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CREDIT OPINION
4 October 2023

Update

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Commerzbank AG

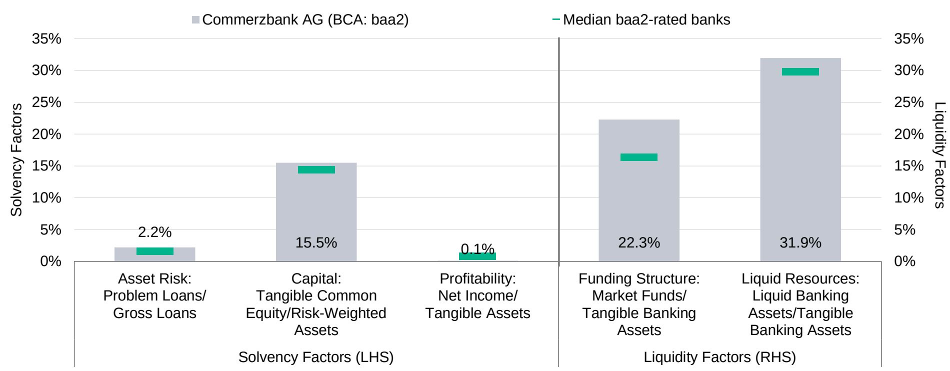
Update to credit analysis

Summary

Commerzbank AG's A1 deposit and A2 senior unsecured debt ratings reflect its baa2 Baseline Credit Assessment (BCA) and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, which incorporates the relative loss severity of a liability class and results in three notches of rating uplift for the deposit ratings and two notches of rating uplift for the senior unsecured debt ratings. We further incorporate a one-notch rating uplift resulting from government support, because we consider Commerzbank to be of domestic relevance for financial system stability given its market share and high interconnectedness.

Commerzbank's baa2 BCA reflects the bank's sound and resilient fundamental credit profile, supported by diversified businesses in Germany and Poland, including retail and corporate banking. Following the almost completed business transformation in Germany, the bank's improved risk-adjusted profitability mitigates continued legal provisions in Poland. Commerzbank's capitalization remains at a level with sufficient headroom over regulatory capital requirements. While the bank's conservative risk strategy will enable it to maintain a well-balanced corporate loan portfolio, the bank remains inherently linked to the health of the German corporate sector.

Exhibit 1
Rating Scorecard - Commerzbank AG - Key financial ratios



Source: Moody's Financial Metrics

RATINGS

Commerzbank AG

Domicile	Frankfurt am Main, Germany
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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

» Contacts continued on last page

Credit strengths

» Sound but moderately weakened asset quality driven by corporate clients, mitigated by solid coverage which also applies to still unresolved litigation risks from Swiss-franc mortgages at its Polish subsidiary

» Solid capital to cover for unforeseen risks, including sizeable buffers over regulatory minima requirements, balanced by shareholder-friendly capital return plan

» Sound liquidity, even after large repayments of extra-ordinary central bank funding (TLTRO), mitigated by moderate asset encumbrance

Credit challenges

» Development a track record of sustained, improved risk-adjusted profitability, following the almost completed multi-year transformation of its German operations

» Moderate market funding dependence balanced by sizeable and growing deposits

Outlook

» The stable outlook balances Commerzbank's successful strategic transformation with improved profitability and Germany's currently weak economic development as a result of structural challenges, higher interest rates and energy prices, which is threatening the country's industrial competitiveness. We expect that Commerzbank will maintain its conservative risk strategy, strong transformation management, and solid capitalization in light of its updated capital return plan, including dividends and share buy backs.

Factors that could lead to an upgrade

» Commerzbank's ratings could be upgraded as result of an upgrade of its BCA. Upward pressure on Commerzbank's BCA could be prompted by a sustained strengthening of its solvency profile, including the development of a strong track record maintaining its improved profitability without changing its risk appetite, further improvement in its risk-weighted capitalization and leverage ratios, and provided an improved visibility that its corporate customers can cope with structural challenges and higher interest rates.

» In addition, senior unsecured and subordinated instrument ratings could be upgraded if Commerzbank issued sizeable volumes of liabilities specifically designated to absorb losses in resolution.

Factors that could lead to a downgrade

» Downward pressure on Commerzbank's ratings could be exerted as a result of a downgrade of its BCA, or a reduction in the share of senior unsecured debt (and lower ranking volumes) outstanding, which could result in fewer notches of rating uplift from our Advanced LGF analysis.

» Downward pressure on Commerzbank's BCA could be exerted following a more than expected weakening of the operating environment in Germany; a material deterioration of its solvency profile, through a sizeable weakening of its asset quality or capital adequacy metrics or materially weaker profitability; or a meaningful deterioration of its liquidity profile.

