

ISSUER COMMENT

17 February 2023



Contacts

Swen Metzler, CFA +49.69.70730.762
 VP-Sr Credit Officer
 swen.metzler@moodys.com

Alexander Hendricks, +49.69.70730.779
 CFA
 Associate Managing Director
 alexander.hendricks@moodys.com

Carola Schuler +49.69.70730.766
 MD-Banking
 carola.schuler@moodys.com

» *Contacts continued on last page*

Commerzbank AG

Decade-high profit supports ambitious strategic and financial targets

On 16 February, [Commerzbank AG](#) (A1/A2 stable, baa2¹) reported decade-high profits of €1.4 billion for 2022 versus €430 million in 2021. The results indicate that Commerzbank restored its earnings capacity, which allows it to absorb unexpected risks without weakening capital, a credit positive.

For 2023, we believe Commerzbank can achieve net income well above last year's level², and thus approach a return on assets (ROA) of more than 40 basis points. The bank is well on track to achieve its targeted 7.3% return on tangible equity by 2024 compared with 4.9% for 2022. Increased revenue last year, supported by strong net interest income growth and tight cost control, offset higher credit costs and extraordinary provisions related to [unresolved litigation risk](#) in Poland.³

Commerzbank will return capital to shareholders for the first time since 2018 and pay out 30% of its 2022 net income, including a dividend of €0.20 per share and a €122 million buyback program. This year, the bank expects to increase shareholder payments to 50% (subject to various conditions)⁴, given additional earnings upside mainly tied to interest rate increases this year and the delayed pass-through of higher rates for deposits (so-called deposit beta).

Now in the second year of its four-year Strategy 2024 transformation plan, Commerzbank has booked nearly all of the €2.1 billion total restructuring charges, reduced its domestic workforce by around one third and closed around half of its domestic branches. For the rest of the four-year strategic overhaul, Commerzbank will intensify its focus on profitable customer businesses and maintain strong cost discipline to achieve a 60% cost-to-income ratio by 2024, down from 69% in 2022.

Commerzbank improved its capitalization amid the challenges of the pandemic and energy crisis. At year-end 2022, its Common Equity Tier 1 (CET1) capital ratio was 14.1%, up from 13.6% in 2021 and 13.4% at the end of 2019, driven by retained earnings and a 3.4% year-over-year decline in risk-weighted assets (RWAs) to €169 billion from €175 billion in 2021 and €182 billion in 2019. Better capital efficiency in the corporate client segment, which is a focal point of its strategic overhaul, supported the improvement. In 2022, the average corporate client profitability as a percent of allocated RWAs increased to 6.1% from 5.2% in 2021 and 4.6% in 2020.

We expect that Commerzbank will continue operating with a CET1 capital ratio of more than 14% and maintain a significant capital cushion over going-concern Pillar 2 requirements, which were 466 basis points at the end of 2022. [Germany's new capital requirements](#),

applicable since 1 February, increased the bank's minimum required capital by around 55 basis points, from a total CET1 requirement of 9.48% at year-end 2022. The regulatory requirement will increase by an additional 6 basis points once the UK countercyclical buffer requirement becomes effective in July.

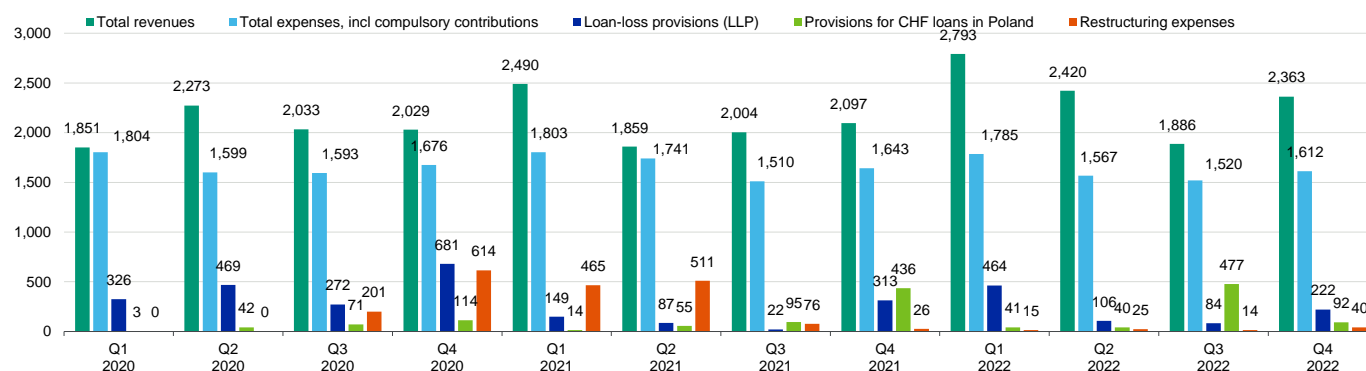
For 2022, Commerzbank reported around 12% higher revenues of €9.5 billion, up from €8.5 billion in 2021, which helped to digest extraordinary expenses of around €1 billion.⁵ The improvement was mainly driven by higher net interest income which increased by 36% to €6.3 billion from €4.8 billion over the same period, reflecting strong growth in all business segments as a result of higher loans and net interest margins.

