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Hamburg Commercial Bank

Press release

Hamburg Commercial Bank well on track with EUR 230 million pre-tax profit in the first half-year

- Net income before taxes 29% above H1 2022
- Group net result after taxes on target at EUR 178 million
- Sustainably profitable: total income up 24% – RoE before/after taxes[1] at 21.7/16.8%
- Robust portfolio – solid risk coverage
- CEO Ian Banwell: “Successful first half-year: solid financials, rating upgrade and good stress test result – 2023 earnings forecast confirmed”

HAMBURG – Hamburg Commercial Bank AG (HCOB) presented its figures for the first half of 2023 on Thursday, reporting **net income before taxes** of EUR 230 (prior-year period: 178) million. The positive margin development in the bank’s further diversified operating business makes a notable contribution to the strong result, which is almost 30% higher than in the prior-year period. In view of the market environment, characterized by economic uncertainties, HCOB’s capital and liquidity positions were maintained at a solid level.

“The first half of the year was very successful for Hamburg Commercial Bank, with an increase in pre-tax earnings of almost 30%, our improved rating position as well as the good performance in the ECB stress test. This has enabled us to further consolidate our strong position in the German banking market. With its diversified and prudent business approach, the bank is sustainably profitable. Net interest margins have increased in all market segments and yields are above the cost of capital – we are very satisfied with this development,” said Ian Banwell, Chief Executive Officer of Hamburg Commercial Bank. “In light of the encouraging half-year result, we confirm our forecast and expect to generate profit after taxes above EUR 250 million for the full year 2023.”

Pre-tax profit up 29 % – improved earning power – minor one-off effects

At EUR 230 (178) million, **net income before taxes** noticeably exceeds the half-year result for 2022 by 29%. In particular, a profitable operating business as well as valuation effects in the fair value result contributed to the strong outcome. The **group net result** of EUR 178 (207) million demonstrates the bank’s sustainable earning power and benefits only to a minor extent from one-off effects. Along with a normalization of the tax position, **income tax expenses** had a negative impact of EUR 52 million on the half-year result; in the same period of the previous year, they made a substantial positive contribution of EUR 29 million to the half-year result after taxes. **Return on equity** (RoE) after taxes[1] is 16.8% (30/06/2022: 20.5%).

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Total income up by a quarter – balanced loan loss provisions – stable administrative expenses

HCOB's further improved profitability is reflected in the increase in **total income** by approximately a quarter (24%) to EUR 375 (303) million. **Net interest income** of EUR 292 (260) million made a significant contribution to this, improving by 12% in the wake of higher net interest margins and a favorable interest rate environment. In addition, total income benefited from the fair value result (**result from financial instruments categorised as FVPL**) of EUR 73 (16) million, due to positive developments in the capital markets and corresponding valuation effects. The other items of total income amount to EUR 10 (27) million.

Loan loss provisions amount to EUR 2 (31) million. At Stage 3 (SLLP), moderate net additions in the Real Estate segment and net reversals in the Corporates segment almost offset each other. At Stages 1 and 2 (GLLP), model overlays were created for the Real Estate segment as part of a prudent risk provisioning policy. These were offset by net reversals in the Project Finance and Shipping segments, resulting in a low net reversal in overall loan loss provisions.

Administrative expenses rose only slightly to EUR 156 (150) million, despite persistently high inflation and forward-looking investments. Operating expenses (including depreciation of property, plant and equipment and amortization of intangible assets) of EUR 87 (80) million reflect, among others, IT investments. Personnel expenses remained almost unchanged compared to the prior-year period at EUR 69 (70) million. As of 30 June 2023, the bank employed 863 (31/12/2022: 868) **full-time employees** (FTEs) as scheduled and fluctuation-related departures were offset by new hires.

The **other operating result** made a smaller contribution to the half-year result of EUR 29 (40) million compared to the first half of 2022, which benefited to a greater extent from one-off effects. At EUR 20 (29) million, **expenses for regulatory affairs, deposit guarantee fund and banking associations** are lower than in the previous year and already include the full annual contributions for the bank levy and deposit guarantee fund. As planned, there was no burden from the **result from restructuring and transformation** at EUR 0 (-17) million.

