

## CREDIT OPINION

26 April 2019

Update

✓ Rate this Research

### Closing date

7 June 2013

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# Commerzbank AG - Public Sector Covered Bonds

Update to New Issue Report, reflecting data as of 31 December 2018 – German covered bonds

## Ratings

Exhibit 1

Cover Pool (€)	Ordinary Cover Pool Assets	Covered Bonds (€)	Rating
9,530,961,038	Public Sector Loans	8,042,506,323	Aaa

Source: Moody's Investors Service

## Summary

The covered bonds issued by Commerzbank AG (the issuer) under the Commerzbank AG - Public sector Covered Bonds programme are full recourse to the issuer and are secured by a cover pool of assets consisting of public sector debt.

Credit strengths include the full recourse of the public sector covered bonds (Öffentliche Pfandbriefe) to the issuer and support provided by the German legal framework for *Pfandbriefe*, which provides for the issuer's regulation and supervision.

Credit challenges include the high level of dependency on the issuer. As with most covered bonds in Europe, there are few restrictions on the future composition of the cover pool. The cover pool also has geographical concentration risk.

Our credit analysis takes into account the cover pool's credit quality, which is reflected in the collateral score of 5.8%, and the current over-collateralisation (OC) of 14.5% (on an unstressed present value basis) as of 31 December 2018.

## Credit strengths

- » **Recourse to the issuer:** The covered bonds are full recourse to Commerzbank AG (A1(cr)). (See "Covered bond description")
- » **Support provided by the German legal framework:** The covered bonds are governed by the German Pfandbrief Act, which provides for the issuer's regulation and supervision and sets certain minimum requirements for the covered bonds and the cover pool. (See "Moody's related publications: Covered Bond Legal Frameworks")

- » **High credit quality of the cover pool:** The covered bonds are supported by a cover pool of high-quality assets. The assets are public-sector debts, the majority of the respective obligors are located in Germany (59.8%). The Pfandbrief Act sets out strict eligibility criteria for cover pool assets. Eligible assets for Öffentliche Pfandbriefe are (1) claims directly against sovereigns or regional or local governments; and (2) loans to (or other claims against) entities guaranteed by them. The collateral quality is reflected in the collateral score, which is currently 5.8%. (See "Cover pool analysis")
- » **Refinancing risk:** Following what we call a covered bond (CB) anchor event, refinancing risk would be mitigated by a well-established and deep market for German *Pfandbriefe*, as well as the liquidity-matching requirements. A CB anchor event occurs when the issuer, or another entity within the issuer group that supports the issuer, ceases to service the payments on the covered bonds. (See "Covered bond analysis")
- » **Provisions for a cover pool administrator:** Following an issuer default, the covered bondholders would benefit from a cover pool administrator (the *Sachwalter*) that acts independently from the issuer's insolvency administrator. Furthermore, if the German banking regulator Bundesanstalt für Finanz-dienstleistungsaufsicht (BaFin) deems it necessary, the *Sachwalter* may be appointed ahead of any issuer default. (See "Covered bond analysis")

## Credit challenges

- » **High level of dependency on the issuer:** As with most covered bonds, before the insolvency of the issuer, the issuer can materially change the nature of the programme. For example, the issuer can add new assets to the cover pool, issue new covered bonds with varying promises and enter into new hedging arrangements. Also similar to most covered bonds in Europe, this programme has few restrictions on the future composition of the cover pool. These changes could affect the credit quality of the cover pool as well as the overall refinancing and market risks. Further, if the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. (See "Covered bond analysis")
- » **Cover pool concentration:** The cover pool also has obligor concentration with 10 largest borrowers accounting for 48.7% of the cover pool. (See "Cover pool description")
- » **Interest rate and currency risks:** Interest rate risk is mitigated by the 2.0% OC requirement, which has to be maintained in stressed market conditions (that is, yield curve movements and changes in the relevant exchange rates). However there is currency mismatch in the programme because 20.5% of the cover pool assets and 3.1% of the outstanding covered bonds are denominated in currencies other than Euro. (See "Covered bond analysis")
- » **Market risks:** Following a CB anchor event, covered bondholders, to achieve timely principal payment, might need to rely on proceeds raised through the sale of, or borrowing against, the cover pool assets. The market value of these assets may be subject to high volatility after a CB anchor event. In addition, covered bondholders might have exposure to interest rate and currency risks. (See "Covered bond analysis")
- » **Time subordination:** After a CB anchor event, later-maturing covered bonds are subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. This subordination could lead to the erosion of OC before any payments are made to later-paying covered bonds. (See "Covered bond analysis")
- » **Lack of liquidity facility:** The programme would not benefit from any designated source of liquidity if cash flow collections are interrupted. (See "Covered bond analysis")

