CREDIT OPINION
19 June 2024

Update

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RATINGS

Hamburg Commercial Bank AG

Domicile	Hamburg, Germany
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Hamburg Commercial Bank AG

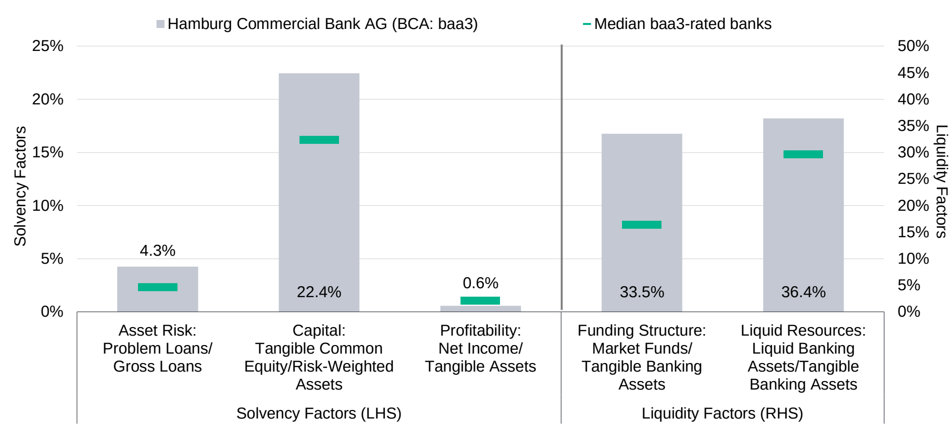
Update following rating affirmation

Summary

Hamburg Commercial Bank AG's (HCOB) A3 deposit and senior unsecured debt and issuer ratings reflect the bank's baa3 BCA and Adjusted BCA, and the application of our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class, resulting in three notches of rating uplift for deposits and senior unsecured debt. HCOB's ratings do not benefit from government support uplift because of its small size in the context of the German banking sector.

HCOB's baa3 BCA 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 buffer against potential losses from its still largely asset-based finance lending book, which faces rising default risk from higher interest rates. The achieved resilience in the bank's combined solvency is an important consideration in the context of its quasi-monoline business model. The BCA also incorporates the bank's stable funding and solid liquidity. HCOB's asset risk profile remains characterised by the bank's focus on higher-risk loans, predominantly asset-based lending activities, in particular commercial real estate (CRE) and shipping finance, although the bank has increased its corporate lending activities.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Ratings

Credit strengths

» HCOB benefits from its capitalisation, which we expect to remain strong.

» The bank has sustainably increased its profitability, providing a buffer against a potential increase in risk costs.

» HCOB maintains solid liquidity buffers.

Credit challenges

» The bank's asset risk concentration remains high because it is focused on high-margin asset-based lending, despite diversification into corporate lending.

» Asset quality is weakening, particular for CRE exposures, as reflected in its rising nonperforming loans.

» HCOB's funding profile relies on a diversified set of market funding sources.

Outlook

The stable outlook reflects our 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

» 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.

Factors that could lead to a downgrade

» 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 our 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 our expectations, a meaningful reduction in the bank's achieved profitability or a less conservative capital management, beyond the bank's current targets.

Key indicators

Exhibit 2
Hamburg Commercial Bank AG (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	31.5	31.5	29.9	32.6	46.7	(9.3)[4]
Total Assets (USD Billion)	34.8	33.7	33.9	39.9	52.4	(9.7)[4]
Tangible Common Equity (EUR Billion)	3.7	4.9	4.4	4.1	3.9	(1.2)[4]
Tangible Common Equity (USD Billion)	4.1	5.2	5.0	5.0	4.4	(1.5)[4]
Problem Loans / Gross Loans (%)	4.3	2.0	2.2	2.4	2.1	2.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	22.4	31.9	31.5	26.2	18.5	26.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.4	7.3	9.1	12.1	14.2	12.4[5]
Net Interest Margin (%)	2.2	1.8	1.7	1.4	1.0	1.6[5]
PPI / Average RWA (%)	2.6	2.0	1.7	1.0	0.8	1.6[6]
Net Income / Tangible Assets (%)	0.6	1.2	0.8	-0.3	0.2	0.5[5]
Cost / Income Ratio (%)	45.6	53.7	59.6	67.4	71.6	59.6[5]
Market Funds / Tangible Banking Assets (%)	33.5	30.2	35.7	40.6	31.1	34.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	36.4	33.7	28.7	25.4	27.7	30.4[5]
Gross Loans / Due to Customers (%)	135.9	149.4	185.4	203.9	147.9	164.5[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

