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Hamburg Commercial Bank AG

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Hamburg Commercial Bank AG

SACP	bbb-

Anchor	bbb+	
Business Position	Weak	-2
Capital and Earnings	Very Strong	+2
Risk Position	Moderate	-1
Funding	Below Average	-1
Liquidity	Adequate	

+

Support	+2
ALAC Support	+2
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	-1

Issuer Credit Rating
BBB/Developing/A-2

Resolution Counterparty Rating
BBB+/--/A-2

Credit Highlights

Overview

Key strengths	Key risks
Very strong capitalization supports transformation.	Limited operating track record under the new, niche business model.
Very strong buffer of bail-in-able capital protecting senior preferred creditors in an anticipated resolution scenario.	Loan book exposed to more pronounced credit cycles in commercial real estate, shipping, energy, and infrastructure financing.
Good progress in comprehensive restructuring to establish the bank as a specialized niche player in a competitive market.	Moderate, albeit improving, profitability.

We think Hamburg Commercial Bank AG (HCOB) has already made good progress in its deep transformation and will emerge as a specialized corporate lender. Having considerably reduced in size and complexity since its privatization in 2018, HCOB is establishing itself as a specialized niche player in European corporate banking, including commercial real estate, project finance, and shipping. We expect the transformation will be widely completed over 2022 but expect the bank will continue to show less diversification and business stability than larger and more established peers.

We expect HCOB will demonstrate very strong capitalization levels over the next two years after selling legacy assets over 2020. Due to a faster-than-anticipated disposal of legacy assets and reduced business growth over 2020, HCOB's S&P Global Ratings' risk-adjusted capital (RAC) ratio (S&P Global Ratings' measure for capital adequacy) jumped to a very strong level of 16.0% at year-end 2020 compared with 11.6% one year earlier. We expect the RAC ratio to stay above 16% over the coming two to three years but consider there is a risk that HCOB will reduce its high level of excess capital for capital efficiency reasons over the longer term.

We expect HCOB to transfer to the private sector deposit protection scheme by 2022. The bank targets to transfer from the public to the private deposit protection scheme (BdB) by January 2022, the first such move in Germany. We are confident that HCOB will meet the prerequisites for the ordinary BdB membership which should also provide stability to its funding franchise. Nevertheless, its strong deleveraging and prolonged privatization process limited new funding needs over the last few years and changed its potential funding base, with public funds largely exiting the bank. As such, we assess a less mature funding profile than for most German peers.

We expect ongoing uncertainty whether existing additional loss-absorbing capacity (ALAC) buffers would protect senior creditors if HCOB were to fail. In 2020 the Single Resolution Board (SRB) revised downward HCOB's regulatory minimum requirement for own funds and eligible liabilities (MREL) requirement to 6.1% of total liabilities and own funds. We think the lower requirements could suggest a resolution strategy that would not involve a meaningful recapitalization, suggesting that the bank might not benefit from a bail-in-led resolution if it were to fail. If this is the case, we would likely remove the two-notch uplift for ALAC in the ratings on the bank.

Outlook: Developing

Our developing outlook reflects two diverging trends over the next two years, namely the possible removal of the notches of support we allocate for ALAC uplift and, the possible removal of the negative adjustment notch. Within this time horizon we expect to update our view on the SRB's stance toward midsized banks like HCOB. We also expect the bank will continue to improve its cost structure such that profitability and efficiency become more in line with peers'.

Downside scenario

We would likely lower the 'BBB' ratings and withdraw the 'BBB+' long-term resolution counterparty rating if we conclude that HCOB would not be targeted for a well-defined bail-in-led resolution that would ensure the full and timely payment on the bank's senior preferred obligations.

Although a less likely prospect, we could revise downward the stand-alone credit profile (SACP) and lower all the ratings if HCOB's very strong capitalization deteriorates faster and more significantly than we currently expect, unless this is offset by a more resilient funding profile.

Upside scenario

An upgrade hinges on two positive developments. First, if we concluded that the SRB's resolution strategy for HCOB would likely ensure full and timely payment on the bank's senior preferred obligations. This also would depend on HCOB maintaining its existing high ALAC buffer. Second, we would need to see additional improvements in profitability and efficiency without a further increase in risk appetite. We would consider removing the negative adjustment notch in that case. An increasing risk appetite to offset margin pressure in existing business lines could lead us to maintain the negative differentiation versus similar rated peers.