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key characteristics

Exhibit 2

### Covered bond characteristics

Moody's Programme Number:	355
Issuer:	Commerzbank AG
Covered Bond Type:	Public Sector Covered Bonds
Issued under Covered Bonds Law:	Yes
Applicable Covered Bonds Law:	German Pfandbrief Act
Entity used in Moody's TPI analysis:	Commerzbank AG
CR Assessment:	A1(cr)
CB Anchor:	CR assessment +1 notch
Senior unsecured/deposit rating:	A1
Total Covered Bonds Outstanding:	€8,042,506,323
Main Currency of Covered Bonds:	EUR (96.9%)
Extended Refinance Period:	No
Principal Payment Type:	Hard Bullet (no extension period)
Interest Rate Type:	Floating rate covered bonds (10.8%), fixed rate covered bonds (89.2%)
Committed Over-Collateralisation:	2.0% (on a stressed basis)
Current Over-Collateralisation:	14.5% (on an unstressed basis)
Intra-group Swap Provider:	No Swaps
Monitoring of Cover Pool:	Cover pool monitor (Treuhand), mandatory by operation of the Pfandbrief Act
Trustees:	n/a
Timely Payment Indicator:	High
TPI Leeway:	4

Source: Moody's Investors Service, issuer data

Exhibit 3

### Cover pool characteristics

Size of Cover Pool:	€ 9,530,961,038
Main Collateral Type in Cover Pool:	Public-sector assets (99.1%), Supplementary assets (0.9%)
Main Asset Location of Ordinary Cover Assets:	Germany (59.8%)
Main Currency:	Euro (79.5%)
Loans Count:	307
Number of Borrowers:	190
Concentration of 10 Largest Borrowers:	48.7%
Interest Rate Type:	Fixed rate assets (65.7%), Floating rate assets (34.3%)
Collateral Score:	5.8%
Cover Pool Losses:	12.6%
Further Cover Pool Details:	See cover pool description
Pool Cut-off Date:	31 December 2018

Source: Moody's Investors Service, issuer data

## Covered bond description

The covered bonds issued under the public sector covered bond programme of Commerzbank AG are full recourse to the issuer. Upon a CB anchor event, covered bondholders would have access to a cover pool of loan receivables.

### Structure description

#### The bonds

All outstanding covered bonds have a bullet repayment at maturity, without any extension period for the repayment of the bonds.

**Issuer recourse**

The covered bonds are full recourse to the issuer. Therefore, the issuer is obliged to repay principal and pay interest on the covered bonds.

**Recourse to cover pool and over-collateralisation**

If the issuer becomes insolvent, the covered bondholders would have priority claims over a pool of assets (cover pool). (See "Cover pool description" for the cover pool characteristics and "Cover pool analysis" for our analysis of the pool)

As of 31 December 2018, the level of OC in the programme was 14.5% on an unstressed present value basis.

The current covered bond rating relies on a level of OC that exceeds the minimum legal requirements by the German *Pfandbrief* Act. The act requires that the OC exceed the principal balance of the bonds by 2%. Based on data as of 31 December 2018, 4.5% of OC is sufficient to maintain the current covered bond rating, which is higher than committed OC. This shows that our analysis currently relies on OC that is not in committed form.

