

Research Update:

# Commerzbank AG Downgraded To 'BBB+' On Vulnerability In The Wake Of COVID-19 Pandemic; Outlook Negative

April 23, 2020

## Overview

- We expect the COVID-19 pandemic and associated lockdown measures will lead to a global economic recession in 2020.
- We see increased difficulty for Commerzbank to deliver on its essential multiyear restructuring program, and increased risks in the main markets where the bank operates.
- We also expect that the bank's capitalization could moderately weaken after taking into account increasing credit and market risk.
- We are therefore lowering our long-term issuer credit rating on Commerzbank to 'BBB+' from 'A-', and affirming our 'A-2' short-term rating.
- The negative outlook acknowledges substantial downside risks, under which the bank's complex restructuring process, asset quality, and risk-adjusted profitability could come under greater strain if an economic recovery is significantly delayed or weaker than expected.

## Rating Action

On April 23, 2020, S&P Global Ratings lowered its long-term issuer credit rating on Germany based Commerzbank AG to 'BBB+' from 'A-'. At the same time, we affirmed our 'A-2' short-term issuer credit rating. The outlook is negative.

Accordingly, we lowered by one notch all related senior unsecured, senior subordinated, and other hybrid issue ratings. We also lowered our long- and short-term resolution counterparty ratings (RCRs) on Commerzbank to 'A-/A-2' from 'A/A-1'.

### PRIMARY CREDIT ANALYST

**Harm Semder**  
Frankfurt  
(49) 69-33-999-158  
harm.semder  
@spglobal.com

### SECONDARY CONTACT

**Benjamin Heinrich, CFA, FRM**  
Frankfurt  
+ 49 693 399 9167  
benjamin.heinrich  
@spglobal.com

### ADDITIONAL CONTACT

**Financial Institutions Ratings Europe**  
FIG\_Europe  
@spglobal.com

## Rationale

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. We also see increased risks in its main markets that are likely to affect revenue, asset quality and moderately weaken capitalization. The negative outlook acknowledges substantial downside risks beyond our already-more-negative base case.

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 to sustainably improve its risk-adjusted earnings and capital in the face of strong competition and ultra-low interest rates. We now see the program as more difficult to implement. The intended sale of Commerzbank's Polish subsidiary, mBank, to fund about €1.6 billion of investments in digitalization and restructuring needs has also become more complex, in our view.

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. Nevertheless, similar to its German and broader European bank peers, we now expect a material but manageable increase in Commerzbank's loan-loss provisions and nonperforming assets in its core retail and corporate portfolio.

Like its peers, we expect very few of these negative profitability trends to play out in the bank's first-quarter results. However, they will likely become more evident through the course of 2020 and into 2021. As a result, our revised projection is that Commerzbank's capitalization gradually weakens through year-end 2020. 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.

## Outlook

The negative outlook 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 to 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 similarly rated international peers'. More robust capitalization and additional loss-absorbing capacity buffers to cushion unexpected setbacks in its transformation would also be important.

## Ratings Score Snapshot

	To	From
Issuer Credit Ratings	BBB+/Neg./A-2	A-/Neg./A-2
Resolution Counterparty Ratings	A-/A-2	A/A-1
SACP	bbb	bbb+
Anchor	a-	a-
Business Position	Moderate (-1)	Moderate (-1)
Capital & Earnings	Adequate (0)	Strong (+1)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	1	1
ALAC Support	1	1
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional factors	0	0

## 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**

- Negative Rating Actions Taken On Multiple German Banks On Deepening COVID-19 Downside Risks, April 23, 2020

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.