

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Commerzbank's long-term deposit, issuer and senior unsecured debt ratings, changes outlook to positive

24 Apr 2024

Baseline Credit Assessment also affirmed at baa2

Frankfurt am Main, April 24, 2024 -- Moody's Ratings (Moody's) has today affirmed all long- and short-term ratings and rating assessments of Commerzbank AG (Commerzbank), including its A1/P-1 long- and short-term deposit ratings, its A2 long-term senior unsecured debt and issuer ratings and its Baa2 junior senior unsecured debt ratings. The outlook on the long-term deposit, issuer and senior unsecured debt ratings has been changed to positive from stable.

The rating agency further affirmed Commerzbank's subordinated debt ratings at Baa3 as well as all of its P-1 short-term ratings. Concurrently, the bank's baa2 Baseline Credit Assessment (BCA) and Adjusted BCA have been affirmed as well as the bank's A1(cr)/P-1(cr) long- and short-term Counterparty Risk Assessments and its A1/P-1 long- and short-term Counterparty Risk Ratings (CRRs).

For a list of all affected ratings and assessments, please refer to the end of this press release.

RATINGS RATIONALE

--- AFFIRMATION OF THE BCA AND ADJUSTED BCA

The affirmation of Commerzbank's baa2 BCA and Adjusted BCA reflects the bank's continued sound and resilient fundamental credit profile, supported by diversified businesses in Germany and Poland, including retail and corporate banking. During the now completed first phase of its medium-term business transformation, the bank's improved risk-adjusted profitability has successfully helped mitigate extraordinarily high legal provisions in Poland.

Going forward, Moody's expects that Commerzbank's meaningfully reduced expense

base should allow the bank to safeguard profitability in times of temporarily higher inflation and weaker macroeconomic growth prospects. Further, higher-for-longer interest rates have improved the prospects for higher returns within the bank's core lending businesses conducted in its retail and corporate banking segments.

The affirmation takes account of Commerzbank's sound and sustained asset quality over the past few years, despite a challenging operating environment while also considering meaningful cash coverage for legal risks stemming from legacy foreign currency loans granted in Poland, which remains a tail risk for the group. It further reflects Commerzbank's solid capitalisation levels, providing meaningful headroom over regulatory capital requirements, which the rating agency expects to be largely maintained, despite significantly higher pay-out ratios. The baa2 BCA also reflects the bank's only moderate reliance on market funding and its high quality deposit base.

--- AFFIRMATION OF LONG-TERM RATINGS

The affirmation of Commerzbank's long-term ratings reflects the affirmation of its BCA and Adjusted BCA as well as the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis in assessing the bank's existing volume of loss-absorbing debt and the resulting loss severity for its different debt classes. For deposits and senior unsecured debt, this continues to lead to three and two notches of rating uplift from the bank's baa2 Adjusted BCA, respectively, prior to government support. For junior senior unsecured debt, Moody's Advanced LGF analysis continues to lead to no rating uplift, while for subordinated debt, the Advanced LGF analysis continues to lead to a one-notch deduction from the bank's baa2 Adjusted BCA.

Moody's also maintained its assumption of a moderate probability of government support for junior depositors and senior unsecured creditors, in case of need. This assumption continues to lead to one notch of additional rating uplift to the deposit, issuer and senior unsecured debt ratings of the bank, and its subsidiaries and branches, where applicable. For the bank's junior senior unsecured debt, its subordinated debt and hybrid instruments, the rating agency continues to believe there is only a low potential for government support and these ratings, therefore, do not benefit from any government support uplift.

--- POSITIVE OUTLOOK

The positive outlook on the bank's long-term deposit, issuer and senior unsecured debt ratings reflects the possibility that Commerzbank's continued progress in executing on its strategic plan could result in a sustainably improved financial profile, that in time would support consideration of an upward rating shift.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Commerzbank's long-term ratings could be upgraded as result of an upgrade of its

BCA. The bank's senior unsecured and lower-ranking instrument classes could also be upgraded in case of material additional volumes of bail-in-able instruments being issued, such that it results in additional rating uplift from Moody's Advanced LGF analysis.

The BCA could be upgraded if the bank makes further progress towards its medium-term targets, such that it at least maintains its current intrinsic financial strength.

Commerzbank's ratings could be downgraded as a result of a downgrade of its BCA, or fewer notches of rating uplift from Moody's Advanced LGF analysis. The BCA could be downgraded if Commerzbank suffers a sudden and sharp reversal in moving towards meeting its strategic milestones, particularly if it suffers a pronounced weakening in its solvency.

Downward rating pressure on instruments ranking above subordinated debt could also result from a sustained decrease in the volume of bail-inable debt relative to the bank's tangible banking assets, leading to a higher loss severity of Commerzbank's various liability classes at failure and potentially resulting in a lower rating uplift as a result of Moody's Advanced LGF analysis.

LIST OF AFFECTED RATINGS

Issuer: Commerzbank AG

..Affirmations:

....LT Counterparty Risk Rating (Foreign Currency), Affirmed A1

....LT Counterparty Risk Rating (Local Currency), Affirmed A1

....ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

....ST Counterparty Risk Rating (Local Currency), Affirmed P-1

....LT Bank Deposits (Foreign Currency), Affirmed A1, outlook changed to POS from STA

....LT Bank Deposits (Local Currency), Affirmed A1, outlook changed to POS from STA

....ST Bank Deposits (Foreign Currency), Affirmed P-1

....ST Bank Deposits (Local Currency), Affirmed P-1

....LT Counterparty Risk Assessment, Affirmed A1(cr)

....ST Counterparty Risk Assessment, Affirmed P-1(cr)