Key Metrics

Hamburg Commercial Bank AG -- Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in operating revenue	4.5	(12.0)	(3)-0	(6)-(10)	2.0-5.0
Growth in customer loans	(6.4)	(26.8)	(5)-(2)	3.0-5.0	3.0-5.0
Net interest income/average earning assets (NIM)	1.2	1.6	1.8-1.9	1.8-1.9	1.8-1.9
Cost to income ratio	75.4	68.4	56.0-58.0	52.0-54.0	50.0-52.0
Return on average common equity	0.3	2.3	5.0-6.0	4.0-5.0	4.0-5.0
Return on assets	0.0	0.3	0.7-0.8	0.6-0.8	0.6-0.8
Earnings Buffer	0	0.4	0.6-0.7	0.6-0.7	0.6-0.7

Hamburg Commercial Bank AG -- Key Ratios And Forecasts (cont.)					
	--Fiscal year ended Dec. 31 --				
(%)	2019a	2020a	2021f	2022f	2023f
New loan loss provisions/average customer loans	(0.0)	0.7	0.2-0.3	0.2-0.3	0.2-0.3
Gross nonperforming assets/customer loans	4.7	5.6	5.0-6.0	4.5-5.5	4.0-5.0
Risk-adjusted capital ratio	11.6	16.0	17.0-18.0	17.0-18.0	16.5-17.5

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast.

Anchor:'bbb+' For Banks With Mostly Domestic Exposure To Germany

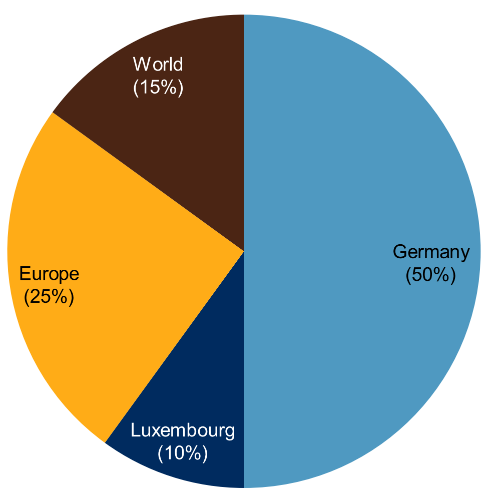
We use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating.

Our 'bbb+' anchor for HCOB is based on an industry risk score of '4' and a blended economic risk score of '2'. We take into account the bank being headquartered in Germany and our view of the economic risks in all the markets to which HCOB has credit exposure. With 50% of its exposure in Germany, HCOB's anchor remains in line with financial institutions operating solely in Germany. Since June 2021 we noted stable trends, both on our economic risk and our industry risk scores for Germany.

Chart 1

Half Of HCOB's Exposures Outside Germany

Country shares in S&P Global Ratings' calculation of weighted average economic risk



Source: S&P Global Ratings.

Our assessment of economic risk considers the strengths of Germany's highly diverse and competitive economy, with a demonstrated ability to absorb economic and financial shocks. We also anticipate that Germany's ample fiscal and monetary measures continue to mitigate the cyclical shock caused by the coronavirus pandemic to the economy, the banking system, and retail and corporate customers. The measures are also limiting German banks' credit losses. That said, the high degree of openness, with exports accounting for 50% of GDP, means the trajectory of recovery also depends on broad-based international developments. The stable trend we see on economic risk signals our greater confidence that German households, corporates, and public finances will remain well cushioned from the negative effects of the pandemic. Similarly, despite elevated German house-price growth in recent years, we consider a rapid correction after a period of rising house prices unlikely in the medium term.

Our assessment of industry risk considers the dual pressures from the economic impact on banks' balance sheets from the pandemic, and the banking sector's longer-term profitability challenges due to poor cost efficiency, rising risks from technology disruption, and low interest rates. We believe that German banks operate in a highly competitive and structurally overbanked market, with low gross margins, and that banks' progress in improving their structural revenue diversification, cost bases, and digitalization has widened the sector's gap with leading banking systems. Interest rates are likely to remain unsupportive for longer, putting further pressure on German banks' already depressed interest income, and the pandemic has accelerated the move toward digital banking services, an area in which we see German banks lagging peers. We see cost pressures arising from the imperative for the German banking industry to invest significantly in the core banking systems and digital customer services that are essential to avoid the risks of tech disruption and franchise damage from cyber attacks and customer data mismanagement.