The **cost-income ratio** (CIR) improved as of 30 June 2023 to a good 39% (30/06/2022: 44%). The bank is thus well on track to achieve the forecast CIR of 45% for full year 2023.

Solid NPE ratio and risk coverage – robust capital and liquidity positions

At 1.5% (31/12/2022: 1.2%), the **NPE ratio** is at a solid level, despite difficult economic conditions. The slight increase is due, on the one hand, to the reduced **exposure at default** of EUR 33.5 (34.4) billion in connection with the dividend pay-out. On the other hand, the **NPE volume** increased moderately to EUR 502 (405) million. This is due to a net increase in the NPE volume in the Real Estate segment, mainly as a result of the interest rate development, as well as a new default of a larger exposure in the Project finance segment, which is, predominantly covered by an export credit guarantee (ECA).

At EUR 318 (414) million, including EUR 129 (31/12/2022: 144) million model overlays, HCOB has a comfortable stock of **loan loss provisions** for cushioning potential adverse economic developments. The reduction is mainly due to the partial disposal of a substantial NPE exposure from the Real Estate segment.

The **NPE Coverage Ratio**$_{AC}$ remains at a solid level of 37.0% (31/12/2022: 68.9%). The decline is due to structural changes in the NPE portfolio, including a predominantly ECA-covered new default (Project Finance segment) and the partial sale of a CRE exposure with high risk provision coverage.

As expected, the **CET1 ratio** decreased to a comfortable 18.5% (31/12/2022: 20.5%). The change is mainly due to the scheduled increase in aggregate RWA from EUR 15.4 billion (31/12/2022) to EUR 16.5 billion, partly as a result of recalibrations in the rating models.

The **leverage ratio** was maintained at the strong level of year-end 2022 at 9.4% (31/12/2022: 9.5%) and is well above the regulatory requirements (3%).

Group total assets decreased moderately by 3% to EUR 30.8 (31/12/2022: 31.8) billion in connection with the scheduled dividend pay-out in April.

Segment results: Lending units with total earnings growth of around one third

The profitability developed well in all four lending units as a result of expanded net interest margins. **RoE after taxes**[1] of the lending units increased to 12.6% (10.0%), demonstrating the successful asset allocation and clear risk/return focus along with a tailwind from the changed interest rate environment. **Total income** improved by approximately one third to EUR 322 (248) million, despite lower **segment assets** of EUR 19.0 (19.6) billion. **Earnings after taxes** of the lending units also rose by around a third to EUR 119 (90) million. **Gross new business** totaled EUR 3.0 (2.8) billion, slightly above the prior-year period.

The **Real Estate segment** was managed in a risk-conscious manner in a challenging market environment, with the focus on managing the existing portfolio. At EUR 0.7 billion (0.7), the volume of new business is at the level of the first half of 2022. Earnings after taxes was slightly below the prior-year period at EUR 34 (37) million, resulting in an RoE after taxes[1] of 11.0% (11.8%). Segment assets decreased to EUR 7.5 (31/12/2022: 8.1) billion on account of the selective approach to new business.

In the **Shipping segment**, earnings after taxes amounted to EUR 32 (35) million and benefited from an increase in net interest income, offset by higher administrative expenses. The RoE after taxes[1] thus decreased slightly to 17.2% (18.2%). Gross new business with national and international shipping companies with good credit ratings is slightly above the previous year at EUR 0.7 (0.6) billion. At the same time, the good liquidity position of shipping companies that made early loan repayments along with a weakening US dollar exchange rate led to a decline in segment assets to EUR 2.9 (31/12/2022: 3.5) billion.

In the **Project Finance segment**, earnings after taxes of EUR 14 (9) million and RoE after taxes[1] of 9.4% (6.4%) are noticeably higher than in the prior-year period. Segment assets increased slightly to EUR 3.5 (31/12/2022: 3.4) billion and new business was expanded to EUR 0.6 (0.5) billion, with a focus on infrastructure projects.

The **Corporates segment** is reaping the benefits of higher margins, especially in the expanded international business, resulting in a marked increase in earnings after taxes to EUR 39 (9) million and in RoE after taxes[1] to 13.3% (3.6%). Gross new business amounts to EUR 0.9 (1.0) billion; segment assets total EUR 5.1 (31/12/2022: 4.6) billion.