Key indicators

Exhibit 2
Commerzbank AG (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	482.4	455.9	440.5	460.5	417.5	4.2[4]
Total Assets (USD Billion)	526.3	486.5	499.1	563.4	468.6	3.4[4]
Tangible Common Equity (EUR Billion)	26.9	25.7	23.8	22.8	24.9	2.2[4]
Tangible Common Equity (USD Billion)	29.4	27.4	27.0	27.9	28.0	1.4[4]
Problem Loans / Gross Loans (%)	2.2	2.2	1.7	2.0	1.6	1.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.5	15.2	13.2	12.4	13.3	13.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.4	19.5	15.6	18.5	13.8	17.2[5]
Net Interest Margin (%)	1.7	1.3	1.0	1.1	1.2	1.3[5]
PPI / Average RWA (%)	2.3	1.7	1.3	0.9	0.9	1.4[6]
Net Income / Tangible Assets (%)	0.4	-0.1	0.3	-0.1	0.3	0.2[5]
Cost / Income Ratio (%)	62.2	68.4	72.6	79.5	80.4	72.6[5]
Market Funds / Tangible Banking Assets (%)	24.8	22.3	28.1	26.9	21.4	24.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	34.4	31.9	28.9	34.0	26.9	31.2[5]
Gross Loans / Due to Customers (%)	83.4	84.7	95.1	85.1	89.7	87.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Commerzbank AG is one of Germany's largest commercial bank, which sizeable and comprehensive activities in the German and Polish financial markets. As of 30 June 2023, Commerzbank reported consolidated assets of €502 billion (2022: €477 billion), representing around 5% of Germany's total banking system.

Commerzbank's main business segments are Private and Small Business Customers (PSBC) and Corporate Clients (CC). Commerzbank commands strong market positions in financing German companies and in the foreign exchange and trade finance business. It also provides a wide range of capital market products and operates through a reduced network of around 400 branches in Germany by June 2023. Group-wide, i.e. including its Polish subsidiary mBank S.A. (Baa1 negative, ba1[1]), Commerzbank serves around 16.7 million private and small business customers, as well as around 26,000 corporate client groups in almost 40 countries.

For more information, please see Commerzbank's Issuer Profile, the German Banking System Profile and the German Banking System Outlook (published in March 2023).

Weighted Macro Profile of Strong+

Commerzbank's regional focus is on Germany (Aaa stable), Poland (A2 stable), reflecting the consolidation of mBank, in which Commerzbank holds a majority stake of 69.2%, and other European Union (EU) countries. These activities are key drivers for its Weighted Macro Profile of Strong+.

Detailed credit considerations

Sound but moderately weakened asset quality driven by corporate clients, mitigated by solid coverage which also applies to ongoing litigation risks in Poland

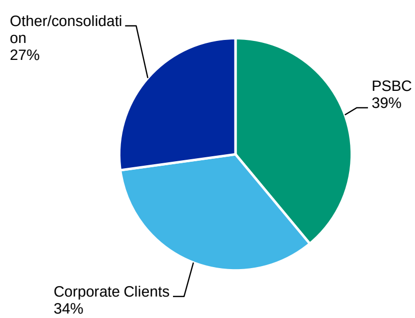
We assign a baa1 Asset Risk score to Commerzbank, two notches below the a2 initial score. The adjustment mainly captures the bank's moderate risk concentrations towards industries that are structurally challenged, such as automotive, energy/utilities, construction/paper and metal industries, within the bank's corporate portfolio, as well as the bank's exposures, although reduced, to potentially more vulnerable European and non-European countries.

At the end of June 2023, Commerzbank's €526 billion exposure at default (EaD) splits between two main segments, Private and Small Business Customers (PSBC, €205 billion) and Corporate Customer (CC, €178 billion), see Exhibit 3. The PSBC segment includes German private customers (€129 billion), the Polish activities from mBank (€47 billion), small-business clients (€28 billion), as well as Wealth

Management and Private Banking. Commerzbank's credit exposures, which arise from its CC segment, mainly include the bank's German Mittelstand activities (€80 billion), as well as exposures to large international corporates (€63 billion).

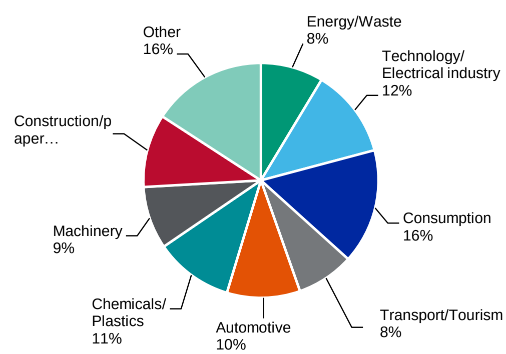
Exhibit 4 shows that Commerzbank's well-diversified €140 billion corporate exposures, which had benefited from a review under its transformation and performed very strongly during the pandemic and energy crisis. By nature of the bank's business model as a leading commercial bank, it includes sizeable exposures to vulnerable sectors like chemicals/plastics (11% of total), automotive (10%), construction/paper (10%), energy (9%), and machinery (9%), in aggregated accounting for around half of its total corporate credit exposures at end- June 2022. For 2023, we expect that the German economy will enter a mild recession which will lead to weakening asset quality. However, we believe that Commerzbank is well positioned to manage rising asset risks, reflecting its conservative risk policies and provisions, including so called top-level-adjustment (TLA) of €456 million at the end of June 2023 (2022: €482 million). Since the beginning of the military conflict in Ukraine, Commerzbank has reduced its Russian net exposure, i.e. after guarantees and cash, by 69% to €576 million, which arises from its wholly-owned bank subsidiary Eurasjia, based in Moscow.

