

ISSUER COMMENT

13 May 2022



Contacts

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

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

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

Commerzbank AG

Solid profits in 1Q22 despite provisions for Russia exposure

On 12 May, [Commerzbank AG](#) (A1 stable/A1 negative, baa2¹) announced a €298 million profit for first-quarter 2022, up from €133 million a year ago amid good performance across all segments and tight cost control. The results put Commerzbank on track to achieve its ambitious goals by 2024, a credit positive. The bank also expects to resume dividend payments of 30% of 2022 net income, subject to certain conditions.²

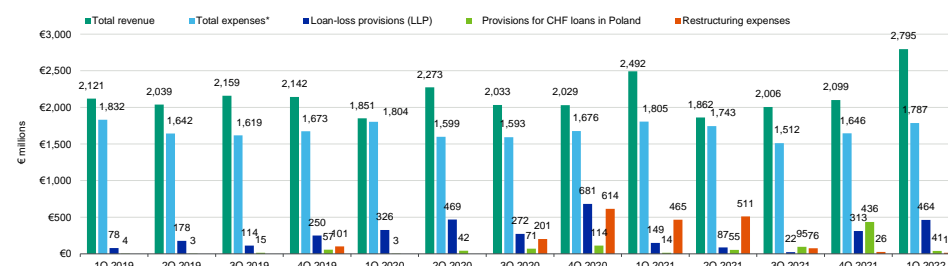
Commerzbank reported revenue of €2.8 billion in 1Q22, up 12% from the prior-year period, driven by higher net interest income of €1.4 billion (1Q21: €1.3 billion) and broadly stable net fee income of €972 million (1Q21: €959 million). The bank's subsidiary in Poland, [mBank S.A.](#) (A3 stable, baa3), greatly contributed to the increase in net interest income, reflecting the significant increase in local interest rates. However, Commerzbank's domestic retail and corporate activities also reported higher net interest income tied to the introduction of deposit pricing and stable loans. The attractive terms and conditions of the ECB's targeted longer-term refinancing operations (TLTRO) added €45 million to net interest income in 1Q22.

Commerzbank targets operating costs of around €5.3 billion at the end of its transformation by 2024, and €6.3 billion for 2022. Operating expenses of around €1.8 billion in the first quarter included €347 million compulsory expenses for bank levies and deposit insurance fees (see exhibit). Commerzbank only booked additional restructuring charges of €15 million in the quarter because it had already booked around 97% of the total expected restructuring charges by the end of last year.

Exhibit 1

Quarterly revenue exceeded quarterly expenses by around €1 billion in 1Q22, the largest difference since 2019

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 increased credit provisions to €464 million in 1Q22 from €149 million in the prior year after reassessing asset risks, which were largely related to Russia. As of 29 April, the bank had a €1.2 billion net exposure³ to Russia, around 36% lower than in mid-February and equivalent to around 5% of its Common Equity Tier 1 capital at 31 March 2022.⁴ Commerzbank also reported a €41 million provision in 1Q22 for outstanding Swiss franc-denominated mortgages in Poland, which brings its total coverage ratio for [unresolved litigation risk](#) at mBank to around 47%.

Weakening credit quality from its Russian exposures prompted specific credit provisions of €159 million, triggered by weaker ratings plus an additional generic reserve (so called top-level-adjustment, TLA) of €334 million, in line with international accounting standard IFRS 9. This brings Commerzbank's total coverage for these exposures to around 41%. The ladder component is included in its total TLA reserve of €713 million at the end of 1Q22 (2021: €523 million), which we consider a substantial buffer to cover unforeseen risks that could arise from a weakening economic recovery, supply shortages and rising inflation. Excluding the effect from direct Russian exposures, Commerzbank's underlying cost of risk⁵ dropped to around four basis points (2021: 22 basis points), in line with its nonperforming exposure ratio declining to 0.8% as of 1Q22 from 0.9% as of year-end 2021.

Commerzbank is well capitalized to achieve remaining targets of its transformation. As of 1Q22, its CET1 capital ratio was at 13.5% (2021: 13.6%), reflecting slightly lower capital and stable risk-weighted assets (RWAs) of €175 billion. The bank operates with significant headroom over going-concern Pillar 2 capital requirements, which were around 410 basis points as of 31 March 2022, down from 420 basis points in 2021. In the first quarter, Commerzbank further improved the capital efficiency⁶ in its Corporate Clients segment to 5.4% (2021: 5.2%), a focal point of its strategic overhaul.

Commerzbank announced a dividend payout ratio of 30% for 2022, which indicates that the bank is on track to achieve its objectives by 2024. Expected net income of at least €1 billion for 2022 is broadly consistent with a return on assets (ROA) of more than 20 basis points, and compares with an average ROA of 10 basis points during 2016-19.

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 the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.
- ² These conditions require achieving the bank's 2022 financial targets, 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.
- ³ Net exposure reflects the bank's gross exposure and the deduction of guarantees, mainly from state-controlled Export Credit Agencies.
- ⁴ In addition to the net exposure, Commerzbank's subsidiary Eurasija holds around €300 million deposits at the Russian central bank and clearing house.
- ⁵ Cost of risk is expressed as the ratio of loan loss provisions over gross loans.
- ⁶ In 2021, the average corporate client profitability as percent of allocated RWAs increased to 5.2% from 4.6% in 2020.

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 for the most updated credit rating action information and rating history.

© 2022 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 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 and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — 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.

REPORT NUMBER

1328121