

Research

Commerzbank AG

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Commerzbank AG

SACP	bbb		+	Support	+1	+	Additional Factors	0
Anchor	a-			ALAC Support	+1		Issuer Credit Rating	
Business Position	Moderate	-1		GRE Support	0		BBB+/Negative/A-2	
Capital and Earnings	Adequate	0		Group Support	0		Resolution Counterparty Rating	
Risk Position	Moderate	-1		Sovereign Support	0		A-/--/A-2	
Funding	Average	0						
Liquidity	Adequate							

Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Sound domestic market position in corporate banking. • Sound capitalization and material levels of additional loss-absorbing capital (ALAC) to protect senior creditors in the event of a resolution. • Prudent funding and liquidity management and metrics. 	<ul style="list-style-type: none"> • Against the backdrop of difficult markets, in the medium term Commerzbank needs to improve subpar shareholder returns to substantiate the business' sustainability. • Below-average market share and earnings from domestic retail activities. • Loan book quality metrics and composition still untested through a full business cycle, and generally below those of some international peers.

Outlook: Negative

S&P Global Ratings' negative outlook on Commerzbank AG acknowledges downside risks that management faces in the coming 12-24 months, including weakened operating conditions amid the COVID-19 pandemic and challenges in executing the restructuring plan. This could derail restructuring initiatives, and the bank's revenue base and asset quality could come under greater strain through second-half 2020 and into 2021 than we currently anticipate if an economic recovery is significantly delayed.

Downside scenario

We could lower our ratings on Commerzbank (including those on its senior subordinated debt and regulatory capital instruments) if we see a further deterioration in the operating environment leading to a more material setback for profitability and asset quality, or greater doubt that the restructuring will result in a sustainable business and operating model. We could reflect these negative developments through the bank's anchor (for example, if German economic or industry risk increases) or through one of our other assessments.

Upside scenario

We could revise our outlook to stable over the next 24 months if we saw sustainable improvements in global economic conditions, including stable economic and industry risk trends for the German banking industry and the main markets where Commerzbank operates. At the same time, Commerzbank needs to demonstrate tangible progress in its restructuring process. This would include a stronger business position, with more stable and diverse retail and midsize corporate banking, and a less volatile and sustainably improved earnings and risk position compared with that of similarly rated international peers. More robust capitalization and additional loss-absorbing capacity buffers to cushion unexpected setbacks in its transformation would also be important.

Rationale

Our ratings recognize Commerzbank's material progress from years of restructuring, while defending its strong franchise in the small and midsize enterprise segment and gaining retail market share. Commerzbank has materially strengthened its balance sheet by increasing its capital and bail-in-able debt buffers while working out most of its legacy and noncore loan portfolios. In our view, Commerzbank has yet to demonstrate the sustainability of its long-term business model, however. We believe this essentially hinges on Commerzbank's ability to improve its profitability toward that of similarly rated European-banking peers. We consider this one of the key factors to raise investor confidence and improve the bank's weak equity valuations, which could make the bank a potential merger target.

We believe that the cyclical downturn arising from the COVID-19 pandemic has led to a weakened economic and operating environment for Commerzbank. In our view, this deterioration will make it increasingly challenging for the bank to deliver on its essential multiyear "Commerzbank 5.0" restructuring program. In addition, on July 6, 2020, Commerzbank announced the unexpected resignations of the CEO and the chairman of the supervisory board of Commerzbank, which we believe will make the execution of the bank's multi-year restructuring program more difficult (see "CEO's Exit Complicates Commerzbank's Strategy Execution," published July 6, 2020). Meanwhile, since Aug. 4, 2020, Mr. Vetter became the new chairman of the supervisory board.

We also see increased risks in Commerzbank's main markets that are likely to affect revenue and asset quality, and moderately weaken capitalization. We continue to closely monitor management's progress in executing the Commerzbank 5.0 program. The program seeks to improve the efficiency and long-term sustainability of the bank's domestic business model and franchise, and spur digitalization. The extensive nature of the program demonstrates the substantial challenges Commerzbank already faced in sustainably improving its risk-adjusted earnings and capital amid strong competition and ultra-low interest rates. We see the program as more difficult to implement due to pandemic-related difficult credit conditions.