....LT Issuer Rating, Affirmed A2, outlook changed to POS from STA

...Baseline Credit Assessment, Affirmed baa2

...Adjusted Baseline Credit Assessment, Affirmed baa2

....Senior Unsecured (Foreign Currency), Affirmed A2, outlook changed to POS from STA

....Senior Unsecured (Local Currency), Affirmed A2, outlook changed to POS from STA

...Senior Unsecured Medium-Term Note Program (Foreign Currency), Affirmed (P)A2

...Senior Unsecured Medium-Term Note Program (Local Currency), Affirmed (P)A2

...Junior Senior Unsecured (Foreign Currency), Affirmed Baa2

...Junior Senior Unsecured (Local Currency), Affirmed Baa2

....Junior Senior Unsecured Medium-Term Note Program (Foreign Currency), Affirmed (P)Baa2

....Junior Senior Unsecured Medium-Term Note Program (Local Currency), Affirmed (P)Baa2

...Subordinate (Foreign Currency), Affirmed Baa3

...Subordinate (Local Currency), Affirmed Baa3

...Subordinate Medium-Term Note Program (Foreign Currency), Affirmed (P)Baa3

...Subordinate Medium-Term Note Program (Local Currency), Affirmed (P)Baa3

...Preferred Stock Non-cumulative (Foreign Currency), Affirmed Ba2 (hyb)

...Preferred Stock Non-cumulative (Local Currency), Affirmed Ba2 (hyb)

....Preferred Stock Non-cumulative Medium-Term Note Program (Foreign Currency), Affirmed (P)Ba2

....Preferred Stock Non-cumulative Medium-Term Note Program (Local Currency), Affirmed (P)Ba2

...Commercial Paper (Local Currency), Affirmed P-1

...Other Short Term (Foreign Currency), Affirmed (P)P-1

...Other Short Term (Local Currency), Affirmed (P)P-1

..Outlook Actions:

...Outlook, Changed To Positive From Stable

Issuer: Commerzbank AG, London Branch

..Affirmations:

...LT Counterparty Risk Rating (Foreign Currency), Affirmed A1

...LT Counterparty Risk Rating (Local Currency), Affirmed A1

...ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

...ST Counterparty Risk Rating (Local Currency), Affirmed P-1

...LT Counterparty Risk Assessment, Affirmed A1(cr)

...ST Counterparty Risk Assessment, Affirmed P-1(cr)

...Commercial Paper (Foreign Currency), Affirmed P-1

..Outlook Actions:

...Outlook, Changed To Positive From Stable

Issuer: Commerzbank AG, New York Branch

..Affirmations:

...LT Counterparty Risk Rating (Foreign Currency), Affirmed A1

...LT Counterparty Risk Rating (Local Currency), Affirmed A1

...ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

...ST Counterparty Risk Rating (Local Currency), Affirmed P-1

...LT Counterparty Risk Assessment, Affirmed A1(cr)

...ST Counterparty Risk Assessment, Affirmed P-1(cr)

...Senior Unsecured Medium-Term Note Program (Local Currency), Affirmed (P)A2

...Subordinate Medium-Term Note Program (Local Currency), Affirmed (P)Baa3

...Other Short Term (Local Currency), Affirmed (P)P-1

..Outlook Actions:

...Outlook, Changed To Positive From Stable

Issuer: Commerzbank Finance & Covered Bond S.A.

..Affirmations:

...LT Counterparty Risk Rating (Foreign Currency), Affirmed A1

...LT Counterparty Risk Rating (Local Currency), Affirmed A1

...ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

...ST Counterparty Risk Rating (Local Currency), Affirmed P-1

...LT Counterparty Risk Assessment, Affirmed A1(cr)

...ST Counterparty Risk Assessment, Affirmed P-1(cr)

...LT Issuer Rating (Local Currency), Affirmed A2, outlook changed to POS from STA

...Baseline Credit Assessment, Affirmed baa2

...Adjusted Baseline Credit Assessment, Affirmed baa2

..Outlook Actions:

...Outlook, Changed To Positive From Stable

Issuer: Dresdner Bank AG

..Affirmations:

...Senior Unsecured (Foreign Currency), Affirmed A2, outlook changed to POS from STA (assumed by Commerzbank AG)

...Senior Unsecured (Local Currency), Affirmed A2, outlook changed to POS from STA (assumed by Commerzbank AG)

...Junior Senior Unsecured (Foreign Currency), Affirmed Baa2 (assumed by Commerzbank AG)

...Junior Senior Unsecured (Local Currency), Affirmed Baa2 (assumed by Commerzbank AG)

...Subordinate (Foreign Currency), Affirmed Baa3 (assumed by Commerzbank AG)

...Subordinate (Local Currency), Affirmed Baa3 (assumed by Commerzbank AG)

..Outlook: NOO

Issuer: Commerzbank U.S. Finance Inc.

..Affirmations:

...Backed Senior Unsecured Medium-Term Note Program (Local Currency), Affirmed (P)A2

...Backed Commercial Paper (Local Currency), Affirmed P-1

..Outlook: NOO

Issuer: Dresdner U.S. Finance Inc.

..Affirmations:

...Backed Commercial Paper (Local Currency), Affirmed P-1

..Outlook: NOO

Issuer: Dresdner Funding Trust I

..Affirmations:

...Preferred Stock Non-cumulative (Foreign Currency), Affirmed Baa3 (hyb)

..Outlook: NOO

Issuer: Hypothekenbank Frankfurt AG

..Affirmations:

...Junior Senior Unsecured (Local Currency), Affirmed Baa2 (assumed by Commerzbank AG)

..Outlook: NOO

Issuer: RHEINHYP Rheinische Hypothekenbank AG

..Affirmations:

...Junior Senior Unsecured (Local Currency), Affirmed Baa2 (assumed by Commerzbank AG)

..Outlook: NOO

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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