Business Position: Deep Transformation Should Lead To Profitable Niche Busines Model

HCOB's niche business operations in corporate banking, which we consider as less established than peers', weigh on our assessment of its business position, which is in line with Deutsche Pfandbriefbank, NIBC Bank, or Danmarks Skibskredit.

However, with total assets of €32 billion on June 30, 2021, we believe HCOB has made significant progress in stabilizing its interest income and we expect the bank to improve its operating efficiency from year to year over our outlook horizon.

With a focus on a few business segments, we think the bank has materially streamlined its operations, including the reduction of the employee base by more than 50%. By 2022, we expect the bank to have reduced its noninterest expense by almost 50% compared with 2018.

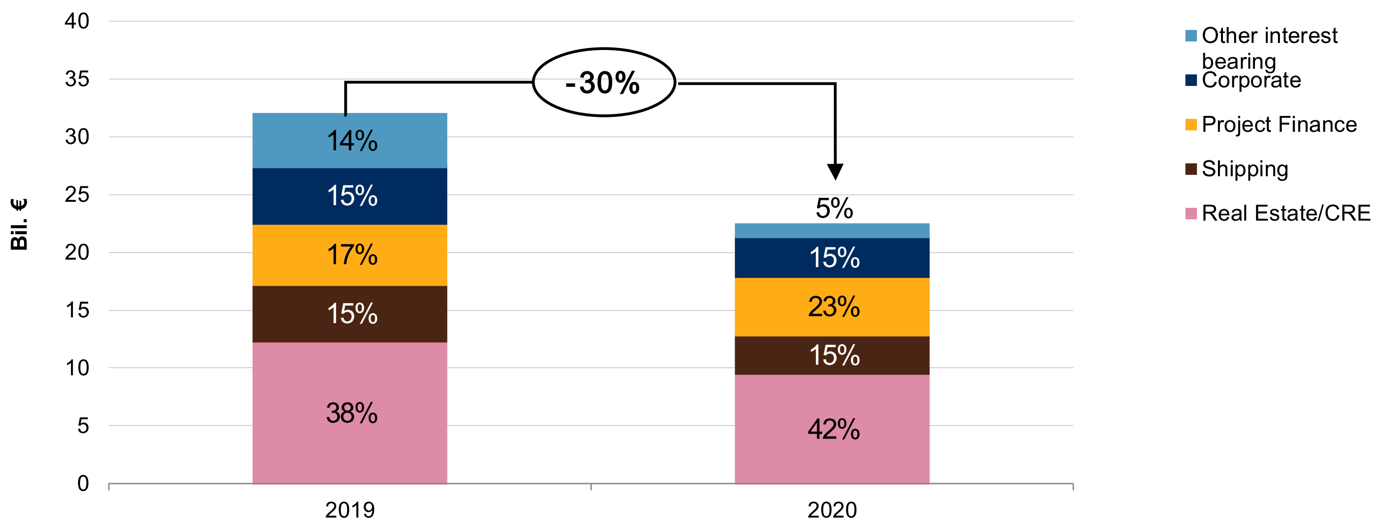
Excluding its treasury and group functions, HCOB focuses on three operating segments: project finance and corporates, real estate, and shipping (see also chart 1). Its corporate business comprises German small and midsize enterprises and larger corporate business, as well as project finance in European renewable energy and infrastructure finance. HCOB's real estate business focuses on commercial real estate in German metropolitan areas, but also include business in selected European countries. The shipping business, where HCOB holds a good market position, is expected to grow moderately from the current high demand in transport capacity.

Nevertheless, new business generation and future revenue capacity depends on relatively more volatile business cycles in these segments (see current exposure split in Chart 1). Despite its international business operations, we see a geographic concentration in Germany with 50% exposure. We expect the international share to gradually grow, improving geographic diversification, while international growth will likely come with higher risks, compared with its domestic business.

Over the next two years, we expect the bank's revenue prospects to benefit from the anticipated economic recovery, specifically in its shipping and commercial real estate segment, while further enforcing its strong focus on profitable business.

Chart 2

Relative Exposures To Cyclical Sectors Remains High Despite Asset Sales
HCOB's loan portfolio split over time



CRE--Commercial real estate. Source: S&P Global Ratings.