Based in Northern Germany, Hamburg Commercial Bank AG (HCOB) is a regional commercial bank with a focus on asset-based lending for CRE, shipping, project finance and corporate lending, with reported total assets of €31.5 billion as of December 2023. HCOB is the first former Landesbank that transformed into a privately owned bank. Since November 2018, the bank has been owned by a consortium of private equity funds led by Cerberus Capital Management L.P. and J.C. Flowers & Co.

As of December 2023, HCOB had 907 full-time equivalent (FTE) employees, primarily in its headquarters in Hamburg and its branch in Kiel. HCOB had additional domestic branch offices in Berlin, Frankfurt, Düsseldorf, Munich and Stuttgart, and three offices abroad in Athens, London and Luxembourg.

Weighted macro profile of Strong

Although HCOB is focused on the German market, the bank's assigned Strong weighted macro profile is set one notch below the Strong (+) macro profile of Germany, reflecting the issuer's international activities in countries with less benign operating environments, including its shipping exposure, which is sensitive to global trade and macroeconomic conditions.

Detailed credit considerations

Asset risk profile deteriorated in the second half of 2023 and remains vulnerable to tail risks stemming from sector concentrations

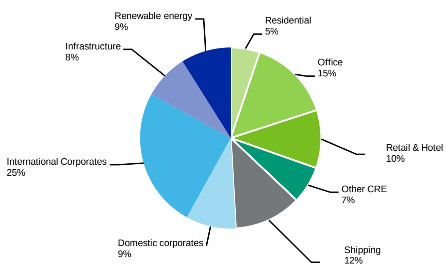
We assign a ba2 Asset Risk score to HCOB, three notches below the baa2 initial score, reflecting significant concentration risks in high-risk and volatile exposures, such as CRE and shipping, which remain at a multiple of the bank's capital. In an adverse scenario, these risks could lead to an accelerated increase in problem loans beyond the reported nonperforming loan ratio of 4%-5%.

HCOB's loan book continues to be exposed to higher risk assets in its asset based lending portfolios, such as cyclical CRE and shipping. Though both, single name concentrations and sector concentrations for the higher risk assets, have declined over time, they still remain significant. HCOB's diversification into corporate lending is not yet sufficient to balance these risks, as evidenced by the rise in non-performing loans in 2023.

In 2023, the bank's problem loan ratio increased substantially to 4.3% from 2.0% as of year-end 2022, mainly driven by defaulting CRE exposures. A timely workout of its high problem loans will be key to stabilise the bank's asset quality, with particularly profitability but also capitalization providing the necessary buffers to resolve problem loans without impairing the bank's solvency profile.

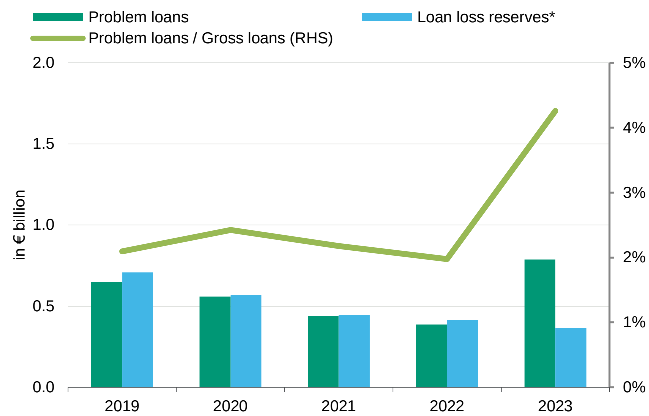
As of December 2023, HCOB had €788 million of problem loans, up from €387 million as of December 2022, whereas gross customer loans decreased slightly to €18.5 billion. The bank's loan loss reserves decreased to €366 million (December 2022: €414 million), or 2.0% of gross customer loans, providing a more limited, but still-sufficient buffer against loan losses.