Rating upgrade – ECB stress test result – branch in London – "Best Performing Bank"

The **rating** agency Moody's upgraded key ratings of Hamburg Commercial Bank by one notch in February 2023: The bank's issuer, senior preferred and deposit ratings were raised from "Baa1" to "A3" with a stable outlook. The tailwind for refinancing activities and the broadened investor base were already evident in the first half-year when HCOB issued a senior preferred bond and a mortgage covered bond (Pfandbrief) in benchmark format.

HCOB participated in this year’s EU-wide **stress test** of the European Central Bank (ECB) and is one of the most resilient and well capitalized banks in Europe. With a moderate capital depletion of 4.0 percentage points in the adverse scenario, the bank is well below the average (Ø 4.8 percentage points) of the other banks that took part in the ECB stress test. HCOB also showed a strong post-stress CET1 ratio of 16.5%, surpassing the average result (Ø 10.4%) of the directly by ECB supervised banks.

HCOB has been represented by a **branch** in London since May 2023. By expanding its existing representative office, HCOB is strengthening its international positioning in one of the world’s most important financial markets.

In July, for the third year in a row, Hamburg Commercial Bank received an industry award from The Banker magazine, which named HCOB "**Best Performing Bank**" in Germany.

Outlook

Given its successful business development in the first six months, Hamburg Commercial Bank confirms its earnings forecast for the full year 2023. The bank expects to achieve IFRS net income before taxes of around EUR 350 million and, as income taxes continue to normalize, a group net result after taxes of above EUR 250 million.

All forecasts are subject to any unforeseeable or significantly more adverse than expected effects, for example from economic or geopolitical developments.

Hamburg Commercial Bank

Group statement of income (IFRS) H1 2023

(€ million)	Jan – June 2023	Jan – June 2022	Change In %
Interest income from financial assets categorised as AC and FVOCI	654	307	> 100
Interest income from other financial instruments	25	53*	-53
Negative interest on investments categorised as AC and FVOCI	-	-11	-100
Negative interest on other cash investments and derivatives	-	-27	-100
Interest expenses	-388	-98*	> 100
Positive interest on borrowings and derivatives	1	36	-97
Net interest income	**292**	**260**	**12**
Net commission income	11	18	-39
Result from hedging	6	7	-14
Result from financial instruments categorised as FVPL	73	16*	> 100
Net income from financial investments	-	-	-
Result from the disposal of financial assets classified as AC	-7	2	>-100
Total income	**375**	**303**	**24**
Loan loss provisions	2	31*	94
Total income after loan loss provisions	**377**	**334**	**13**
Administrative expenses	-156	-150	4
Other operating result	29	40	-28
Expenses for regulatory affairs, deposit guarantee fund and banking associations	-20	-29	-31
Net income before restructuring and transformation	**230**	**195**	**18**
Result from restructuring and transformation	-	-17	100
Net income before taxes	**230**	**178**	**29**
Income tax expense	-52	29	>100
Group net result	**178**	**207**	**-14**
Group net result attributable to Hamburg Commercial Bank shareholders	178	207	-14

*) Adjusted H1 2022 figures after reclassifications. (For details, see interim Report as at 30/06/2023, Note 2 of Group explanatory notes)

Further key figures of the Group	30/06/2023	31/12/2022
Total assets (€ bn)	30.8	31,8
RWA (€ bn)	16.5[2]	15,4[3]
CET1 capital ratio (%)	18.5[2]	20.5[3]
Overall capital ratio (%)	24,4[2]	26,8[3]
Return on equity (RoE) before / after taxes[1] (in %)	21.7 / 16.8	17.6[5] / 20.5[5]
Leverage ratio (%)	9.4[2]	9.5[3,4]
Liquidity coverage ratio (%)	157	197
Net stable funding ratio (%)	113	113[3]
Employees (FTE)	863	868

1) RoE before/after taxes based on standardized regulatory capital backing (average RWA and CET1 ratio of 13%) | 2) The profits for the first half of 2023 have not been taken into account. | 3) The dividend payment of EUR 1,5 bn made in 2023 was taken into account in advance in the CET1 capital as at 31/12/2022 | 4) Restated comparative figure as at 31/12/2022 | 5) As at 30/06/2022

For further information on our financial figures please visit Investor Relations on our website.