Exhibit 3
Commerzbank's total exposures are evenly split among its two main segments
Data in percent as of June 2023



Source: Company reports, Moody's Investors Service

Exhibit 4
Commerzbank's well-diversified corporate exposures by sectors
Data in percent as of June 2023



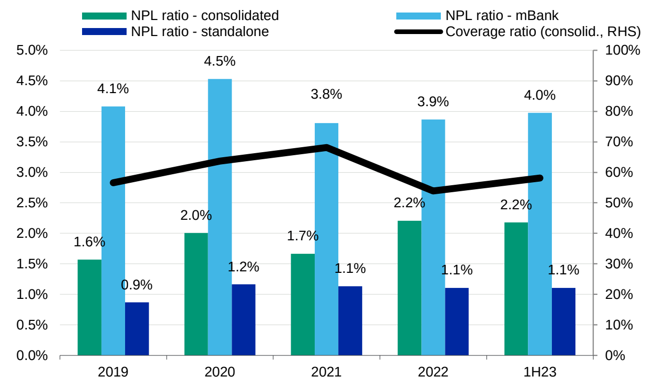
Source: Company reports, Moody's Investors Service

Although commercial real estate (CRE) is no longer considered a strategic asset class since the restructuring and wind-down of Eurohypo AG between 2012-16, Commerzbank has around €9.1 billion exposures, a relatively moderate exposure compared to its equity. The sharp increase in interest rates creates challenges to CRE property market values and makes refinancing more difficult, eroding asset quality. However, we believe that the tail risks are manageable for Commerzbank because the portfolio is almost exclusively in Germany with around 58% in prime locations, an average loan-to-value of 51%, and low problem loans of 2.2% at the end of June 2023.

Since the breakout of the pandemic, Commerzbank's asset quality has somewhat weakened, as reflected by its overall nonperforming loans ratio of 2.2% at the end of June 2023, compared with 1.6% in 2019 (Exhibit 5). This was mostly driven by the bank's corporate exposures, as demonstrated by its Stage 3 corporate loans (Exhibit 6). However, more recently, Stage 2 exposures have increased for both client groups, indicating rising financial challenges for private households as well as corporate customers.

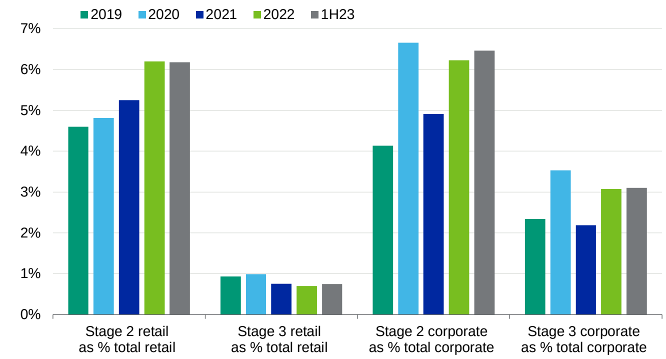
We believe that Commerzbank is able to manage these moderately rising asset risks by using its strong operating performance, which allows ample provisions. At June 2023, the bank's coverage ratio[2] has increased to around 58% from 54% in 2022, and included large TLA of €456 million (2022: €482 million).

Exhibit 5
Moderately weakening asset quality is driven by corporate lending, balanced by solid coverage for problem loans
Data in %



Source: Company reports, Moody's Investors Service

Exhibit 6
Stage 2 exposures are rising, while impaired (Stage 3) exposures remain stable
Data in %



Source: Company reports, Moody's Investors Service

Still unresolved but well covered litigation risks from CHF loans

Commerzbank continues to face unresolved litigation risk from Swiss franc-denominated (CHF) mortgages at mBank, which has repeatedly burdened the Frankfurt-based consolidated earnings by legal reserve buildings. The nonbinding opinion of the Advocate General of the European Court of Justice (ECJ) triggered as sizeable model adjustment and reassessment of litigation risk during the second quarter of 2023, bringing Commerzbank's total provisions to €1.7 billion at 30 June 2023, up from €1.4 billion in 2022. This means that Commerzbank's coverage ratio has increased to more than 75% of its remaining €2.2 billion exposure to CHF mortgages, one of the highest coverage we observe in Poland.

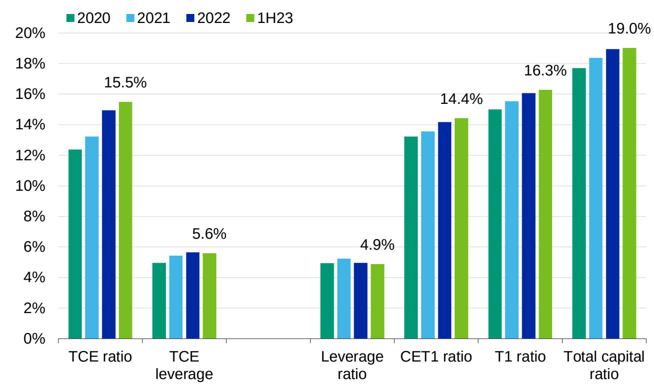
Solid capital buffers to cover for unforeseen risks, balanced by shareholder-friendly capital return plan

Commerzbank's assigned Capital score is a3, three notches below the initial score. The negative adjustment reflects our expectation of continued loan growth and risk-weighted assets, as well as moderate earnings retention because of the resumption of dividend payments and share buybacks. Our assessment also reflects the bank's moderate regulatory leverage ratio[3] of 4.9% as of June 2023 and solid buffers against the European Central Bank (ECB)'s more strict minimum capital requirements as set under its Supervisory Review and Evaluation Process (SREP).