Exhibit 3
HCOB's loan book is concentrated in high-risk sectors
Total exposure of €22.4 billion (as of December 2023, breakdown by segment)



Source: Company reports

Exhibit 4
HCOB's problem loans increased rapidly, with available reserves declining
Volume in € billions



*Loan loss reserves, excluding the compensation item under the former guarantee.
Sources: Company reports and Moody's Ratings

HCOB's underwriting has been shifting to corporate lending over time. In 2023, HCOB increased its new business to €6.2 billion in gross lending from €5.6 billion in 2022, with that in the corporate segment increasing to €2.3 billion from €1.7 billion. CRE remained stable at €1.6 billion, shipping decreased to €1.3 billion from €1.6 billion and project finance (including renewable energy financing and digital infrastructure projects) increased to €1.0 billion from €0.7 billion. At the same time, the density of risk weighted assets (RWA) increased, mainly driven by a higher recourse to standardized risk assumptions, instead of the use of the internal ratings based approach. Hence, the higher risk weights do not necessarily imply a higher risk appetite with regards to new business.

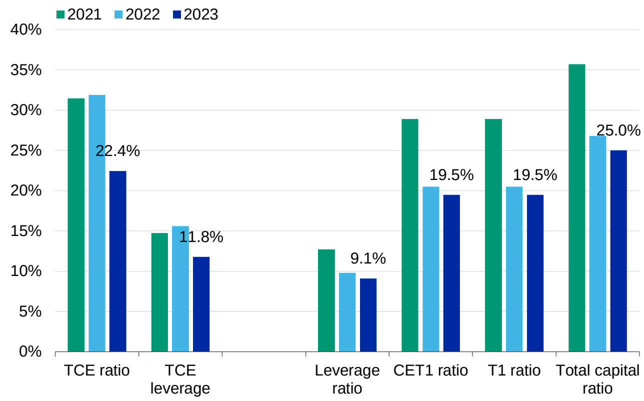
Capitalisation remains strong, providing a substantial buffer

We expect HCOB to maintain substantial core capital buffers, as reflected in the assigned aa3 Capital score, one notch below the aa2 initial score derived from the tangible common equity (TCE) ratio of 22.4%. The assigned score reflects both HCOB's strong absolute capitalisation, as reflected in its TCE leverage ratio of 11.8%, and the management's aim to maintain a Common Equity Tier 1 (CET1) capital ratio of at least 17%. This ratio is below the current capital ratios, implying a contained future decrease in capital buffers because of high dividends.

The impact of €1.5 billion in special dividends, paid out in April 2023, filtered through to our TCE ratio, with TCE converging towards CET1 as a result. The difference between regulatory capital ratios and TCE reflects excluded planned dividends and regulatory deductions. The more contained deterioration in regulatory capital ratios during 2023 was driven by the already mentioned model change away from the advanced internal ratings-based approach, leading to higher RWA as the special dividend was already incorporated into the calculation of regulatory capital.