Although the issuer has the ability to increase the OC in the cover pool if collateral quality deteriorates below a certain threshold, the issuer does not have any obligation to do so. The failure to increase OC following a deterioration of the collateral could lead to a negative rating action.

**Legal framework**

The covered bonds are governed by the *Pfandbrief* Act. There are a number of strengths in this legislation, including the regulation of the issuer by BaFin, as well as certain minimum requirements for the covered bonds and the cover pool. No specific structural features beyond the statutory requirements are implemented for this public sector covered bond programme. (See [Covered Bonds: Germany - Legal Framework for Covered Bonds](#), August 2015, for a description of the general legal framework for *Hypothekendarlehenpfandbriefe* governed by the *Pfandbrief* Act.)

**Covered bond analysis**

Our credit analysis of the covered bonds primarily focuses on the issuer's credit quality, refinancing risk, interest rate risk and currency risk, as well as the probability that payments on the covered bonds would be made in a timely fashion following a CB anchor event, which we measure using the Timely Payment Indicator (See "Timely Payment Indicator").

**Primary analysis****Issuer analysis - Credit quality of the issuer**

The issuer's CR Assessment is A1(cr). (For a description of the issuer's rating drivers, see [Credit Opinion](#), published February 2019)

The reference point for the issuer's credit strength in our analysis is the CB anchor, which for covered bond programmes under the covered bond law in Germany is the CR Assessment plus one notch.

**Issuer analysis - Dependency on the issuer's credit quality**

The credit quality of the covered bonds depends primarily on the credit quality of the issuer. If the issuer's credit strength were to deteriorate, there would be a greater risk that a CB anchor event would occur, leading to refinancing risk for the covered bonds. Consequently, the credit quality of the covered bonds would deteriorate unless other credit risks were to decrease.

In the event that the CB anchor deteriorates, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. Failure to increase the level of OC under these circumstances could lead to a negative rating action.

Reasons for the high level of dependency of the covered bonds with the issuer also include exposure to decisions made by the issuer in its discretion as manager of the covered bond programme. For example, before a CB anchor event, the issuer may add new assets to the cover pool and remove assets from the cover pool, issue further bonds and enter new hedging arrangements. Such actions could reduce the value of the cover pool.

As with most covered bonds in Europe, there are few contractual restrictions on the future composition of the cover pool, which creates substitution risk. Nevertheless, cover pool quality over time will be protected by, among other things, the requirements of the German *Pfandbrief* Act, which specifies what types of assets are eligible. (See "Moody's related publications: Covered Bond Legal Frameworks")

### Refinancing risk

Following a CB anchor event, the "natural" amortisation of the cover pool assets alone cannot be relied on to repay the principal. We assume that funds must be raised against the cover pool at a discount if covered bondholders are to receive timely principal payment. Where the portion of the cover pool that is potentially exposed to refinancing risk is not contractually limited, our expected loss analysis typically assumes that this amount is in excess of 50% of the cover pool.

After a CB anchor event, the market value of these assets may be subject to volatility. Examples of the stressed refinancing margins we use for different types of prime-quality assets are published in our Rating Methodology. (See "Moody's related publications - Moody's Approach to Rating Covered Bonds")

Aspects of this covered bond programme that are refinancing-positive include:

- » Pfandbrief Act: The Sachwalter has the ability to sell all or part of the cover pool, with or without all or parts of the liabilities attached
- » The depth of the German market and the high level of support provided to Pfandbriefe in Germany, where refinancing risk is perceived as lower than in most other jurisdictions. In the modelling of this transaction, we have used refinance margins that are lower than the refinance margins used for most other jurisdictions
- » The issuer is also required to cover potential liquidity gaps over the next 180 days between payments expected to be received under the cover pool assets and the payments due under the outstanding covered bonds

Aspects of this covered bond programme that are refinancing-negative include:

- » The programme does not benefit from any contractual provisions to allow for an extension of a principal refinancing period; it is our understanding that all covered bonds issued under this programme will have a hard bullet repayment with no extension period

### Interest rate and currency risk

As with the majority of European covered bonds, there is potential for interest rate and currency risks, which could arise from the different payment promises and durations made on the cover pool and the covered bonds.

