9 November 2020

Hamburg Commercial Bank: Update on Transformation and Funding

Following its privatization two years ago, Hamburg Commercial Bank (HCOB) has made considerable progress in its transformation; this is also reflected in its strong capital position. With a CET1 ratio of 21.7% in June this year, the bank ranked very highly in comparison with European banking peers and was significantly above regulatory requirements. By year-end HCOB expects a further strengthening to around 25%. "Despite the volatile market environment and the challenges posed by the COVID19 pandemic, our forecasts indicate that we will at least reach our set of core KPIs for 2020 and that our capitalization will improve further at a high level", said Stefan Ermisch, CEO of Hamburg Commercial Bank.

In the course of the de-risking strategy, which started early in autumn 2019, total assets had already fallen to EUR 42 billion by the end of the first half of 2020. This deliberate reduction continued in the second half of the year, with the result that total assets are expected to be below EUR 35 billion at the end of 2020. Particularly the sale of some larger legacy assets contributed to this reduction which, according to our projections, will also be reflected in an improved NPE ratio of around 2% by year-end (30/6/2020: 3.2%).

The success of the transformation is also reflected on the liabilities side of the balance sheet. Since privatization, refinancing costs have been significantly reduced thanks to regained investor confidence. The liability structure has improved substantially, not least because of the bank's strong capital positions. For example, the volume of Tier 2 capital is significantly, with approximately 100%, above regulatory requirements. In view of regulatory Tier 2 capital requirements, which are thus already fully covered, and the current state of the market, the Bank refrains from issuing a Tier 2 bond and instead concentrates on its plan to issue an AT1 bond in 2022.

In order to optimize its liability structure further and to be active in the market as a regular bond issuer, HCOB is planning to issue a Senior Non Preferred Benchmark before end of year. A Moody's rating of "Baa3 stable" is expected for the bond. "With a benchmark bond in the final quarter of the year, we are further diversifying our funding base and are once again active as an issuer on the capital market for investors from Germany and abroad", said Ian Banwell, CFO at Hamburg Commercial Bank.

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