We acknowledge the massive regulatory, central bank, and governmental fiscal and monetary policy packages to help workers and companies bridge the gap to recovery. Commerzbank comes into this crisis with relatively good asset quality, thanks to the de-risking of most of its legacy and noncore loan portfolios.

Commerzbank posted a €96 million after-tax (and minorities) loss for half-year 2020, following a €316 million after-tax (and minorities) loss in first-quarter 2020, and which was dominated by €795 million of credit risk costs. Almost half of the credit cost anticipated the expected full-year economic impact of the COVID-19 pandemic. Commerzbank's regulatory Tier 1 ratio remained stable at 13.4% at mid-year 2020 compared with year-end 2019. Despite the bank's second-quarter result improvements, we expect that Commerzbank will find it difficult to remain profitable for full-year 2020. We anticipate a material but manageable increase in loan loss provisions and nonperforming assets in Commerzbank's core retail and corporate portfolios, as we do for its German and European peers. We also believe Commerzbank's capital management has become tighter, and restructuring more complex in recent weeks. We expect the bank's S&P Global Ratings risk adjusted capital (RAC) ratio to likely move toward 9.5%, after 9.9% at year-end 2019. We consider that keeping mBank is a manageable option, although mBank's disposal was meant to fund about €1.6 billion of Commerzbank's investments in digitalization and restructuring.

Table 1

Commerzbank AG Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	2020*	2019	2018	2017	2016
Adjusted assets	547,650.0	460,583.0	459,123.0	449,181.0	477,403.0
Customer loans (gross)	273,024.0	250,770.0	231,519.0	224,460.0	204,156.0
Adjusted common equity	26,131.0	26,010.1	24,445.7	26,140.5	25,952.0
Operating revenues	4,125.0	8,645.0	8,572.0	8,830.0	9,555.0
Noninterest expenses	3,030.0	5,788.0	6,351.0	6,606.0	7,086.0
Core earnings	N/A	1,671.5	1,504.8	962.9	1,342.9

*Data as of June 30. N.A.--Not available.

Table 2

Commerzbank AG Business Position					
	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Total revenues from business line (currency in millions)	4,175.0	8,645.0	8,572.0	9,163.0	9,770.0
Commercial & retail banking/total revenues from business line	52.6	53.9	53.3	52.7	48.7
Trading and sales income/total revenues from business line	25.9	33.5	38.0	43.5	44.8

Table 2

Commerzbank AG Business Position (cont.)					
	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Other revenues/total revenues from business line	21.5	12.5	8.7	3.7	6.5
Investment banking/total revenues from business line	25.9	33.5	38.0	43.5	44.8
Return on average common equity	(0.7)	2.3	3.0	0.5	1.0

*Data as of June 30.

Table 3

Commerzbank AG Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Tier 1 capital ratio	14.8	14.3	13.4	15.2	13.9
S&P Global Ratings' RAC ratio before diversification	N/A	9.9	9.4	10.2	8.9
S&P Global Ratings' RAC ratio after diversification	N/A	10.6	10.0	10.8	9.4
Adjusted common equity/total adjusted capital	92.5	95.2	98.3	98.4	98.5
Net interest income/operating revenues	63.0	58.7	55.4	47.6	51.4
Fee income/operating revenues	40.4	35.3	36.0	36.0	33.6
Market-sensitive income/operating revenues	(1.4)	4.4	5.1	13.5	5.7
Noninterest expenses/operating revenues	73.5	67.0	74.1	74.8	74.2
Preprovision operating income/average assets	0.4	0.6	0.5	0.5	0.5
Core earnings/average managed assets	N/A	0.4	0.3	0.2	0.3

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

Table 4

Commerzbank AG Risk-Adjusted Capital Framework						
(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)	
Credit risk						
Government & central banks	93,193	5,422	6	8,368	9	
Of which regional governments and local authorities	13,814	581	4	703	5	
Institutions and CCPs	49,460	19,120	39	21,182	43	
Corporate	160,475	81,980	51	110,924	69	
Retail	143,208	25,080	18	55,044	38	
Of which mortgage	93,246	12,073	13	19,952	21	
Securitization§	18,074	3,396	19	7,684	43	
Other assets†	9,002	8,193	91	16,099	179	
Total credit risk	473,412	143,192	30	219,302	46	
Credit valuation adjustment						
Total credit valuation adjustment	--	5,455	--	21,394	--	
Market risk						
Equity in the banking book	4,243	2,786	66	9,915	234	