Exhibit 4

#### Overview of assets and liabilities

	WAL Assets (Years)	WAL Liabilities (Years)	Assets (%)	Liabilities (%)
Fixed rate	9.6	6.6	65.7%	89.2%
Variable rate	6.5	9.7	34.3%	10.8%

WAL: weighted average life

Source: Moody's Investors Service, issuer data

In the event of issuer insolvency, we currently do not assume that the *Sachwalter* would always be able to efficiently manage any natural hedge between the cover pool and the covered bonds. Therefore, following a CB anchor event, our model would separately assess the impact of increasing and decreasing interest rates on the expected loss of the covered bonds, taking the path of interest rates that leads to the worst result. The interest rate and currency stresses used over different time horizons are published in our Rating Methodology.

Aspects of this covered bond programme that are market-risk positive include:

- » The requirement under the *Pfandbrief* Act that the stressed present value OC of the cover pool must exceed, by at least 2.0%, the total of outstanding covered bonds issued against the cover pool, and the requirement that *Pfandbrief* issuers must regularly run stress tests regarding interest rate and foreign-exchange risks

Aspects of this covered bond programme that are market-risk negative include:

- » There is unhedged currency and interest rate risk in this programme. 20.5% of the assets in the cover pool and 3.1% of the outstanding covered bonds are denominated in currencies other than euro. 65.7% of assets and 89.2% of the covered bonds pay fixed rate interest.
- » A potential sale of fixed-rate assets to meet payments due on covered bonds following a CB anchor event could lead to a crystallisation of mark-to-market losses caused by interest rate movements upon issuer default

#### Timely Payment Indicator

Our Timely Payment Indicator (TPI) assesses the likelihood that timely payments would be made to covered bondholders following a CB anchor event, and thus determines the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable level of OC. We have assigned a TPI of High to these covered bonds, in line with other covered bonds issued under the *Pfandbrief* Act.

Based on the current TPI of High, the TPI leeway for this programme is four notches. This four-notch leeway implies that we might downgrade the covered bonds' rating because of a TPI cap if we were to lower the CB anchor by more than four notches, all other variables being equal.

Aspects to this covered bond programme that are TPI-positive include:

- » The high level of support provided to Pfandbriefe in Germany
- » German Pfandbrief legislation, including:
  - At the time of the declaration of issuer's bankruptcy, or earlier if BaFin considers it necessary, a cover pool administrator (Sachwalter) will take over management responsibility of the covered bond programme
  - The Sachwalter will act independently from the issuer's insolvency administrator. Having an independent cover pool administrator may reduce potential conflicts of interest between the covered bondholders and other creditors
  - The issuer is also required to cover potential liquidity gaps over the next 180 days between payments expected to be received under the cover pool assets and payments due under the outstanding covered bonds
  - Set-off: We understand with respect to covered bonds governed by the Pfandbrief Act that set-off risk for loans registered in the cover pool, made under German law and located in Germany are excluded by the operation of the Pfandbrief Act
- » Cover pool asset credit quality, which is evidenced by the collateral score of 5.8%

Aspects to this covered bond programme that are TPI negative include:

- » All covered bonds outstanding have a bullet repayment at maturity, without any extension period for the repayment of the bonds
- » The covered bond programme does not benefit from any designated source of liquidity if cash flow collections are interrupted
- » The currency and interest rate mismatch mentioned above
- » Commingling risk: Upon the appointment of the Sachwalter, it is our understanding that the Sachwalter has a priority claim on all cash flows stemming from the cover pool assets. However, these cash flows have to be separated from other cash flows to the issuer before they can be used to make payments to covered bondholders

#### Additional analysis

##### Liquidity

The covered bond programme would not benefit from any designated source of liquidity if cash flow collections were to be interrupted. However, before an issuer default, the *Pfandbrief* Act requires the issuer to cover potential liquidity gaps for the next 180 days and to maintain a minimum OC level of 2%. After an issuer default, the *Sachwalter* would have the ability to sell a portion of the cover pool to make timely payments on the bonds.