Commerzbank managed to improve its capitalization during the transformation period of Strategy 2024, while resuming dividend payments and share buybacks. At the end of June 2023, the bank's reported Common Equity Tier (CET1) further improved to 14.4%, compared with 14.2% in 2022 (Exhibit 7). Similarly, our Tangible Common Equity (TCE) ratio has also gradually improved to 15.5%, from 12.4% in 2020 when the strategic overhaul started. Our capital ratio is somewhat higher because we include year-to-date earnings.

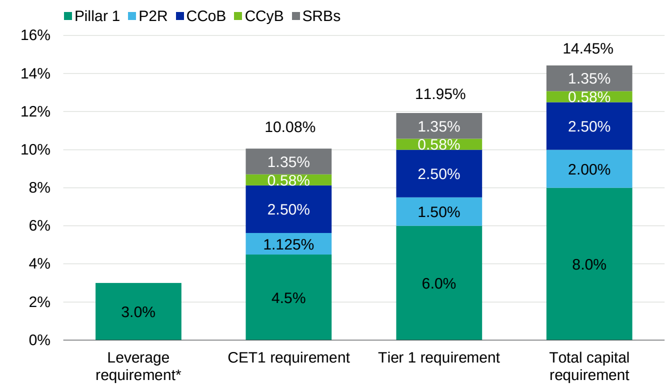
Commerzbank's updated capital return plan foresees a total pay-out ratio of more than 50% and up to 100% of its net income[4] for the years 2025-27, leading to moderate earnings retention. However, we expect that the bank will continue operating with a CET1 capital ratio of more than 13.5% and have solid capital headroom of at least 250 basis points over going concern Pillar 2 requirements, compared with 436 basis points at the end of June 2023 (Exhibit 8). The moderate decline from 466 basis points at the end of 2022 largely reflects the introduction of increased capital requirements in Germany, effective 1 February 2023, reflecting a countercyclical capital buffer (CCyB) requirement of 0.75% of domestic risk-weighted assets (RWAs) and an additional 2.0% buffer specific to RWAs for domestic loans backed by residential properties.

Exhibit 7
Commerzbank's capital ratios, grouped by Moody's versus regulatory view



Note: TCE = Tangible Common Equity, CET1 = Common Equity Tier 1 capital. *The TCE leverage ratio compares TCE to tangible banking assets.
Source: Company reports, Moody's Investors Service

Exhibit 8
Commerzbank comfortably exceeds its regulatory minimum requirements*



Note: *As of 30 June 2023, Commerzbank had a buffer of 436 bps over its Pillar 2 minimum CET1 requirement. P2R = Pillar 2 Requirement; CCoB = Capital Conservation Buffer; CCyB = Countercyclical Buffer; SRBs = Systemic Risk Buffers
Source: Company reports, Moody's Investors Service

The successful transformation and solid operating performance means that Commerzbank will return capital to shareholders for 2023 and beyond, up to 50% of its positive net income[5], and subject to achieving financial targets.

High profitability benefits from improved efficiency and higher interest rates, while continued litigation charges mask full capacity

Commerzbank's assigned Profitability score is ba2, four notches above its initial score. Our assessment takes into account the revenue and efficiency effects from the successful transformation. We believe that higher interest rates will continue to support the bank's net interest income, balancing a moderate increase in credit costs as the German economy's growth trajectory remains weak.

As per end June 2023, Commerzbank has practically completed its transition, as communicated under Strategy 2024. The bank has almost achieved the expected 10,000 gross staff reduction and reduced domestic branches to around 400, beyond its original plan of 450 by end-2022, triggering total restructuring charges of around €2.1 billion. Commerzbank now targets a return on tangible equity (ROTE) of at least 7% by 2024, which would position it in step with the EU average. The target is broadly consistent with return on assets (ROA) of around 40 basis points (bps), and compares with the bank's average of around nine bps between 2011 and 2019.

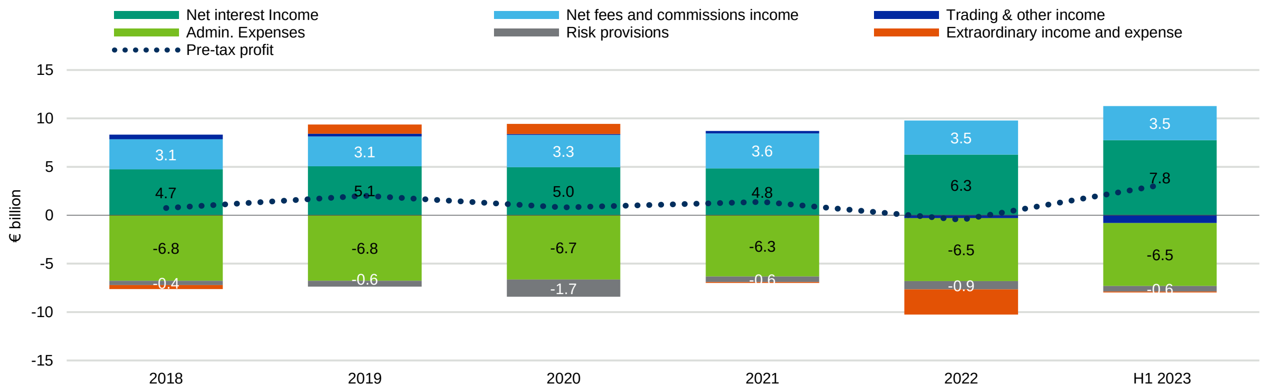
For the period January to June, Commerzbank reported strong operating performance, as demonstrated by the around 42% year-on-year (yoy) increase in net interest income to €4.1 billion, strongly offsetting the around 6% yoy decline in net fees to €1.8 billion. Higher revenue of €5.3 billion for the first half year (1H22: €5.2 billion), including €520 million litigation charges for CHF loans at mBank (1H22: €81 million), lower credit provisions of €276 million (1H22: €520 million), equivalent to 11 bps of gross loans, and around 3% higher operating expenses[6] of €2.9 billion (1H22: €2.9 million), triggered a pretax profit of €1.8 billion, up around 40% from the previous year period.