Our methodology regarding rated companies' private equity ownership is rather conservative because this type of ownership can lead to some uncertainty regarding long-term financial policy and exit scenarios, typically greater financial risk, and more ambitious growth plans. For HCOB, however, we see prudential regulation as a moderating influence. We also note the solid track record of HCOB's private equity owners, a consortium led by Cerberus and J.C. Flowers & Co, as experienced investors in midsize European financial institutions. In addition, the repositioning of its balance sheet and the forceful transformation of its legacy cost base are likely only possible under private ownership. Overall, we consider HCOB's ownership as neutral to the rating.

Capital And Earnings: Very Strong Capitalization Supports The Transforming Business And Funding Profile

We assess HCOB's capital and earnings as a key rating strength, mainly based on our projection that the bank's RAC ratio before diversification will likely remain above 15% over our forecast horizon. We expect it to increase further from 16% at year-end 2020 to 16%-17% by 2023, mainly thanks to full earnings retention until at least 2022, which should more than compensate for anticipated loan growth in countries with higher economic risk than Germany. Its regulatory Tier 1 capital ratio increased further to 29.6% as of June 30, 2021, on the back of improving core earnings, further progress in its cost base, and net releases of credit loss provisions amounting to 20 basis points (bps) of average customer loans.

Our projected RAC ratio by 2023 is based on the following assumptions:

- S&P Global Ratings' calculation of risk-weighted assets (RWAs) as relates to credit risk to reduce slightly in 2021 because of cautious new lending, but will increase by 5%-7% from 2022 when the transformation is largely complete.
- RWAs as relates to operational risk will moderate further by about 15% until operating revenue stabilizes.
- The strong reduction in funding costs from maturing higher cost legacy funding, combined with pricing discipline in new business, should stabilize the net interest margin at about 1.8%.
- We expect the continuing efficiency measures to reduce noninterest expense by 15%-20% over 2021 and 2022, improving our cost-to-income ratio toward 50%
- As a result, we expect preprovision operating income to increase gradually to about €280 million-€310 million by end-2023.
- The magnitude of credit losses will mainly depend on the path of economic recovery in HCOB's markets and the use of existing loan loss provisions. We expect annual credit costs of 20-30 bps in our base case.
- In 2021, the bank will benefit from using its deferred tax assets, resulting in a tax credit, but the effective tax rate will gradually normalize over the forecast period.

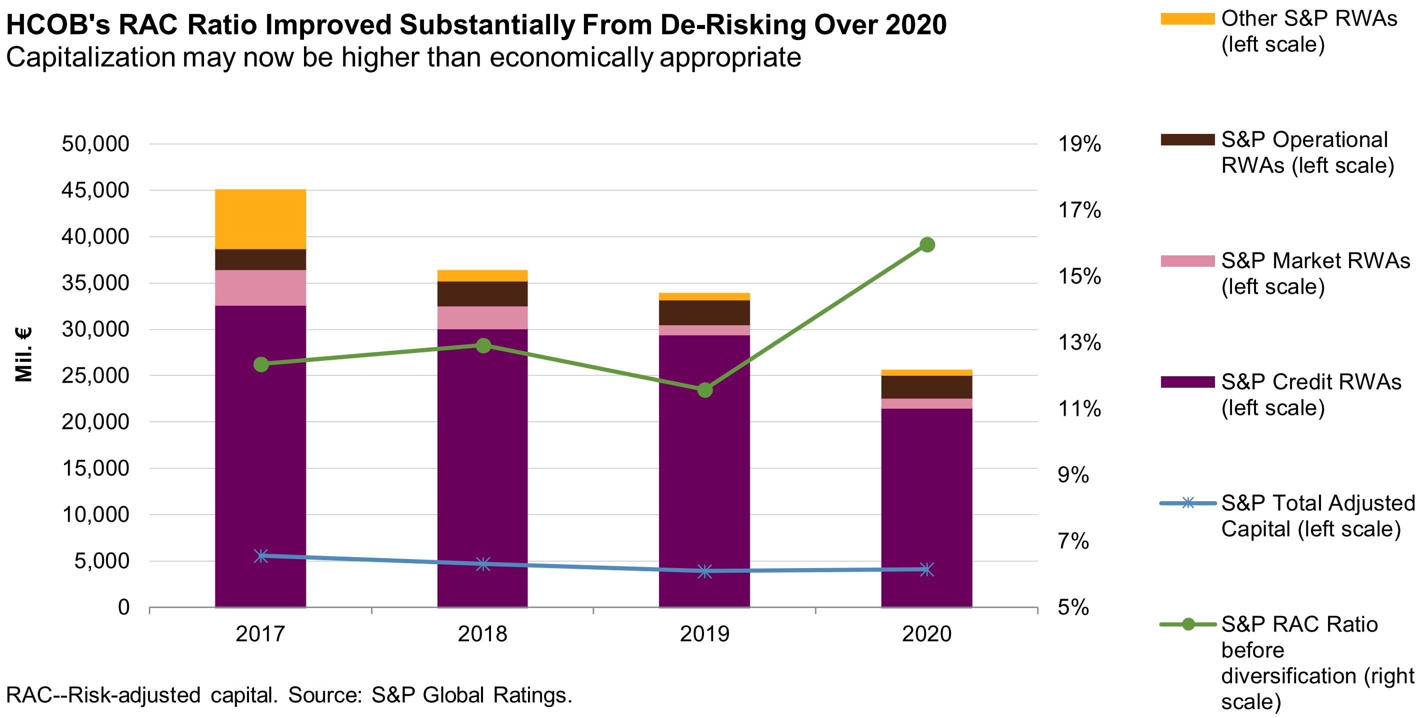
By 2023, we project a return on average common equity (after tax) of above 4% (based on the currently very high capitalization levels), and an earnings buffer of 60-70 bps.