**Time subordination**

After a CB anchor event, later-maturing covered bonds would be subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. Such payments could result in the erosion of OC before any payments are made to later-paying covered bonds.

## Cover pool description

### Pool description as of 31 December 2018

As of 31 December 2018, the cover pool consisted of claims against public sector entities.

On a nominal value basis, the cover pool assets total €9.5 billion, which back €8.0 billion in covered bonds, resulting in an OC level of 14.5% on an unstressed present value basis.

All assets are performing.

### Public Sector loans

The majority of public-sector debts are direct claims against regions/federal states (51.5%) or are loans guaranteed by either sovereigns or municipalities. The credit quality of the obligors in general, including the largest obligors in the cover pool is high.

14.2% of the cover pool consists of export credit claims guaranteed by the German government. These claims are originated as part of Commerzbank's business with corporates and SME's. In order to promote German exports, the German government provides guarantees for certain claims arising from exports. Usually either the foreign importer or a foreign bank are the obligor of such an export credit claim. The programme under which the guarantees are provided is managed by Euler Hermes and PwC and therefore often referred to as "Hermes guarantee programme". Export credit agency Euler Hermes Deutschland AG acts as agent of the government in administering these guarantees while the guarantee is directly provided by the German government.

Exhibit 5

### Cover pool summary

Overview		Specific Loan and Borrower characteristics	
Asset type:	Public Sector	Repo eligible loans / bonds:	38.5%
Asset balance:	9,442,711,038	Percentage of fixed rate loans / bonds:	69.6%
WA remaining Term (in months):	112	Percentage of bullet loans/ bonds:	79.4%
Number of borrowers:	190	Loans / bonds in non-domestic currency:	20.7%
Number of loans / bonds:	307	<b>Performance</b>	
Exposure to the 10 largest borrowers:	48.7%	Loans / bonds in arrears ( ≥ 2months - < 6months):	0.0%
Average exposure to borrowers:	49,698,479	Loans / bonds in arrears ( ≥ 6months - < 12months):	0.0%
		Loans / bonds in arrears ( ≥ 12months):	0.0%
		Loans / bonds in a foreclosure procedure:	0.0%

Source: Moody's Investors Service, issuer data



Exhibit 6

Cover pool characteristics

Exhibit A

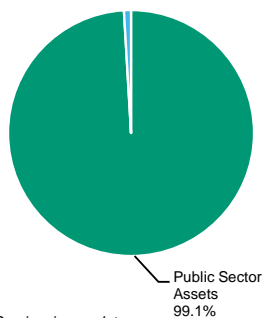
Borrower type by country

	Germany	Switzerland	Italy	Other	Totals
Direct claim against supranational	0.0%	0.0%	0.0%	0.0%	0.0%
Direct claim against sovereign	1.8%	0.0%	0.5%	10.1%	12.3%
Loan with guarantee of sovereign	0.0%	1.0%	0.0%	13.3%	14.3%
Direct claim against region/federal state	37.8%	7.2%	2.4%	4.1%	51.5%
Loan with guarantee of region/federal state	0.3%	0.0%	0.0%	1.2%	1.4%
Direct claim against municipality	0.1%	1.1%	3.1%	5.2%	9.5%
Loan with guarantee of municipality	0.0%	0.0%	0.0%	0.0%	0.0%
Others	6.7%	0.0%	0.0%	4.2%	11.0%
	46.7%	9.2%	6.0%	38.1%	