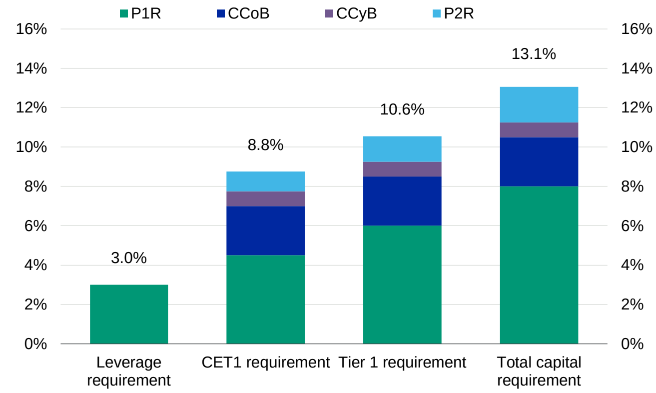
The introduction of a countercyclical buffer of 0.75% of domestic RWA and an additional 2.0% buffer specific to RWA from domestic loans backed by residential properties from February 2023 had a limited impact on HCOB's comfortable distance from the regulatory minimum levels. This solid distance from minimum capital requirements is further supported by the declining Pillar 2 requirement (P2R). The European Central Bank lowered the P2R from 2.75% for total capital and 1.55% for CET1 in 2021 to 1.82% and 1.02%, respectively, as of 2023. This is a departure from the trend of either stable or even rising requirements for other German banks.

Exhibit 5
HCOB's capitalisation is strong...



TCE = Tangible common equity (our calculation); CET1 = Common Equity Tier 1; T1 = Tier 1 capital.
Source: Moody's Ratings

Exhibit 6
... and significantly exceeds its capital requirements



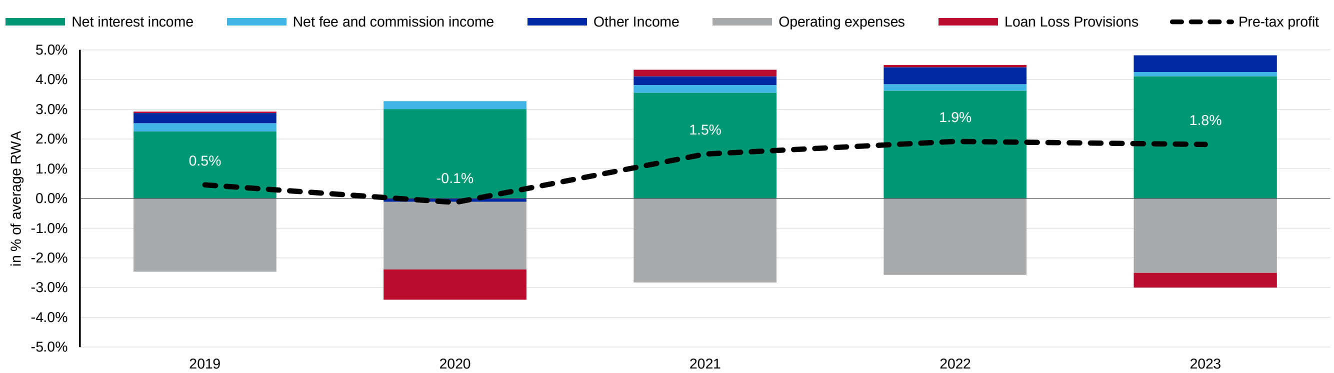
CCoB = Capital conservation buffer; CCyB = Countercyclical capital buffer; SIIB = Systemically important institutions buffer; P1R = Pillar 1 requirement; P2R = Pillar 2 requirement.
Requirements include the 2.5% capital conservation buffer and assumption of a partial fulfilment of the Pillar 2 requirement through Additional Tier 1 and Tier 2 instruments.
Source: Company

HCOB's profitability can absorb loan losses without impairing its capital position

We assign a baa3 Profitability score to HCOB, in line with the initial score. This reflects our expectation that even in the current more difficult economic environment, the bank will be able to maintain its profitability.

Our view considers the bank's good cost management, as visible in the achieved cost-to-income ratio in the low-40s in percentage terms, leaving HCOB as one of the more efficient German banks. The improved efficiency places the bank in a good position to deal with challenges, such as higher risk costs as a result of the current economic downturn, and provides a buffer against adverse developments within the more cyclical part of the asset portfolio, such as CRE. Further, the bank has been able to maintain a stable profitability vs rising RWA, underpinning the positioning at an investment grade profitability score.