Over the longer term, we expect the bank's private equity owners will likely steer toward lower capital ratios in the future, either through strategic growth or capital distributions.

Our measure of total adjusted capital consists solely of common equity and given the bank's very strong capitalization, our forecast does not include the issuance of additional tier 1 capital over our forecast horizon.

We believe that growth opportunities for wholesale banks such as HCOB in Germany are limited due to strong competition from domestic banks. Furthermore, the generally low margins in corporate and commercial real estate business will, in our view, render material revenue improvements difficult for the bank without increasing its risk appetite. Nevertheless, further potential to contain costs and higher profitability thresholds in its new business should support stronger profitability albeit off a smaller earnings base.

Chart 3



RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Risk Position: De-Risking Moderated The Pandemic's Impact But Concentration In Cyclical Sectors Remains

HCOB's risk position is driven by its exposure concentration in several cyclical sectors, that makes HCOB's asset quality particularly sensitive to potential setbacks of the European economies. We believe exposure to commercial real estate, more-cyclical corporate sectors such as energy and infrastructure, and shipping implies higher losses in an economic crisis and exposes HCOB to more pronounced credit cycles than better-diversified peers like S-Finanzgruppe Hessen-Thueringen or NIBC Bank.

As for many European banks, the impact of the pandemic on asset quality was less severe than previously anticipated. Still, while HCOB's level of nonperforming assets (NPAs) decreased from end 2019 to June 2021 in absolute terms thanks to divestments of NPAs, the ratio of gross NPAs (including forborne exposure) to customer loans increased to 6.4% from 4.7% in 2019. About 38% of NPAs is covered by existing loan loss provisions, which we view as solid considering the high share of collateralized lending.

Its existing loan loss provisions amount to 2.4% of total loans, which should buffer any unexpected material credit events from the pandemic environment.

Although legacy regional geographic concentration risks in northern parts of Germany are gradually abating as the bank diversifies into international corporate lending activities, the bank still must demonstrate that it can maintain the quality of its underwriting, particularly in the area of corporate international and specialty lending, in which it lacks a strong franchise.

The deep transformation and deleveraging of the bank was accompanied in recent years by strong reduction of the complex derivative portfolio, reducing risks related to complexity.

HCOB remains exposed to nonfinancial risk related to ongoing investigations by state authorities regarding cum-ex trades and related tax evasion. HCOB's predecessor cooperated with authorities and settled any related tax claims, but the investigations against employees are still ongoing and could reveal new information to prosecutors. Although we see uncertainty over the outcome of the investigations, we have not considered additional costs in our forecast. Of note, HCOB, still has €120 million provisions for litigation risks related to other legacy disputes.

Funding And Liquidity: Reliance On Capital Markets, And Transition Risks In Switching Protection Schemes

We assess HCOB's funding and liquidity profile as a relative rating weakness. Despite key funding metrics being largely in line with peers, we consider HCOB's prolonged privatization and ensuing transformation to have pushed the quality of its funding franchise below that of domestic peers like Commerzbank AG, UniCredit Bank AG, and S-Finanzgruppe Hessen-Thueringen. This assessment also takes into account our generally very favorable view of systemwide funding in the German banking sector. However, since its privatization, HCOB has already begun building an issuance track record with covered and senior nonpreferred bonds.

