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Research Update:

Commerzbank AG And Dresdner Bank AG Outlooks To Negative On Worsening Credit Conditions; 'A/A-1' Ratings Affirmed

Primary Credit Analyst:

Stefan Best, Frankfurt (49) 69-33-999-154; stefan_best@standardandpoors.com

Secondary Credit Analyst:

Bernd Ackermann, Frankfurt (49) 69-33-999-153; bernd_ackermann@standardandpoors.com

Table Of Contents

Rationale

Outlook

Ratings List

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Rationale

On May 12, 2009, Standard & Poor's Ratings Services revised its outlooks on Germany-based Commerzbank AG and its wholly-owned subsidiary Dresdner Bank AG to negative from stable. At the same time, Standard & Poor's affirmed its 'A' long-term and 'A-1' short-term counterparty credit ratings on both banks. In a related rating action, Standard & Poor's lowered its ratings on Commerzbank's subsidiary Eurohypo AG (see "Eurohypo AG Ratings Cut To 'A-/A-2' On Worsening Credit Environment And Loss Expectation; Outlook Negative," published today on RatingsDirect).

These rating actions conclude our review of Commerzbank's stand-alone credit profile and take into account our assessment of the potential impact of a sharply deteriorated economic outlook on the bank's loan portfolio as a large lender to commercial enterprises, and in commercial real estate and shipping, and the likely effect on its outsized structured credit portfolio over the next 12-30 months. The outlook revision reflects the challenges, in our view, that Commerzbank faces in terms of funding capacity and capital requirements for its large wholesale commercial businesses, owing to a fundamentally changing banking environment; and Commerzbank's short- to medium-term earnings prospects, in light of ongoing market dislocations, which particularly affect Dresdner Bank's sales and trading business and Eurohypo AG. In addition, we considered agreed and expected government support measures.

The decline in Commerzbank's stand-alone credit profile reflects our assessment of an increased probability that--like other large wholesale lenders in Germany--Commerzbank's credit losses might increase beyond historical patterns, potentially a cumulative 4%-5% on customer loans (excluding public-sector loans) until year-end 2011. Our assessment takes into account the poor performance of Dresdner Bank's investment banking business and outsized high-risk legacy holdings in traded credit exposures and risks to its financial profile from restructuring requirements.

We consider Commerzbank to be a highly systemically important bank to Germany and a government-related entity. The government is likely to own 25% plus one share in Commerzbank after a planned capital increase, which benefits the ratings through a four-notch uplift above the bank's stand-alone credit profile.

Our assessment of Commerzbank's stand-alone credit profile benefits from its position as the second largest private bank in Germany, with a nationwide network in retail and corporate banking, sound diversification across business lines, and substantial extraordinary government support that has strengthened the group's capitalization and liquidity. This is partly offset by

Commerzbank's business profile as a largely wholesale-oriented bank and the potential pressures on earnings and capital from the recession, market dislocations, and the restructuring of the bank.

In our view, Commerzbank will remain under considerable financial stress, and we believe that its weakened financial profile and high confidence sensitivity as a wholesale bank make it highly reliant on implicit state support for the foreseeable future. We believe that Commerzbank should be able to absorb future losses, given the size of its capital base after an additional planned €10 billion (from a total of €18.2 billion) capital injection from the German government. However, this means the bank's equity would include a high proportion of hybrid capital instruments, mainly provided by the government. We therefore believe that future losses might substantially erode shareholders' equity and, consequently, the bank's adjusted-total-equity ratio. Nevertheless, we note that the hybrids provided by the German government and some other hybrid capital instruments issued by Commerzbank and Dresdner Bank would be able to absorb some of the losses on a going-concern basis through a reduction in their face value.

Outlook

The negative outlook reflects our view of the short- to medium-term challenges Commerzbank is likely to face in coping with the financial market crisis; the impact of the recession on its loan book, which could still result in more severe losses than currently factored into our ratings; and the restructuring process needed to reduce its nonstrategic and wholesale-oriented activities, capital leverage, funding needs, and cost base.

We could lower the ratings if we believe that the provided state support could be insufficient.

Rating implications could be positive if Commerzbank's restructuring process were to progress and if the downside risk to asset quality and earnings were to diminish while the bank continues to benefit from government support.

Ratings List

CreditWatch/Outlook Action

	To	From
Commerzbank AG		
Dresdner Bank AG		
Commerzbank Europe (Ireland)		
Commerzbank International S.A.		
Counterparty Credit Ratings	A/Negative/A-1	A/Stable/A-1
Certificate Of Deposit	A/A-1	A/A-1
Ratings Affirmed		
Dresdner U.S. Finance Inc.		
Counterparty Credit Rating	--/--/A-1	
Commercial Paper	A-1	

NB: This list does not include all the ratings affected.

Additional Contact:

Financial Institutions Ratings Europe;FIG_Europe@standardandpoors.com

Ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating. Alternatively, call one of the following Standard & Poor's 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) 495-783-4011.

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