Source: Moody's Investors Service, issuer data

Exhibit B

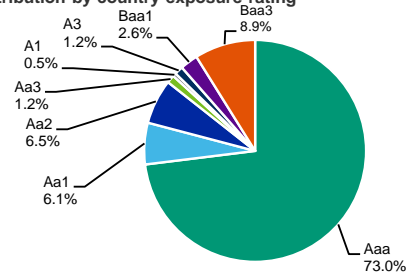
Percentage of public sector assets



Source: Moody's Investors Service, issuer data

Exhibit C

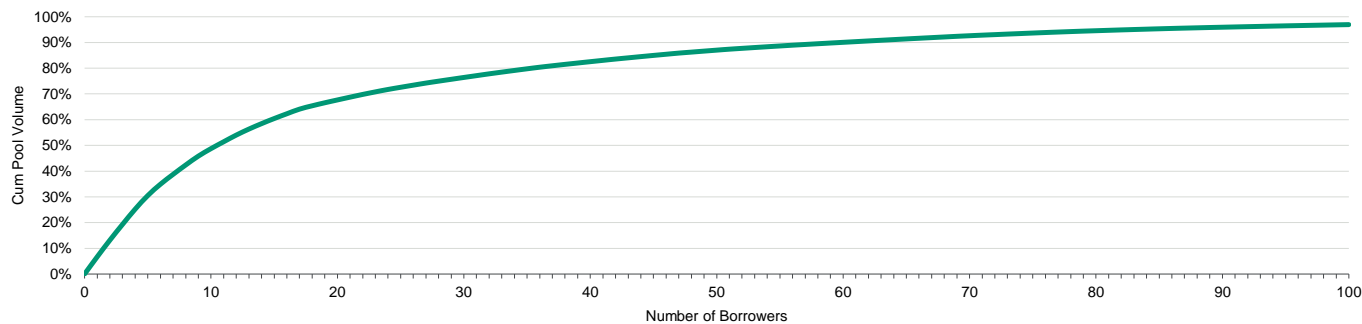
Pool distribution by country exposure rating



Source: Moody's Investors Service, issuer data

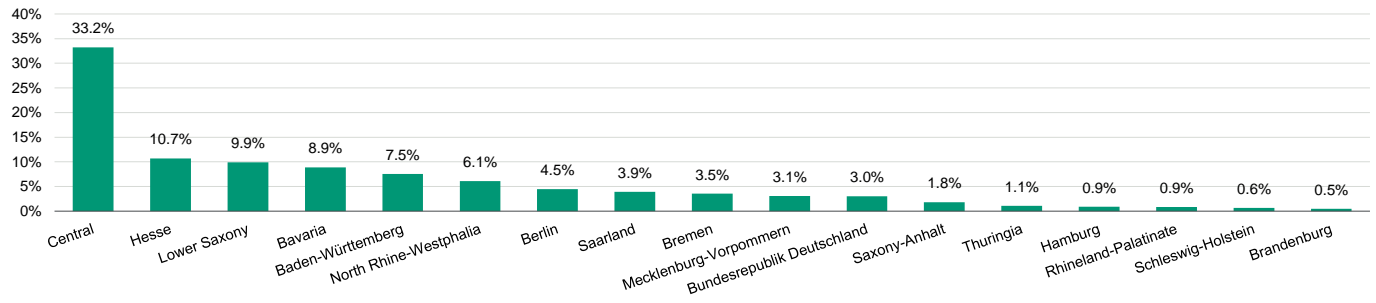
Exhibit D

Borrower concentration



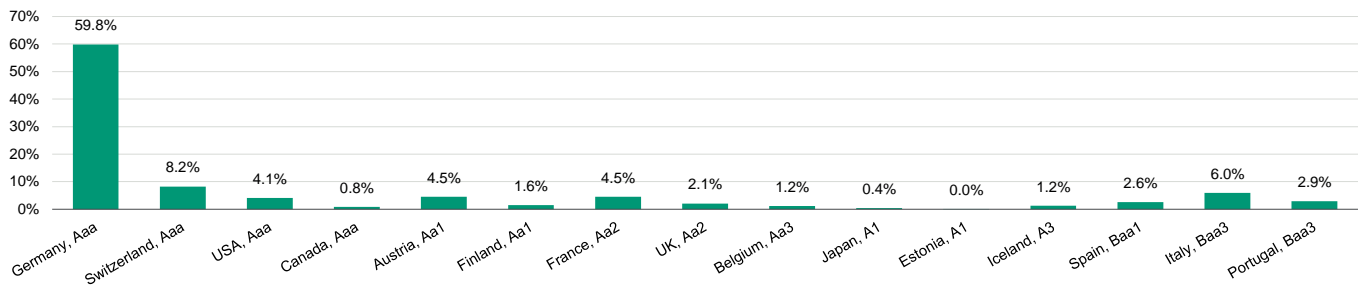
Source: Moody's Investors Service, issuer data