Exhibit 7
Improved profitability balanced higher risk costs in 2023
In € millions



Includes our adjustments for significant nonrecurring and unusual items. Risk provisions include provisions for non-credit risks.
Source: Moody's Ratings

In 2024, HCOB's management guides to pretax income of at least €300 million, a cost-to-income ratio of 45%, based on a net interest margin of around 200 basis points, supporting net interest income, with return on assets moving sideways.

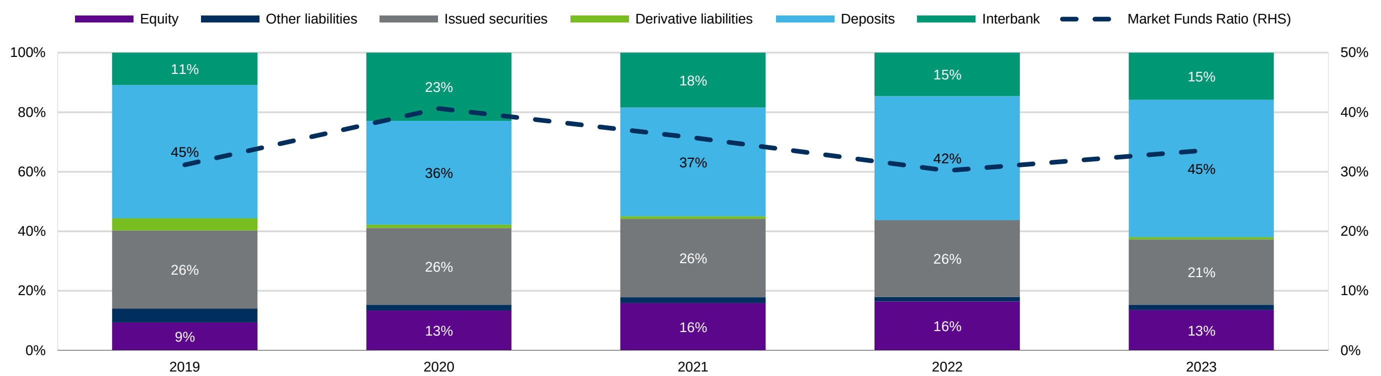
HCOB's funding profile remains market reliant

We assign a ba3 Funding Structure score to HCOB, two notches below the initial score. This takes into account our expectation of the development of the bank's funding profile; additional information on market funding instruments, such as promissory notes and registered bonds that are accounted for as deposits; and the quality of the bank's deposits with a focus on corporate clients.

HCOB has been making sound progress in the transformation of its funding structure. HCOB issued several benchmark-size unsecured and covered bonds. At the same time, the bank has been focusing on securing deposits with longer maturities, with a more granular base of lending or payment services to customers in recent years. The bank has started to reestablish a retail deposit franchise in May 2024.

As of December 2023, HCOB reduced its recourse to central bank funding under the targeted longer-term refinancing operations (TLTRO III) to €1.0 billion from €3 billion in 2020 and replaced it with other long-term funding and corporate deposits.

Exhibit 8
HCOB's TLTRO drawing in 2020 temporarily increased interbank liabilities



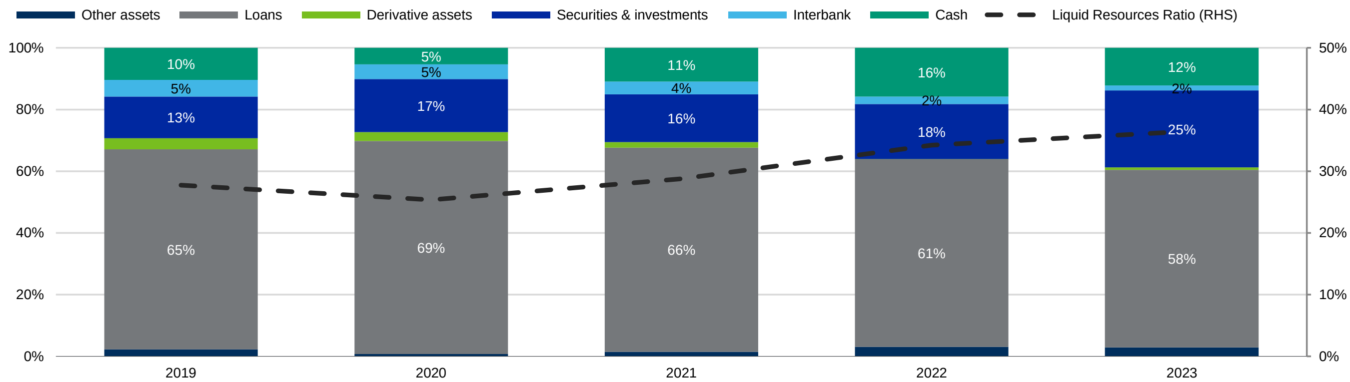
Market funds ratio = Market funds as a percentage of tangible banking assets. Interbank funding includes central bank funding.
Source: Moody's Ratings