With growing new business in the coming years, HCOB will need to expand its funding base while maintaining low funding costs. We think the transfer to the private sector deposit protection scheme in 2022 will reduce some uncertainty for its depositor base and provide a good basis for a more diversified and less confidence-sensitive funding profile in the future.

However, we expect HCOB's reliance on more confidence-sensitive funding sources, such as secured and unsecured capital market funding, as well as to a lesser extent interbank funding, will remain higher than the average for the German market.

Our stable funding ratio of 108% for HCOB as of end-2020 factors its stable funding that consists of almost 50% of customer deposits, which are increasingly franchise based. However, we also note some funding concentrations with the 10 largest depositors accounting for 22% of total deposits as of end-2020. The regulatory net stable funding ratio was comfortable at 111% as of end-2020 and 117% as of June 2021.

Our assessment of HCOB's liquidity as adequate primarily reflects the bank's comfortable liquidity reserves. For several years now HCOB has held strong liquidity buffers to support the sensitive privatization phase and upcoming switch between protections schemes. The bank's broad liquid assets-to-short-term wholesale funding ratio amounted to a strong 2x in 2020. This compares with a regulatory liquidity coverage ratio of 171%. Even after accounting for short-term wholesale funding, HCOB's net broad liquid assets covered 31% of short-term deposits as of end-2020. Nevertheless, we expect the bank to reduce expensive amounts of excess liquidity in 2022 to a lower but still adequate level.

Accommodative monetary policies should support liquidity in the German banking sector. Central bank support should also back HCOB's wholesale-funded profile. Despite increasing U.S. dollar deposits, HCOB relies on a functioning swap market, given its limited funding franchise in dollars to finance its shipping-related dollar assets. However, we expect dollar liquidity to be supported by central bank swap lines for the broader banking sector in Europe. Considering all aspects, we expect HCOB can likely survive for more than six months without access to market funding under stressful conditions.

Support:Two Notches Of Support For ALAC

Although HCOB appears less systemically important than larger and more complex German peers, it is still a sizable institution and subject to direct supervision by the European Central Bank and oversight by the SRB. The lowered MREL requirements could call a bail-in led resolution into question; however, we see the situation as somewhat nuanced. As of June 30, 2021, HCOB reported a sizable MREL ratio of 28.7% of total liabilities and own funds. The existence of a high available subordinated buffer could influence the resolution authorities' actions if the bank failed and affect our assessment. In addition, the SRB's resolution plans and public interest assessment will consider the preferred resolution strategy during systemwide events, not only during a bank's individual stress. In our view, that could potentially lead again to upward revisions in MREL requirements.

We calculate that HCOB's ALAC was about 17% of S&P Global Ratings' RWAs at year-end 2020. We expect it to remain sufficiently above the 8% threshold for two notches of uplift in the future. Given decreasing RWAs through 2022, HCOB will have limited need to issue additional MREL-eligible instruments in our view.