In 2022, Commerzbank reported 8.5% higher revenue of €9.5 billion, last achieved in 2014 and 2015. Higher interest rates supported the increase of the bank's net interest income, up 33% to €6.5 billion from the prior year, while net fees decreased by 2% to €3.5 billion. Over the same period, the bank's personnel and administrative expenses declined by 6% to €5.8 billion.[7] Commerzbank booked €876 million credit provisions, significantly higher than €570 million in 2021, around 35 bps and 23 bps of gross loans, respectively. Commerzbank's reported net income after tax of €1.4 billion for the year of 2022, compared with €354 million in 2021.

Exhibit 9

Commerzbank' stable business performance, tight cost control and moderate credit costs helped to offset restructuring charges and extraordinary provisions

Data in € billion



Source: Company reports and Moody's Investors Service

Commerzbank's 69.2% stake in mBank, its subsidiary in Poland, provides diversification to its earnings. However, rising provisions for litigation risk on Swiss franc mortgages and the economic impact on the Polish government's support package for retail borrowers, also termed as credit holidays, has severely impaired mBank's earnings contributions since 2020. Absent these extraordinary costs, we estimate that the Polish subsidiary adds between 30%-40% to Commerzbank's consolidated earnings, reflecting the higher rate environment in Poland and mBank's efficient operations, as demonstrated by a cost-to-income ratio of around 50%.

Moderate market funding dependence reflects sizeable and growing deposits

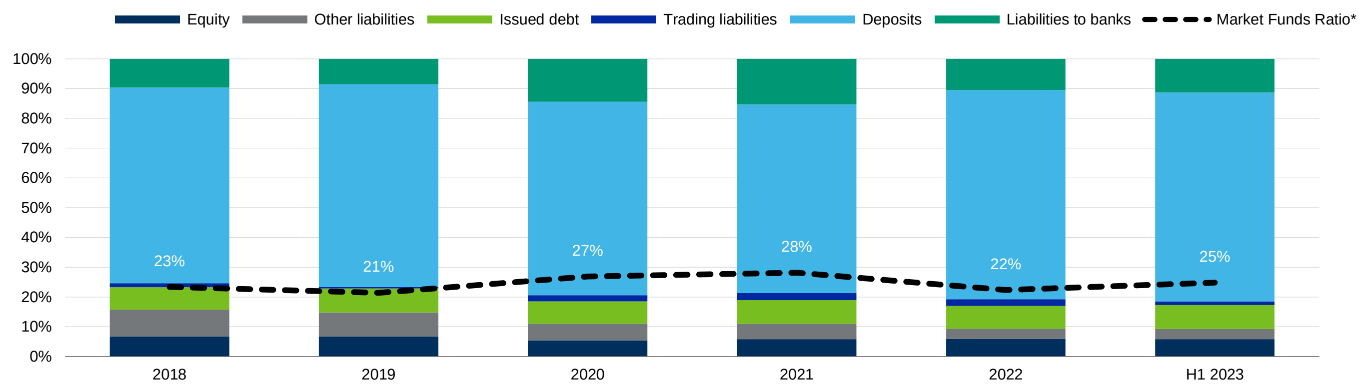
Commerzbank's assigned Funding Structure score is baa1, in line with the initial score, capturing our expectation of an unchanged moderate market funding dependence over the next 12-18 months, as well as our assessment that the bank's remaining €3.5 billion funding provided by the ECB's targeted long-term refinancing operations (TLTRO III) no longer materially impacts its Market Funds ratio.

Over the last couple of years, Commerzbank has significantly reduced refinancing risks, as demonstrated by an improved share of deposits which accounted for 55% of assets at the year-end 2021, compared with 49% in 2015. Over the same period, our Market Funds ratio also improved to 21.4% in 2019, compared with 28.3% in 2015. The bank's participation in the ECB's TLTRO program triggered an increase of the ratio to 26.9% in 2020 and 28.1% in 2021, reflecting total participation of €35.9 billion. Following the aggregate repayment of around €32 billion until the end of June 2023, the ratio improved to 24.8% (2022: 22.3%), leaving the bank with a remaining participation of €3.5 billion.

Exhibit 10

Commerzbank's Market Funds dependence improved in 2022, following the repayment of most of its central bank funding, and also benefited from continued deposit inflows

Liabilities in percent of tangible banking assets



Note: *Market Funds Ratio = Market funds/tangible banking assets.
Source: Company reports, Moody's Investors Service

At the end of June 2023, Commerzbank's funding benefited from around €308 billion customer deposits, an increase of 3% compared with year-end 2022, and accounting for 61.5% of its total liabilities (including equity; 2022: 62.7%). At the end of 2022 (latest available data), these deposits consisted of €160 billion granular retail deposits (2021: €150 billion), €108 billion of corporate deposits (2021: €85 billion), €22 billion from financial institutions (2021: 22 billion), and around €9 billion from the public sector (2021: €4 billion).