**Exhibit E**  
**Main country regional distribution**



Source: Moody's Investors Service, issuer data

**Exhibit F**  
**Distribution by country exposure, rating**



Source: Moody's Investors Service, issuer data

### Substitute assets

Of the cover assets, €88.2 million (0.9%) are substitute assets.

### Cover pool monitor

Pursuant to the *Pfandbrief* Act, the regulator (BaFin) has appointed a cover pool monitor (*Treuhänder*). A cover pool monitor is responsible for monitoring various cover pool operations. (See "Moody's related publications: Covered Bond Legal Frameworks")

### Cover pool analysis

Our credit analysis of the pool takes into account specific characteristics of the pool, as well as legal risks.

### Primary cover pool analysis

We calculate the collateral score using a multifactor model that is created through a Monte Carlo simulation. Our analysis takes into account, among other factors, the impact of concentration on borrower, regional and country levels, as well as the credit quality of the individual borrowers.

For this programme, the collateral score of the current pool is 5.8%, which is less than the average collateral score in other German public sector covered bonds. (For details, see "Moody's related publications - Moody's Global Covered Bonds Monitoring Overview: Q2 2018")

From a credit perspective, we view the following characteristics of the cover assets as positive:

- » All assets are performing and no loan is in arrears as of the cut-off date of this report
- » The obligors and/or the guarantors are generally of high credit quality

From a credit perspective, we regard the following portfolio characteristics as negative:

- » The high regional concentration of the cover pool in Central Germany
- » The cover pool also has high obligor concentration risk since 48.7% of the cover pool assets are loans to the 10 biggest borrowers amounting to €4.6 billion

## Comparables

Exhibit 7

## Comparables - Commerzbank AG and other German public sector covered bond deals

PROGRAMME NAME	Commerzbank AG - Public-Sector Covered Bonds	Deutsche Pfandbriefbank AG - Public-Sector Covered Bonds	Deutsche Hypothekbank (Actien-Gesellschaft) - Public-Sector Covered Bonds	UniCredit Bank AG - Public-Sector Covered Bonds
<b>Overview</b>				
Programme is under the law	Pfandbrief Act	Pfandbrief Act	Pfandbrief Act	Pfandbrief Act
Main country in which collateral is based	Germany	Germany	Germany	Germany
Country in which issuer is based	Germany	Germany	Germany	Germany
Total outstanding liabilities	8,042,506,323	12,952,850,000	3,775,124,508	4,069,845,226
Total assets in the Cover Pool	9,530,961,038	15,508,024,044	4,017,127,390	5,376,975,075
Issuer name	Commerzbank AG	Deutsche Pfandbriefbank AG	Deutsche Hypothekbank (Actien-Gesellschaft)	UniCredit Bank AG
Issuer CR assessment	A1(cr)	Unpublished	Baa2(cr)	A1(cr)
Group or parent name	n/a	0	Norddeutsche Landesbank GZ	n/a
Group or parent CR assessment	n/a	n/a	Baa2(cr)	n/a
Main collateral type	Public Sector	Public Sector	Public Sector	Public Sector
Collateral types	Public Sector 99%, Residential 0% Commercial 0%, Other/Supplementary assets 1%	Public Sector 100%, Residential 0% Commercial 0%, Other/Supplementary assets 0%	Public Sector 100%, Residential 0% Commercial 0%, Other/Supplementary assets 0%	Public Sector 100%, Residential 0% Commercial 0%, Other/Supplementary assets 0%
<b>Ratings</b>				
Covered bonds rating	Aaa	Aa1	Aa2	Aaa
Entity used in Moody's EL & TPI analysis	Commerzbank AG	Deutsche Pfandbriefbank AG	Deutsche Hypothekbank (Actien-Gesellschaft)	UniCredit Bank AG
CB anchor	CR Assessment + 1 notch	CR Assessment + 1 notch	CR Assessment + 1 notch	CR Assessment + 1 notch
CR Assessment	A1(cr)	Unpublished	Baa2(cr)	A1(cr)
SUR / LT Deposit	A1	Unpublished	Baa2	A2
Unsecured claim used for Moody's EL analysis	Yes	Yes	Yes	Yes
<b>Value of Cover Pool</b>				
Collateral Score	5.8%	11.9%	7.2%	3.5%
Collateral Score excl. systemic risk	n/a	n/a	n/a	n/a
Collateral Risk (Collateral Score post-haircut)	3.2%	6.0%	3.6%	1.9%
Market Risk	9.5%	6.4%	8.7%	6.3%
<b>Over-Collateralisation Levels</b>				
Committed OC*	2.0%	2.0%	2.0%	2.0%
Current OC	14.5%	16.3%	7.9%	35.0%
OC consistent with current rating	4.5%	5.0%	3.0%	1.0%
Surplus OC	10.0%	11.3%	4.9%	34.0%
<b>Timely Payment Indicator &amp; TPI Leeway</b>				
TPI	High	High	High	High
TPI Leeway	4	Not Applicable	2	4
Reporting date	31 December 2018	30 September 2018	30 September 2018	28 September 2018

