

Research Update:

# Commerzbank AG Ratings Raised To 'A/A-1' On Strengthened Performance And Capitalization; Outlook Stable

August 7, 2024

*(Editor's Note: On Aug. 12, 2024, we republished this research update, originally published on Aug. 7, 2024, to correct the support section of the Ratings Score Snapshot. It now correctly states that ALAC support carries a two-notch uplift.)*

## Overview

- Commerzbank AG is delivering stronger and more consistent risk-adjusted profitability based on its enhanced solid domestic market position and diversification.
- We forecast Commerzbank to maintain sustainably higher capitalization even as it increases shareholder distributions.
- We therefore raised our long- and short-term issuer credit ratings on Commerzbank AG to 'A/A-1' from 'A-/A-2', and our long-term resolution counterparty rating to 'A+' from 'A'.
- Additionally, we raised our issue ratings on Commerzbank's senior unsecured (senior preferred), senior nonpreferred, tier 2, and additional tier 1 debt instruments by one notch.
- The stable outlook reflects our expectation that Commerzbank demonstrates sound financial and capital performance in the next two years.

## Rating Action

On Aug. 7, 2024, S&P Global Ratings raised its long- and short-term issuer credit ratings on Commerzbank AG to 'A/A-1' from 'A-/A-2'. The outlook is stable. We also raised our long-term resolution counterparty ratings on Commerzbank to 'A+' from 'A' and affirmed the 'A-1' short-term resolution counterparty ratings.

At the same time, we raised our issue ratings on Commerzbank's senior unsecured (senior preferred), senior nonpreferred, tier 2, and additional tier 1 debt instruments by one notch.

### PRIMARY CREDIT ANALYST

**Harm Semder**  
Frankfurt  
+ 49 693 399 9158  
harm.semder  
@spglobal.com

### SECONDARY CONTACT

**Benjamin Heinrich, CFA, FRM**  
Frankfurt  
+ 49 693 399 9167  
benjamin.heinrich  
@spglobal.com

## Rationale

**The rating action reflects the strengthening of Commerzbank's business model and financial performance.** On Aug. 7, 2024, Commerzbank reported a sound 8.9% return on tangible equity for half year 2024, consistent with its steadily improving performance over the past three years. We anticipate that Commerzbank will execute its strategy and demonstrate improved risk-adjusted profitability based on its enhanced solid domestic market position and diversification. The bank has delivered on most of its 2024 targets one year ahead of plan, finalizing its multiyear transformation and realignment of its business model. The transformation success is rooted in Commerzbank management's consistent execution of business realignments in recent years with deep cost and efficiency measures. Higher interest rates in the eurozone and in Poland also strongly support the transformation.

**Commerzbank's management will maintain sustainably higher capitalization while prudently balancing stronger earnings power with its high capital return policies.** We anticipate that Commerzbank will soundly manage sustainable higher capitalization, which we now consider a rating strength. We project that Commerzbank will maintain its risk-adjusted capital (RAC) ratio consistently above 10.0% in the medium term, and we forecast 10.0%-10.5% as of end-2026 down from 11.6% as of Dec. 31, 2023, as shareholder distributions offset stronger earnings. Commerzbank's capital return policy until 2027 guides for a capital return of 70% or more of net income (after deducting additional tier 1 coupons), but not more than the net result between 2025 and 2027. Our forecast also assumes a return to a more significant business growth. We also think that the bank's regulatory buffers remain solid given that its common equity tier 1 ratio was at 14.8% on June 30, 2024, which was 450 basis points above the 2024 maximum distributable amount and the bank's 13.5% medium-term target.

Solid going- and gone-concern capital, liquidity buffers, and good asset quality supporting the ratings underpins our assessment.

**mBank is taking significant steps to derisk its exposure to Swiss franc-indexed mortgages.** We expect the majority-owned Polish subsidiary mBank to incur significant costs from its exposure to legacy foreign currency-denominated mortgage loans because the associated litigation risk remains high. We view this primarily as a risk to mBank's earnings, rather than capital, since mBank delivers strong operational performance absent any exceptional costs. Following a series of negative rulings by local and European courts, mBank has set aside provisions for legal costs totaling Polish zloty 13.8 billion (about €3.2 billion) between 2018 and end-June 2024. In our base-case scenario, we expect high provisions in 2024 supported by waning high interest rates, and mBank should deliver strong underlying profits.

**Our negative comparable rating analysis adjustment in the rating reflects Commerzbank's need to further narrow the gap to higher rated peers.** The adjustment is informed by peer analysis and captures attributes not fully captured in our other rating factors. Specifically, we think the improvements outlined above in Commerzbank's business position, and capital and earnings position warrant a higher assessment for those individual factors but cumulatively merit a slightly weaker rating outcome. We consider that Commerzbank management's "Strategy 2027" targets, including a 11.5% return on tangible equity by 2027 (up from 7.7% as of end-2023) appear in line with peers and achievable from Commerzbank's business profile improvements in recent years. However, achieving these goals remains somewhat sensitive to market conditions beyond

management's control (notably falling interest rates), and from the development of legal risk at mBank.

## Outlook

The stable outlook reflects our expectation that Commerzbank demonstrates sound financial and capital performance in the next two years. We anticipate that Commerzbank will deliver toward its main strategic targets, maintain sound capital and liquidity, and further improve the bank's resilience to unexpected stress.

## Downside scenario

We could lower the ratings if Commerzbank's sustainable risk-adjusted profitability weakens due to unexpected material asset quality problems from economic and geopolitical risks. We could also consider lowering the rating if Commerzbank's RAC ratio falls sustainably below 10% due to single event risks or a more aggressive capital return policy.

## Upside scenario

A further upgrade is unlikely over the outlook horizon but could occur if Commerzbank strengthens its creditworthiness closer to peers with 'a-' group stand-alone credit profiles. We would look for evidence of franchise growth, stronger and more consistent performance, balanced divisional earnings contributions, and robust balance sheet metrics.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Stable/A-1	A-/Positive/A-2
SACP	bbb+	bbb
Anchor	bbb+	bbb+
Business position	Adequate (0)	Moderate (-1)
Capital and earnings	Strong (+1)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	-1	0
Support	+2	+2
ALAC support	+2	+2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss absorbing capacity. GRE--Government-related entity.

## Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- mBank S.A., June 3, 2024
- German Banks In 2024: Rating Resilience Despite Economic Underperformance, Jan. 24, 2024
- Commerzbank AG, Dec. 18, 2023

## Ratings List

### Upgraded

	To	From
<b>Commerzbank AG</b>		
Senior Unsecured	A	A-
Senior Unsecured	Ap	A-p
Senior Subordinated	BBB	BBB-
Subordinated	BBB-	BB+
Junior Subordinated	BB	BB-
Commercial Paper	A-1	A-2
<b>Commerzbank U.S. Finance Inc.</b>		
Commercial Paper	A-1	A-2
<b>Dresdner Funding Trust I</b>		
Junior Subordinated	BB	BB-

## Research Update: Commerzbank AG Ratings Raised To 'A/A-1' On Strengthened Performance And Capitalization; Outlook Stable

### Upgraded; CreditWatch/Outlook Action

	To	From
<b>Commerzbank AG</b>		
Issuer Credit Rating	A/Stable/A-1	A-/Positive/A-2

### Upgraded; Ratings Affirmed

	To	From
<b>Commerzbank AG</b>		
Resolution Counterparty Rating	A+/-/A-1	A/-/A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.