expected model-driven inflation of risk-weighted assets, Hamburg Commercial Bank's capital strength should persist over 2021 and 2022 and provide additional buffer for more significant asset quality effects beyond what we currently anticipate.

However, Hamburg Commercial Bank's successful transition into the senior membership of the private deposit protection scheme toward year-end 2021 is quite likely but not yet a done deal. A further noticeable delay in Germany's economic recovery over 2021 could translate into larger asset quality hits or delay Hamburg Commercial Bank's path to sustainable profitability.

The preliminary 2020 results are broadly in line with our previous expectations, given the adverse environment, but were once again heavily influenced by several one-offs, such as building sales and hybrid revaluations. Without these effects, which we would classify as extraordinary, Hamburg Commercial Bank would have posted only moderate profit in 2020.

For 2021, we expect new loan loss provisions of about 30 basis points (bps), after about 70bps in 2020, considering some leeway on the back of existing provisions that amounted to 2.5% of customer loans end-2020. These new loan loss provisions should be covered by improving pre-provision income, such that we expect a 2021 after-tax return on equity (ROE) of 2%-3%. The benefits of the multi-year restructuring phase should then play out over 2022 and 2023 and result in stronger profitability metrics with ROE of about 4% or higher, depending on the strength of the overall economic recovery.

This report does not constitute a rating action.

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