At 30 June 2023, Commerzbank comfortably exceeded its minimum requirements for own funds and eligible liabilities (MREL). The bank's overall MREL ratio, based on RWA, of 31.5% was around 4.1 percentage points higher than the total requirement of 27.4%, while it had subordinated liabilities[8], equivalent to 27.4% of RWA, thereby comfortably exceeding its 17.93% MREL subordination requirement. Further, Commerzbank's MREL leverage ratio of 9.5% was well above the requirement of 6.52% at that time. The Frankfurt-based MREL framework reflects a multiple point of entry (MPE) approach with separate resolution perimeters for its German entities and mBank.

Sound liquidity even after almost full repayment of central bank funding, mitigated by moderate asset encumbrance

Commerzbank's assigned Liquid Resources score is a3, one notch below the initial score. The downward adjustment considers our assessment of Commerzbank's asset encumbrance as a result of securities lending and issued covered bonds.

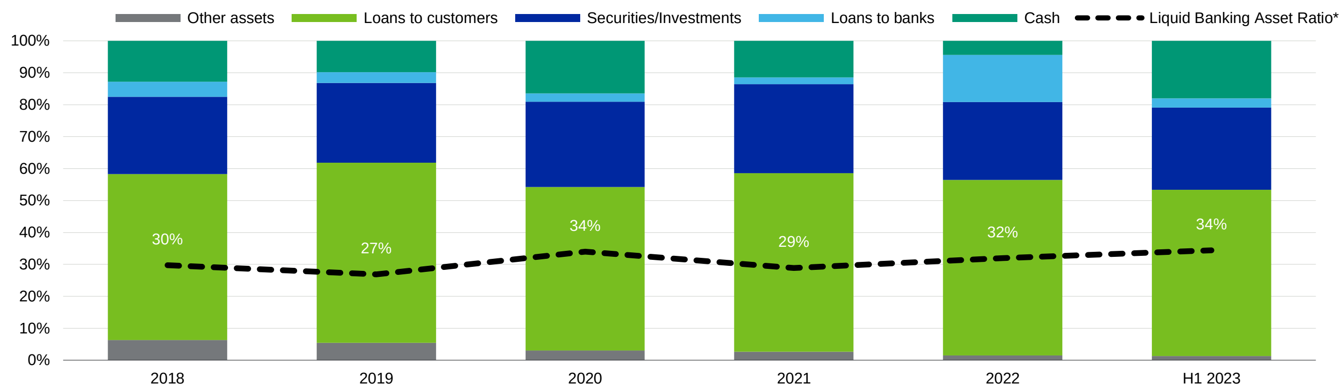
Commerzbank's liquidity benefits from a moderate gross loan-to-deposit ratio, at 83% at the end of June 2023 (2022: 85%), reflecting the absence of non-core exposures, balance sheet efficiency measures under its almost completed business transformation, and reduced client investment appetite following the pandemic, energy crisis, and now higher interest rates. At the end of June 2023, Commerzbank has almost in full repaid the participation in attractively priced ECB funding (TLTRO), and the bank's remaining volume of €3.5 billion is relatively small compared with assets.

Commerzbank's sound liquidity is expressed by our Liquid Banking Assets ratio, which has increased to 34.4% as of end-June 2023, compared with 31.9% in 2022, including reported cash of around €85 billion cash (2022: €75 billion) and €78 billion financial securities, excluding derivatives (2021: €71 billion). Our view is also supported by the bank's solid Liquidity Coverage Ratio (LCR) which Commerzbank reported at 128% for the second quarter of 2023, compared with 145% for Q4 2022 .[9]

Exhibit 11

Commerzbank's liquidity has improved despite the almost full repayment of central bank funding, reflecting deposit inflows and reduced client appetite for loans

Asset composition, in percent of tangible banking assets



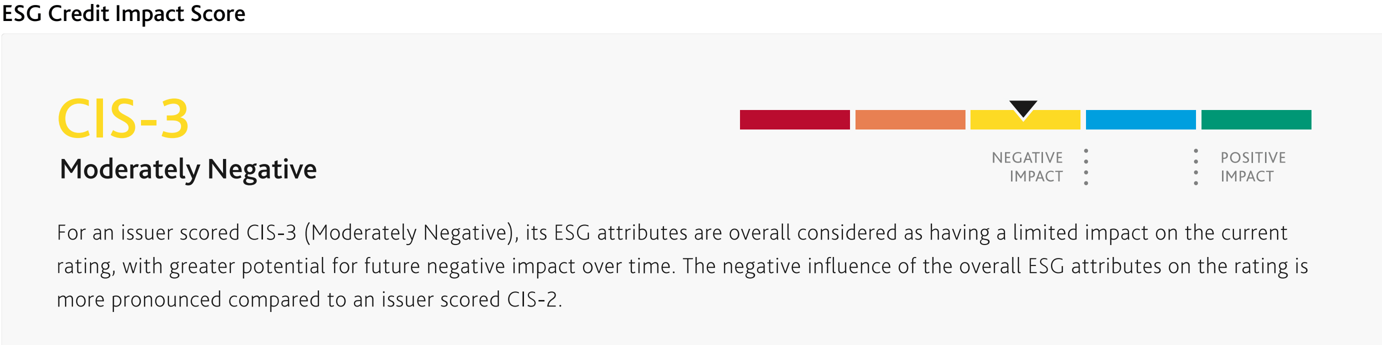
Note: *Liquid Banking Assets Ratio = Liquid assets/tangible banking assets.
Source: Company reports, Moody's Investors Service