Commerzbank targets total operating costs of around €6 billion at the end of its transformation by 2024. For 2022, the bank reported total expenses of €6.5 billion versus €6.7 billion in 2021, reflecting the balance of around 6% lower operating expenses of €5.8 billion, offset by around 37% higher compulsory contributions (including bank levies, depositor and institutional protection schemes) of €642 million. We expect Commerzbank to maintain strong cost discipline to balance upward pressure on operating expenses, including the bank's 4Q 2022 reintroduction of variable compensation and continued digital investment needs.

Exhibit 1

Barring extraordinary charges, Commerzbank's higher revenue and lower expenses improved its earnings capacity

Data in € millions



*Total expenses include operating costs and compulsory contributions such as bank levy and contributions to deposit guarantee schemes.

Sources: Commerzbank and Moody's Investors Service

Commerzbank's 2022 results were also supported by moderate cost of risk (i.e., loan loss provisions/gross loans). More than 40% of the cost-of-risk increase to 33 basis points from 22 basis points in 2021 reflected the bank's direct exposure to Russia. For 2022, Commerzbank reported loan loss provision of €876 million, up from €570 million in 2021. At year-end 2022, Commerzbank reduced its direct exposure to Russia by around 60% to €744 million at the end of 2022, compared with around €1.87 billion as of 18 February 2022. Commerzbank's nonperforming exposure ratio increased to 1.1% from 0.9% over the same period, largely driven by its corporate lending activities, including automotive and energy/utility firm exposures that are most vulnerable to higher energy costs, and accounted for 2.7% and 2.1% of its total loan portfolio at year-end 2022. We believe that the bank's generic reserve of €482 million in accordance with international accounting standard IFRS9 (so called top-level adjustment) provides additional cover for future uncertainties.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Moody's related publications

Issuer Comments

- » [Commerzbank's strategic transformation on track to achieve ambitious goals by 2024](#), 18 February 2022
- » [Additional provision on Swiss franc mortgage loans in Poland will burden 2021 earnings](#), 25 January 2022
- » [Restructuring charge aims to improve long-term profitability, but will burden 2020 earnings](#), 5 January 2021

Issuer In-Depth

- » [Digital overhaul is pivotal to improving profitability](#), 22 March 2021

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- ¹ The ratings shown are Commerzbank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.
- ² Assuming no significant additional charges at Commerzbank's majority-owned subsidiary in Poland, [mBank S.A.](#) (A3 review for downgrade, baa3).
- ³ At the end of 2022, mBank set aside €1.4 billion provisions for legal risks on €2.5 billion of Swiss-franc-denominated mortgage loans, translating into a coverage ratio of 54%.
- ⁴ These include positive net income in accordance with international accounting standards after coupon payment for Additional Tier 1 (AT1) debt securities and minorities, and maintaining a capital buffer of more than 200 basis points above its minimum CET1 capital ratio.
- ⁵ These relate to mBank and include around €650 million extraordinary provisions for Swiss franc-denominated mortgages and €278 million credit charges reflecting the economic impact of the Polish government's support package for retail borrowers, also termed as credit holidays.

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Contacts

Vasil Mrachkov +49.69.70730.867
Associate Analyst
vasil.mrachkov@moodys.com