Substantial liquidity buffers to remain in place

We assign a baa2 Liquidity score to HCOB, two notches below the initial score, based on the available liquid resources after considering asset encumbrance.

HCOB maintained a €3.9 billion cash position as of December 2023, in addition to other liquid assets (including fixed-income securities) of €7.7 billion. The securities book is accounted for at fair value, with no unrealised losses. Once TLTRO funding is repaid, we expect the bank's unencumbered liquid resources to account for at least 20% of its tangible banking assets. HCOB's regulatory net stable funding ratio of 116% and liquidity coverage ratio (LCR) of 184% as of December 2023 are well above the regulatory minimums, indicating a sound coverage of the likely liquidity outflow in the near term, including dividends.

Exhibit 9
HCOB maintains sufficient balance-sheet liquidity
Composition of assets



Liquid resources ratio = Liquid banking assets as a percentage of tangible banking assets.
Source: Moody's Ratings

Business diversification adjustment

To reflect the risks from HCOB's focus on the asset-based lending business model, we apply a one-notch qualitative adjustment for its limited business diversification in our scorecard. The focus remains, despite the bank's diversification into corporate lending, with a strong emphasis on domestic CRE lending, renewable energy projects and shipping loans. A greater degree of specialisation may limit the bank's ability to mitigate unexpected earnings volatility from its core activities.

Business diversification is an important gauge of a bank's sensitivity to stress in a single business line. It is related to earnings stability in the sense that earnings diversification across distinct and relatively uncorrelated lines of business increases the reliability of a bank's earnings streams and its potential to absorb shocks affecting a business line.

In particular, through its emphasis on CRE and ship lending, HCOB will be exposed to a rather volatile banking business through the cycle. CRE and ship lending are highly cyclical and, therefore, higher-risk sectors can cause significant losses in times of financial market stress.

ESG considerations

Hamburg Commercial Bank AG's ESG credit impact score is CIS-2

Exhibit 10
ESG credit impact score

CIS-2

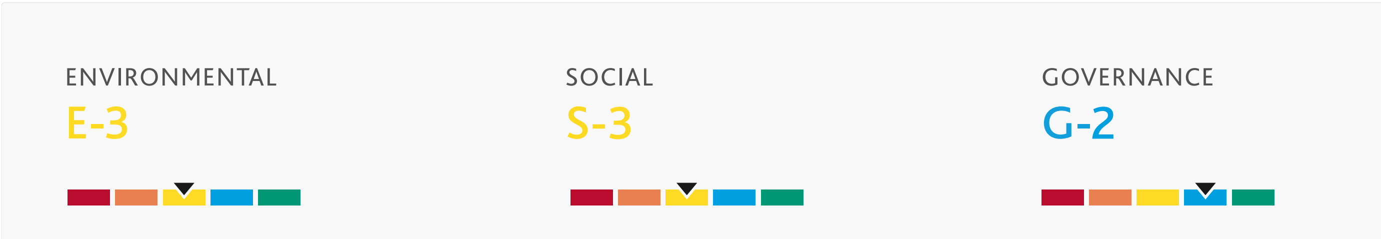
ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Hamburg Commercial AG's (HCOB)'s **CIS-2** indicates that ESG considerations have no material impact on the current ratings. The bank's corporate governance risks are low, with a high-risk appetite as part of its business model as an asset based finance specialist being mitigated by good controls and risk management.