Source: Moody's Investors Service

### Additional cover pool analysis

#### Legal risks for assets outside of Germany

In the event of the issuer's insolvency, we believe that cover pool assets outside of Germany would be less protected against claims of the issuer's other creditors than would be assets in Germany. In particular, we have identified and analysed the following scenarios:

- » Claims against borrowers outside of Germany or loans not governed by German law: In the case of loans not governed by German law, the borrower might be able to exercise set-off, thereby reducing the amount that would be payable to the benefit of covered bondholders. Loans outside of Germany account for 40.2% of the cover pool. However, borrower set-off risk is low because Commerzbank AG neither takes deposits nor acts as a swap counterparty for borrowers outside of Germany.
- » Loans to borrowers outside of the European Economic Area (EEA): All of the loans are granted to borrowers within the EEA or guaranteed by a public-sector entity within the EEA. If this were to change, in addition to the above risk, the cover pool assets might not be available to the covered bondholders on a priority basis because other (unsecured) creditors of the issuer might successfully access the assets in the cover pool. These actions might result in lower recovery, owing, for example, to secondary proceedings commenced under the respective domestic law.

### Methodology and monitoring

The primary methodology we use in rating the issuer's covered bonds is "Moody's Approach to Rating Covered Bonds", published in February 2019. Other methodologies and factors that may have been considered in the rating process can also be found on <http://www.moodys.com>. In addition, we publish a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at [www.moodys.com/SFQuickCheck](http://www.moodys.com/SFQuickCheck).

We expect the issuer to deliver certain performance data to us on an ongoing basis. In the event that this data is not made available to us, our ability to monitor the ratings may be impaired. This lack of data availability could negatively affect the ratings or, in some cases, our ability to continue to rate the covered bonds.

## Moody's related publications

### Rating Methodology

- » [Moody's Approach to Rating Covered Bonds, February 2019 \(1154442\)](#)

### Special Comments

- » [Covered Bonds - Global: 2019 Outlook, December 2018 \(1141185\)](#)
- » [Covered Bonds - Sector update - Q4 2018: Harmonisation takes shape in Europe; first covered bonds issued in Japan](#)

### Performance Overview

- » [Commerzbank AG - Public Sector Covered Bonds \(SF479312\)](#)

### Credit Opinion

- » [Commerzbank AG](#)

### Webpages

- » Covered Bonds: [www.moodys.com/coveredbonds](http://www.moodys.com/coveredbonds)
- » Covered Bond Legal Frameworks: [www.moodys.com/Pages/CoveredBondLegalFrameworks.aspx](http://www.moodys.com/Pages/CoveredBondLegalFrameworks.aspx)

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