

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Hamburg Commercial Bank AG's A3 deposit and issuer ratings, outlook stable

02 May 2024

Frankfurt am Main, May 02, 2024 -- Moody's Ratings (Moody's) has today affirmed Hamburg Commercial Bank AG (HCOB)'s A3 long-term senior unsecured debt, issuer and deposit ratings at A3, the outlook on these ratings remains stable. Concurrently, the rating agency affirmed the bank's (P)A3 senior unsecured MTN programme, the Baa2 junior senior unsecured debt ratings and the (P)Baa2 junior senior unsecured MTN ratings, its (P)Ba1 subordinate MTN programme rating, its A3/P-2 Counterparty Risk Ratings (CRR) and its P-2 short-term deposit, issuer and, commercial paper ratings and (P)P-2 Other Short Term ratings.

At the same time, the rating agency affirmed HCOB's baa3 Baseline Credit Assessment (BCA) and Adjusted BCA, and its A3(cr)/P-2(cr) Counterparty Risk Assessment.

Further, Moody's affirmed HCOB's Aaa backed subordinated debts, issued by its predecessors Hamburgische Landesbank Girozentrale and Landesbank Schleswig-Holstein GZ.

RATINGS RATIONALE

-- AFFIRMATION OF HCOB'S BASELINE CREDIT ASSESSMENT

The affirmation of HCOB's BCA at baa3 reflects the bank's stable solvency profile, including resilient profitability, despite digesting higher loan loss provisions from its weakening asset quality. The bank's strong capital levels provide a substantial cushion against potential losses from its still largely asset-based finance lending book, which faces rising default risk from the significant increase in interest rates. The affirmation furthermore incorporates the bank's stable funding and solid liquidity profile, which has remained largely unchanged since the bank's privatization in 2018.

The rating agency's assessment of the achieved resilience in the bank's combined solvency is an important consideration in the context of its quasi-monoline business

model and represents a fundamental precondition for retaining an investment grade fundamental credit profile, despite a more challenging operating environment.

While HCOB's has increased and diversified its concentrated lending book somewhat into corporate lending activities, its asset risk profile continues to be marked by the bank's focus on higher risk loans, predominantly asset-based lending activities, such as commercial real estate (CRE), project finance and shipping finance, which are generally more volatile and exposed to economic cycle. Moody's reflects this in a negative qualitative adjustment due to HCOB's quasi-monoline business model.

-- AFFIRMATION OF HCOB'S LONG-TERM DEPOSIT, SENIOR UNSECURED DEBT AND SUBORDINATED MTN PROGRAMME RATINGS

The affirmation of HCOB's long-term ratings reflects the affirmation 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.

In its LGF analysis, Moody's has considered the bank's current organic asset growth and funding plan; its senior ratings benefit from strong protection from more junior instruments outstanding, including the legacy subordinated debt instruments in issuance since 2001.

Because Moody's considers HCOB to be an institution with limited systemic relevance, the rating agency assumes a low probability of government support, resulting in no uplift to the bank's ratings.

-- AFFIRMATION OF BACKED DEBT

HCOB's backed subordinated debt ratings reflects Moody's unchanged assessment of the individual creditworthiness of the guarantors, and its interpretation of the deficiency guarantee that was granted by the bank's owners at the time of issuance and consequently updated, as well as the rating agency's assessment of likelihood, willingness, and timeliness of support.

-- OUTLOOK STABLE

The stable outlook on the long-term deposit, issuer and senior unsecured debt ratings reflects Moody's expectation that HCOB will be able to protect its achieved solvency. Furthermore, the stable outlook reflects the assumption that the outstanding volumes of junior senior unsecured and subordinated debt instruments do not significantly drop below indicated levels in relation to the bank's balance sheet.

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 BCA, which could

result from a significant risk and earnings diversification from its current asset-based finance business model.

The bank's junior senior unsecured debt and subordinated MTN programme ratings could be upgraded in case of significant additional volumes of capital instruments (Tier 2 and Additional Tier 1) being issued.

HCOB's ratings could be downgraded if the bank's BCA is downgraded or if 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 debt instruments subordinated to senior unsecured liabilities.

A downgrade of HCOB's BCA could result from a weakening of the bank's combined solvency profile, in particular if this were to be caused by a deterioration of asset quality beyond Moody's expectations, a meaningful reduction in the bank's achieved profitability or a less conservative capital management, beyond the bank's current targets.

Downward pressure on the backed subordinate debt ratings could develop in case Moody's changes its assessment on the creditworthiness of the guarantors, or its assessment on the obligations from the deficiency guarantee being granted in a timely manner, in case of need.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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 on <https://ratings.moodys.com/rating-definitions>.

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