Table 4

Commerzbank AG Risk-Adjusted Capital Framework (cont.)					
Trading book market risk	--	5,412	--	9,422	--
Total market risk	--	8,198	--	19,337	--
Operational risk					
Total operational risk	--	18,728	--	16,110	--
(Mil. €)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	--	181,200	--	276,143	100
Total diversification/ concentration adjustments	--	--	--	(19,324.2)	(7.0)
RWA after diversification	--	181,200	--	256,819	93
(Mil. €)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments		26,015	14.4	27,315	9.9
Capital ratio after adjustments†		26,015	14.4	27,315	10.6

*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, 2019, S&P Global Ratings.

Table 5

Commerzbank AG Risk Position	--Year-ended Dec. 31--				
	2020*	2019	2018	2017	2016
(%)					
Growth in customer loans	17.7	8.3	3.1	9.9	(1.7)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(7.0)	(6.1)	(5.9)	(5.1)
Total managed assets/adjusted common equity (x)	21.1	17.8	18.9	17.3	18.5
New loan loss provisions/average customer loans	0.6	0.3	0.2	0.4	0.4
Net charge-offs/average customer loans	N.M.	N.M.	N.M.	0.7	0.6
Gross nonperforming assets/customer loans + other real estate owned	1.6	1.5	1.7	2.5	3.4
Loan loss reserves/gross nonperforming assets	58.7	57.1	55.0	55.2	53.1

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

Table 6

Commerzbank AG Funding And Liquidity	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Core deposits/funding base	68.3	74.6	70.8	70.3	64.6
Customer loans (net)/customer deposits	86.8	89.5	87.2	86.5	82.2
Long-term funding ratio	77.2	83.8	80.2	85.5	82.5
Stable funding ratio	118.8	113.6	114.5	124.6	128.6
Short-term wholesale funding/funding base	24.3	17.4	21.2	15.6	18.8

Table 6

Commerzbank AG Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Broad liquid assets/short-term wholesale funding (x)	1.7	2.0	1.9	2.4	2.2
Net broad liquid assets/short-term customer deposits	30.7	28.7	32.2	34.4	39.5
Short-term wholesale funding/total wholesale funding	75.5	67.6	72.5	52.2	53.0

*Data as of June 30.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, 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
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- CEO's Exit Complicates Commerzbank's Strategy Execution, July 6, 2020
- Bulletin: Commerzbank's Q1 2020 Loss And Abandoned Sale Of mBank Highlight Restructuring Hurdles, May 13, 2020
- Research Update: Commerzbank AG Downgraded To 'BBB+' On Vulnerability In The Wake Of COVID-19 Pandemic; Outlook Negative, April 23, 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 August 12, 2020)*

Commerzbank AG

Issuer Credit Rating	BBB+/Negative/A-2
Resolution Counterparty Rating	A-/--/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Junior Subordinated	BB-
Senior Subordinated	BBB-
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BB+

Issuer Credit Ratings History

23-Apr-2020	BBB+/Negative/A-2
28-Mar-2017	A-/Negative/A-2
15-Dec-2016	BBB+/Watch Pos/A-2
11-Mar-2016	BBB+/Stable/A-2

Sovereign Rating

Germany	AAA/Stable/A-1+
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Related Entities**Dresdner Funding Trust I**

Junior Subordinated	BB-
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Dresdner Funding Trust IV

Subordinated	BB+
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HT1 Funding GmbH

Issuer Credit Rating	BBB+/Negative/--
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mBank

Issuer Credit Rating	BBB/Negative/A-2
Resolution Counterparty Rating	BBB+/--/A-2

Ratings Detail (As Of August 12, 2020)*(cont.)

Senior Unsecured	A-2
Senior Unsecured	BBB

*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.

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