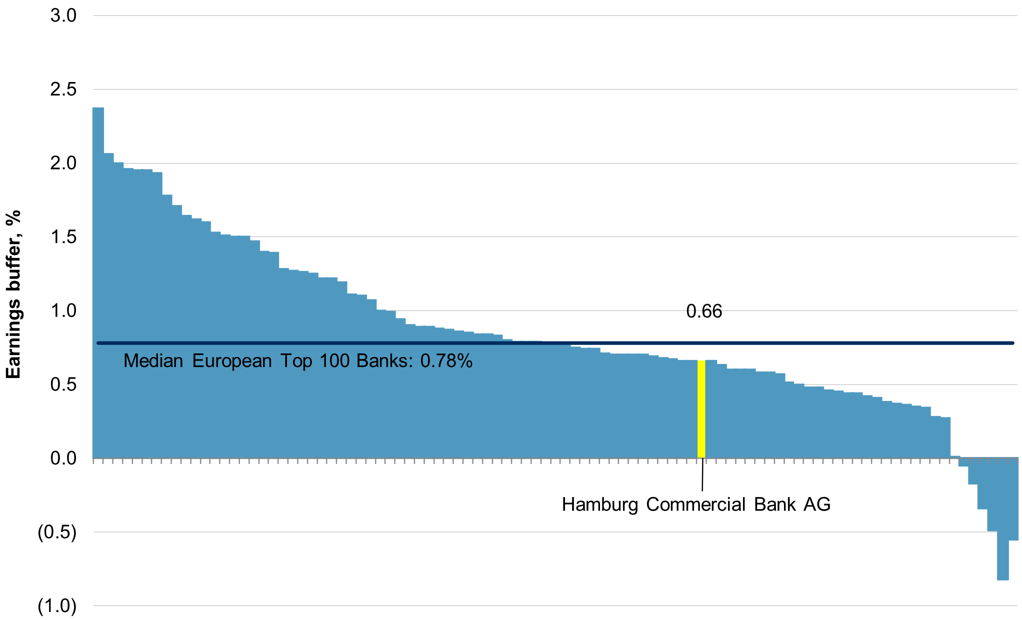
Additional Rating Factors

The one-notch negative peer adjustment we include in our long-term rating on HCOB reflects our view that the bank is still a relative underperformer versus peers rated 'BBB+'. This reflects its protracted restructuring process, which translates into relatively low profitability, which despite improving over the forecast horizon, limits its earnings' capacity to buffer potential losses compared with peers. Our measure for a bank's capacity to cover normalized losses (earnings buffer) is expected to remain lower for HCOB than for many European peers (see also chart 4).

The negative adjustment also partially reflects HCOB's less established business model compared with peers and some uncertainty on future strategy and risk appetite after the expected finalization of the transformation process.

Chart 4

Our Expectations For HCOB's Profitability Are Below That For Its Peers
S&P Global Ratings' earnings buffer forecast (2022f) for Europe's top 100 banks



f--Forecast. Source: S&P Global Ratings.

Environmental, Social, And Governance (ESG)

ESG factors are neutral in our assessment of HCOB's credit worthiness and broadly in line with industry peers.

Like its peers, the bank is exposed to transition risks in its lending portfolio particularly in its sizable shipping portfolio. Increasing environmental challenges for the shipping industry, and new regulations are putting pressure on the economic lifetimes and essentially collateral values of ships. Environmental regulation could also turn out to affect collateral values in commercial real estate if older assets turn out to be less attractive. However, we expect that this will not have a material effect on HCOB' existing loan portfolio.

The bank has governance standards in line with peers and exhibits disciplined strategic execution and operational control under private-equity ownership.

Resolution Counterparty Ratings (RCRs)

Our 'BBB+' long-term RCR on HCOB is one notch above the long-term issuer credit rating on this entity. The RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution.

Key Statistics

Table 1

Hamburg Commercial Bank AG -- Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	31,581.0	33,800.0	47,706.0	55,113.0	70,372.0
Customer loans (gross)	21,069.0	22,478.0	30,708.0	32,791.0	39,174.0
Adjusted common equity	4,436.0	4,074.4	3,917.7	3,961.6	4,185.0
Operating revenues	371.0	652.0	741.0	709.0	1,141.0
Noninterest expenses	214.0	446.0	559.0	558.0	551.0
Core earnings	151.3	7.1	30.1	(185.0)	(843.0)

*Data as of June 30.

Table 2

Hamburg Commercial Bank AG -- Business Position

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (currency in millions)	375.0	911.0	872.0	1,718.0	2,255.0
Commercial banking/total revenues from business line	68.8	56.6	66.6	30.2	21.9
Commercial & retail banking/total revenues from business line	68.8	56.6	66.6	30.2	21.9
Trading and sales income/total revenues from business line	29.3	4.2	11.0	N/A	N/A
Other revenues/total revenues from business line	1.9	39.2	22.4	69.8	78.1
Investment banking/total revenues from business line	29.3	4.2	11.0	N/A	N/A
Return on average common equity	8.7	2.3	0.3	1.6	(11.5)

*Data as of June 30. N/A--Not applicable.

