S&P Global
Ratings

Research

Bulletin:

Commerzbank's New Capital Policy Underpins Expectations And Higher Profit Targets May Add Support In The Medium Term

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This report does not constitute a rating action.

Frankfurt (S&P Global Ratings) Sept. 29, 2023--S&P Global Ratings today said that Commerzbank AG's revised capital return policy is in line with the current ratings and outlook (see "Commerzbank AG Upgraded To 'A-/A-2' On Stronger Bail-In-Able Debt Buffer; Outlook Stable," published March 23, 2023, on RatingsDirect).

Over the medium term, the bank's achievement of profit targets increased beyond 11.0% return on tangible equity by 2027 (up from 7.3% previously) could prompt us to no longer regard persistently low profitability as a key rating constraint. That said, this would depend on, among other things, not increasing the risk appetite in the revised plan. We also think the prospects of success will be materially sensitive to the economic and operating environment over the coming years. We expect to receive further details on the new plan on Nov. 8, 2023, including information on cost management, measures to improve fee income, and lending growth initiatives following years of portfolio optimization.

We don't think Commerzbank's more shareholder-friendly capital policy will change our capital assessment. The bank revised upward its capital return targets until 2027. It now guides for a capital return for 2024 of at least 70% (generally after deduction of additional tier 1 coupons) of net income, which is rather at the higher end of European peers, and of well above 50% but below 100% between 2025 and 2027. All distributions remain subject to a minimum common equity tier 1 (CET1) of 13.5% and a minimum 250-basis-point (bps) buffer against the maximum distributable amount (MDA) threshold.

Increasing capital payouts are in line with our previous forecast, which we base on the bank's continuously improving profitability, reducing transformation risk, and large capital buffers already in place. Its CET1 ratio is at 14.4% on June. 30, 2023, which was 436 bps above the 2023 MDA threshold. We therefore continue to see its current risk-adjusted capital ratio of well above 10% as not sustainable and expect it to decrease below 10% by 2025, supporting the 'A-/A-2' ratings, mainly because of higher capital distributions and our expectation of a return to net growth.