ESG considerations

Commerzbank AG's ESG Credit Impact Score is CIS-3

Exhibit 12

ESG Credit Impact Score

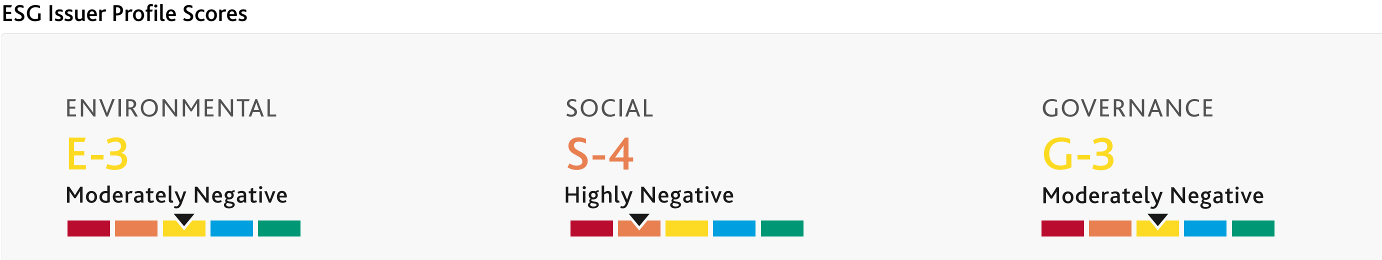


Source: Moody's Investors Service

Commerzbank's CIS-3 indicates limited impact of ESG considerations on the ratings to date with potential for greater negative impact over time, mainly due to moderate governance risks, in particular if the bank fails to increase profitability on a sustained basis.

Exhibit 13

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Commerzbank faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risk as one of Germany's largest universal banks. In line with its peers, Commerzbank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Commerzbank has set a number of specific targets to transform its lending book. The bank in engaging in integrating climate considerations in its credit risk assessment and supporting customers to facilitate their carbon transition.

Social

Commerzbank faces high industrywide customer relations risks related to regulatory risk, litigation exposure and high compliance standards in its diversified operations, In line with its sector. High cyber and personal data risks are mitigated by technology solutions and organisational measures to prevent data breaches. However, a digital overhaul is pivotal to restore the bank's risk-adjusted profitability.

Governance

Commerzbank's governance risks are moderate, reflecting higher risk appetite and concentration risks inherent in its business model as a large universal bank. After the announcement of yet another revised strategic transformation, Commerzbank needs to establish a management track record of execution and improving profitability. It now embeds more conservative, risk-focused and risk-aware financial policies, and stronger overall corporate governance practices. Commerzbank is partly owned by the federal government of Germany, which is reflected in the composition of its supervisory board. Germany's developed institutional framework mitigates associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

Commerzbank is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution.

We assume a residual TCE of 3%, post-failure losses of 8% of tangible banking assets, a 26% proportion of junior deposits, a 25% run-off of these before failure and a 5% run-off in preferred deposits. These metrics are in line with our standard assumptions.

The results of our Advanced LGF analysis are as follows:

» For Commerzbank's deposits, our LGF analysis indicates an extremely low loss given failure, leading to three notches of rating uplift from the bank's baa2 Adjusted BCA.

» For senior unsecured debt, our LGF analysis indicates a very low loss given failure, leading to two notches of rating uplift from the bank's baa2 Adjusted BCA.

» For junior senior unsecured debt, our LGF analysis indicates a moderate loss given failure, leading to the ratings of this debt class being positioned in line with the bank's baa2 Adjusted BCA.

» For subordinated debt, our LGF analysis indicates a high loss given failure, leading to a one-notch deduction from the bank's baa2 Adjusted BCA.

Additional notching for junior subordinated and hybrid instruments

For Commerzbank's more junior debt classes, our Advanced LGF analysis indicates a high loss given failure, given the limited volume of debt and limited protection from more subordinated instruments and residual equity. This leads to a one-notch deduction from the bank's Adjusted BCA. We further incorporate additional notching for junior subordinated and hybrid debt instruments, reflecting the instrument's individual features:

- The Tier 1 instruments (Dated Silent Partnership Certificates) issued by Dresdner Funding Trust I (ISIN: US26156FAB94 or XS0097772965) are rated Baa3(hyb), one notch below the Adjusted BCA. Following the revisions to Germany's insolvency legislation for banks, effective 9 December 2020, the instruments' derecognition from regulatory capital, effective 1 January 2022, has changed their legal rank in insolvency, now placing them above Common Equity Tier 1 (CET1), Additional Tier 1 (AT1), as well as above Tier 2 capital instruments according to Article 46f(7a) of the German Banking Act (Kreditwesengesetz). Our assessment also reflects the fact that the coupon-skip triggers (4% Tier 1 ratio and 8% total capital ratio) of these non-cumulative instruments are unlikely to be breached. We expect these instruments to be continuously serviced in the foreseeable future.
- Commerzbank's €3 billion AT1 debt program rating is (P)Ba2. Since its launch on 26 May 2020, Commerzbank has issued three notes with a combined volume of €2.25 billion (ISINs: DE000CZ45WA7, XS2189784288 and DE000CB94MF6). The low-trigger AT1 securities support the bank's regulatory capital and help to optimize its capital structure. In addition, Commerzbank has issued 1 billion USD-denominated low-trigger AT1 securities ("Undated Non-Cumulative Fixed to Reset Rate Additional Tier 1 Notes of 2019, XS2024502960). The assigned Ba2(hyb) rating reflects the instrument's undated deeply subordinated claim in liquidation, as well as the security's non-cumulative coupon deferral features, and is positioned three notches below Commerzbank's baa2 Adjusted BCA.