Table 3

Hamburg Commercial Bank AG -- Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	29.6	27.0	18.5	18.4	23.5
S&P Global Ratings' RAC ratio before diversification	N/A	16.0	11.6	12.9	12.4
S&P Global Ratings' RAC ratio after diversification	N/A	14.7	10.9	12.4	11.5
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	84.5	75.2
Net interest income/operating revenues	72.5	85.1	67.7	83.2	75.2
Fee income/operating revenues	5.9	7.4	8.2	4.9	(7.4)
Market-sensitive income/operating revenues	12.1	(3.2)	10.9	(6.1)	28.7
Cost to income ratio	57.7	68.4	75.4	78.7	48.3
Preprovision operating income/average assets	1.0	0.5	0.4	0.2	0.8

Table 3

Hamburg Commercial Bank AG -- Capital And Earnings (cont.)					
		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Core earnings/average managed assets	0.9	0.0	0.1	(0.3)	(1.1)

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Hamburg Commercial Bank AG -- Risk-Adjusted Capital Framework Data					
(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government & central banks	6,413	188	3	181	3
Of which regional governments and local authorities	134	100	75	32	24
Institutions and CCPs	3,856	563	15	506	13
Corporate	24,035	9,125	38	18,490	77
Retail	20	13	63	12	60
Of which mortgage	0	0	0	0	0
Securitization§	372	113	30	31	8
Other assets†	1,271	513	40	2,345	184
Total credit risk	35,967	10,513	29	21,565	60
Credit valuation adjustment					
Total credit valuation adjustment	--	163	--	398	--
Market Risk					
Equity in the banking book	125	325	260	973	778
Trading book market risk	--	38	--	56	--
Total market risk	--	363	--	1,029	--
Operational risk					
Total operational risk	--	1,363	--	2,524	--
(Mil. €)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	12,400	--	25,516	100
Total Diversification/ Concentration Adjustments	--	--	--	2,115	8
RWA after diversification	--	12,400	--	27,630	108
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		4,193	33.8	4,074	16.0
Capital ratio after adjustments‡		4,193	27.0	4,074	14.7

Table 4

Hamburg Commercial Bank AG -- Risk-Adjusted Capital Framework Data (cont.)

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Table 5

Hamburg Commercial Bank AG -- Risk Position

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	(12.5)	(26.8)	(6.4)	(16.3)	(23.1)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	8.3	6.4	4.5	7.5
Total managed assets/adjusted common equity (x)	7.1	8.3	12.2	13.9	16.8
New loan loss provisions/average customer loans	(0.2)	0.7	(0.0)	0.9	3.0
Net charge-offs/average customer loans	(0.0)	0.0	0.0	(0.0)	(0.1)
Gross nonperforming assets/customer loans + other real estate owned	6.4	5.6	4.7	7.5	20.4
Loan loss reserves/gross nonperforming assets	37.9	44.8	48.6	33.6	(8.6)

*Data as of June 30. N/A--Not applicable.

Table 6

Hamburg Commercial Bank AG -- Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	47.8	48.1	62.7	64.0	63.0
Customer loans (net)/customer deposits	168.9	167.2	125.2	113.8	110.1
Long-term funding ratio	93.5	90.7	91.9	91.5	86.8
Stable funding ratio	112.9	107.8	111.4	115.0	112.4
Short-term wholesale funding/funding base	7.6	10.8	9.0	9.5	14.6
Broad liquid assets/short-term wholesale funding (x)	3.1	2.0	3.0	3.2	2.0
Net broad liquid assets/short-term customer deposits	43.9	30.5	39.8	43.7	31.7
Short-term wholesale funding/total wholesale funding	14.6	20.8	24.1	25.2	36.6
Narrow liquid assets/3-month wholesale funding (x)	10.0	5.2	9.3	8.1	3.2

*Data as of June 30.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress, June 24, 2021
- Hamburg Commercial Bank's 2020 Performance Moves It Closer To Transitioning To The Private Sector Protection Scheme, Feb 11, 2021
- Hamburg Commercial Bank AG Ratings Remain On CreditWatch Negative Amid Resolution Uncertainty, Nov 24, 2020
- Hamburg Commercial Bank AG And Deutsche Pfandbriefbank AG Ratings Removed From CreditWatch Negative And Affirmed, Dec 15, 2020
- Hamburg Commercial Bank 'BBB/A-2' Ratings Placed On CreditWatch Negative On Resolution Strategy Uncertainty, Aug 27, 2020
- Banking Industry Country Risk Assessment: Germany, Nov 11, 2020

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	**bbb+**	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 2, 2021)*	
Hamburg Commercial Bank AG	
Issuer Credit Rating	BBB/Developing/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Issuer Credit Ratings History	
24-Jun-2021	BBB/Developing/A-2
15-Dec-2020	BBB/Negative/A-2
27-Aug-2020	BBB/Watch Neg/A-2
30-Mar-2020	BBB/Negative/A-2
06-Dec-2018	BBB/Stable/A-2
Sovereign Rating	
Germany	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.