Exhibit 11

ESG issuer profile scores



Source: Moody's Ratings

Environmental

HCOB faces moderate environmental risks primarily because of its exposure to carbon transition risk in its corporate loan book. In line with its peers, HCOB is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, HCOB in engaging in integrating climate considerations in its credit risk assessment and supporting customers to facilitate their carbon transition.

Social

HCOB faces moderate moderate exposure to social risks related to regulatory and litigation risks, requiring the bank to meet high compliance standards. Customer relations risks related to mis-selling and mis-representation are lower than industry average because of the bank's focus on institutional customers combined with a strong conduct track record. The bank is also proactively adapting to changing customer preferences (such as digitalisation and sustainable products).

Governance

HCOB's governance risks are low, despite its higher risk appetite and concentration risks inherent in its business model as an asset-based finance specialist. The bank's strategy, risk management function and organizational structure are in line with industry practices. HCOB's management enjoys a good track record with regards to the turnaround of the bank, including a solid earnings potential and capital generation capacity, that is able to digest increased risk costs. Finally, the bank's supervisory board reflects it ownership structure, dominated by a few private equity houses, exposing the bank to potential outsized influence by the controlling shareholders. Germany's developed institutional framework mitigates associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

There is a low probability that HCOB's owners — primarily private equity funds, including Cerberus Capital Management, L.P., J.C. Flowers & Co. and Golden Tree Asset Management LNP — would support the bank in case of need, which results in no uplift for the baa3 Adjusted BCA from the bank's BCA.

Loss Given Failure (LGF) analysis

HCOB is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We, therefore, apply our Advanced LGF analysis, using our standard assumptions. For deposits and senior unsecured debt rated A3, our LGF analysis indicates an extremely low loss given failure, leading to a three-notch uplift above the baa3 Adjusted BCA.

Government support considerations

SBecause of its small size relative to the German banking system and its limited degree of interconnectedness, we only assume a low probability of government support to HCOB, which does not result in any rating uplift.

Methodology and scorecard

The principal methodology we used in rating HCOB was our Banks Methodology, published in July 2021.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 12
Hamburg Commercial Bank AG

Macro Factors							
Weighted Macro Profile	**Strong**	**100%**					

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.3%	baa2	↔	ba2	Sector concentration	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	22.4%	aa2	↓	aa3	Expected trend	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	0.6%	baa3	↔	baa3	Expected trend	Return on assets
Combined Solvency Score		a3		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	33.5%	ba1	↔	ba3	Deposit quality	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	36.4%	a2	↔	baa2	Stock of liquid assets	Asset encumbrance
Combined Liquidity Score		baa2		ba1		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				baa2 - ba1		
Assigned BCA				baa3		
Affiliate Support notching				0		
Adjusted BCA				baa3		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	3	0	a3
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	a3 (cr)
Deposits	-	-	-	-	-	-	-	3	0	a3
Senior unsecured bank debt	-	-	-	-	-	-	-	-	-	-
Junior senior unsecured bank debt	-	-	-	-	-	-	-	1	0	baa2
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a3	0	A3	A3
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3(cr)	
Deposits	3	0	a3	0	A3	A3
Senior unsecured bank debt	-	-	-	0	A3	A3
Junior senior unsecured bank debt	1	0	baa2	0	Baa2	
Dated subordinated bank debt	-1	0	ba1	0	(P)Ba1	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 13

Category	Moody's Rating
HAMBURG COMMERCIAL BANK AG	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
Junior Senior Unsecured -Dom Curr	Baa2
Junior Senior Unsecured MTN -Dom Curr	(P)Baa2
Subordinate MTN -Dom Curr	(P)Ba1
Commercial Paper -Dom Curr	P-2
Other Short Term -Dom Curr	(P)P-2

Source: Moody's Ratings

REPORT NUMBER 1405345

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