Government support considerations
We assume a moderate probability of government support for both deposits and senior unsecured debt of Commerzbank, which we consider a domestic systemically important financial institution, resulting in one notch of additional rating uplift. For junior senior unsecured debt, subordinated debt and hybrid instruments, we believe the potential for government support is low and these ratings, therefore, do not benefit from any government support uplift.

Counterparty Risk Ratings (CRRs)
Commerzbank's CRRs are A1/P-1

The bank's CRRs, before government support, are three notches above the baa2 Adjusted BCA, reflecting the extremely low loss given failure from the high volume of instruments, primarily junior senior unsecured debt, which are subordinated to CRR liabilities. Commerzbank's CRRs further benefit from one additional notch of rating uplift provided by government support, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment
Commerzbank's CR Assessments are A1(cr)/P-1(cr)

The bank's CR Assessment, before government support, is three notches above the baa2 Adjusted BCA, based on the substantial buffer against default provided by more subordinated instruments, primarily junior senior unsecured debt, to the senior obligations represented by the CR Assessment. In addition, Commerzbank's CR Assessment benefits from one further notch of rating uplift provided by government support.

The CR Assessment is an opinion on the likelihood of a default by an issuer on certain senior operating obligations and other contractual commitments.

Methodology and scorecard
The principal methodology we use in rating Commerzbank AG is the Banks Methodology, published in July 2021.

About Moody's Bank Scorecard
Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 14
Commerzbank AG

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	2.2%	a2	↔	baa1	Sector concentration	Quality of assets	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	15.5%	aa3	↔	a3	Risk-weighted capitalisation	Expected trend	
Profitability							
Net Income / Tangible Assets	0.1%	b3	↔	ba2	Return on assets	Expected trend	
Combined Solvency Score		baa1		baa2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	22.3%	baa1	↔	baa1	Extent of market funding reliance	Expected trend	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	31.9%	a2	↔	a3	Stock of liquid assets	Asset encumbrance	
Combined Liquidity Score		a3		baa1			
Financial Profile				baa2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				baa1 - baa3			
Assigned BCA				baa2			
Affiliate Support notching				0			
Adjusted BCA				baa2			

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	3	0	a2
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	a2 (cr)
Deposits	-	-	-	-	-	-	-	3	0	a2
Senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a3
Junior senior unsecured bank debt	-	-	-	-	-	-	-	0	0	baa2
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa3
Non-cumulative bank preference shares	-	-	-	-	-	-	-	-1	-2	ba2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	1	A1	A1
Counterparty Risk Assessment	3	0	a2 (cr)	1	A1(cr)	
Deposits	3	0	a2	1	A1	A1
Senior unsecured bank debt	2	0	a3	1	A2	A2
Junior senior unsecured bank debt	0	0	baa2	0	Baa2	Baa2
Dated subordinated bank debt	-1	0	baa3	0	Baa3	Baa3
Non-cumulative bank preference shares	-1	-2	ba2	0	Ba2 (hyb)	Ba2 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Disclaimer

The volume of in-scope liabilities per instrument class is currently not displayed in the absence of public information and the resulting limited disclosure regarding the volume, tenure and insolvency ranking of Commerzbank's loss-absorbing debt instruments.

Ratings

Exhibit 15

Category	Moody's Rating
COMMERZBANK AG	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured	A2
Junior Senior Unsecured	Baa2
Junior Senior Unsecured MTN	(P)Baa2
Subordinate	Baa3
Pref. Stock Non-cumulative	Ba2 (hyb)
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1
COMMERZBANK FINANCE & COVERED BOND S.A.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating -Dom Curr	A2
MBANK S.A.	
Outlook	Negative
Counterparty Risk Rating	A3/P-2

Bank Deposits	Baa1/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
COMMERZBANK AG, NEW YORK BRANCH	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured MTN	(P)A2
Subordinate MTN	(P)Baa3
Other Short Term	(P)P-1

Source: Moody's Investors Service

Endnotes

1 The rating shown is mBank's deposit rating and outlook, and its Baseline Credit Assessment.

2 The coverage ratio compares balance sheet reserves with problem loans.

3 The regulatory leverage ratio compares Commerzbank's Tier 1 capital to its exposure at default (EaD).

4 After AT1 coupons and minorities.

5 This means positive net income in accordance with international accounting standards after coupon payments for Additional Tier 1 (AT1) debt securities.

6 These exclude bank levy and deposit insurance fees which decreased to €312 million from €491 million last year.

7 These exclude bank levy and deposit insurance fees which increased to €642 million in 2022 from €467 million in 2021.

8 These include Commerzbank's Tier 1 and Tier 2 capital, as well as non-preferred senior unsecured debt with maturities greater than one year.

9 In line with the regulatory requirement, the ratio reflects the average for the specific quarter mentioned. The regulatory minimum requirement is 100%.

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Contacts

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