Bulletin:

Restructuring Costs And Goodwill Write-Off Highlight Challenges Facing New Commerzbank CEO

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FRANKFURT (S&P Global Ratings) Jan. 8, 2021--S&P Global Ratings said today that Commerzbank AG's (BBB+/Negative/A-2) booking of additional restructuring costs, along with its decision to fully write-off its goodwill, highlights the challenges it faces in transforming its franchise under its new chief executive officer (CEO).

Commerzbank is far from alone in dealing with weak risk-adjusted profitability, but its restructuring is already protracted. Furthermore, any improvement has become increasingly difficult amid the COVID-19 pandemic--which also led to a further increase in loss provisioning needs for 2020--and ongoing strong competition in an ultra-low rate environment.

In an ad-hoc market announcement on Dec. 28, 2020, Commerzbank stated that it would book additional restructuring costs of €610 million related to the planned reduction of 2,300 employees under the current "Commerzbank 5.0" strategy. The new CEO, Manfred Knof, officially took office just a few days ago, but he is likely to present a revised strategy that will likely contain new sizable cost measures in the coming weeks. The success of this restructuring remains a key source of sensitivity for our ratings on Commerzbank.

In another ad-hoc market announcement today, Commerzbank stated that it is fully writing off its remaining goodwill. The write-off, which is mainly attributable to the acquisition of Dresdner Bank in 2009 and to worsening market conditions, is capital neutral and does not impair our capital assessment on Commerzbank. The bank also announced loan loss provision charges of at least €1.7 billion for 2020, close to our existing base-case expectations, and we anticipate another €1.0 billion-€1.5 billion charge for 2021. Under our base-case scenario, we expect Commerzbank's risk-adjusted capitalization to remain comfortably above 9% over the next 12-18 months, despite ongoing contributions to loss provisioning as a result of the COVID-19 pandemic and expected further restructuring costs over 2021-2022. We also expect its regulatory ratios to remain broadly stable over the same period.

Related Research

- Commerzbank AG, Aug. 12, 2020
- 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

This report does not constitute a rating action.