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CREDIT OPINION
30 January 2023

Update

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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.

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Commerzbank AG

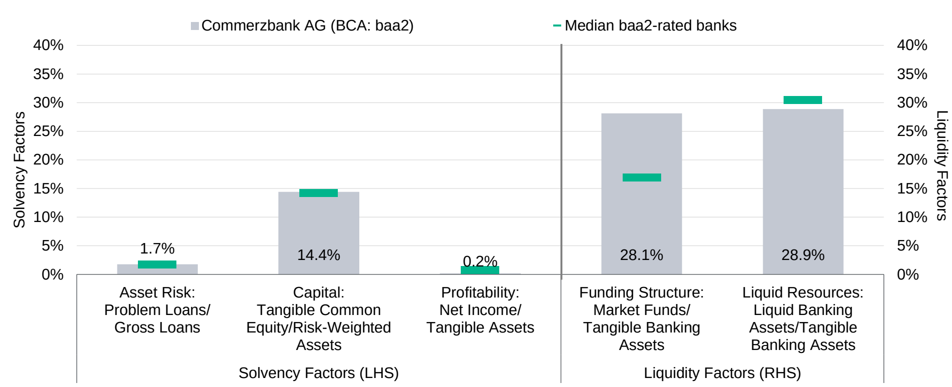
Update to credit analysis

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 resilience in the bank's fundamental credit profile, supported by its regional focus on Germany and Poland, as well as its diversified businesses, including retail and corporate banking, even in an adverse economic environment. Its ongoing strategic transformation will result in an improved risk-adjusted profitability over time; at the same time some execution risks remain, in particular as regards the bank's revenue generation ambition. 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

Credit strengths

- Sound asset quality with credit exposures largely focused on German and European economies; still unresolved litigation risks from Swiss-franc mortgages at its Polish subsidiary which are partly covered by provisions
- Solid capital to cover for unforeseen risks, including sizeable buffers over regulatory minima requirements, balanced by the resumption of dividend payments
- Ample liquidity, also supported by the ECB's refinancing programs, mitigated by moderate asset encumbrance

Credit challenges

- Development of track record to achieve sustainably higher risk-adjusted profitability, as targeted under its multi-year transition plan, which is now almost complete
- Moderate market funding dependence balanced by sizeable and growing deposits

Outlook

- The stable outlook balances Commerzbank's achieved milestones on its strategic transformation, including momentum in its targeted sustained improvement in profitability, and the elevated uncertainty for Germany's economy related to the necessary adjustments for a significant share of the corporate sector towards materially reduced availability of attractively priced commodities, at least temporarily threatening the competitiveness of the industrial backbone of the German economy. We expect that Commerzbank will maintain its conservative risk strategy, strong transformation management, and solid capitalization in light of the possible resumption of 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 achieving its profitability targets without changing its risk appetite, an improvement in its risk-weighted capitalization and leverage ratios, and provided an improved visibility how its corporate counterparties can cope with the energy-related business challenges.
- 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 further 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]

	09-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	515.2	440.5	460.5	417.5	416.7	5.8[4]
Total Assets (USD Billion)	504.7	499.1	563.4	468.6	476.4	1.6[4]
Tangible Common Equity (EUR Billion)	25.9	23.8	22.8	24.9	24.3	1.8[4]
Tangible Common Equity (USD Billion)	25.4	27.0	27.9	28.0	27.7	(2.3)[4]
Problem Loans / Gross Loans (%)	--	1.7	2.0	1.6	1.7	1.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.4	13.2	12.4	13.3	13.1	13.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	21.8	15.6	18.5	13.8	14.3	16.8[5]
Net Interest Margin (%)	1.2	1.0	1.1	1.2	1.1	1.1[5]
PPI / Average RWA (%)	1.5	1.3	0.9	0.9	0.9	1.1[6]
Net Income / Tangible Assets (%)	0.2	0.3	-0.1	0.3	0.2	0.2[5]
Cost / Income Ratio (%)	70.9	72.6	79.5	80.4	81.4	76.9[5]
Market Funds / Tangible Banking Assets (%)	19.8	28.1	26.9	21.4	23.3	23.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	27.8	28.9	34.0	26.9	29.7	29.5[5]
Gross Loans / Due to Customers (%)	--	95.1	85.1	89.7	86.4	89.1[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 banks, which primarily focuses on the German and Polish banking markets. As of 30 September 2022, Commerzbank reported consolidated asset of €543 billion (2021: €473 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 end-2023. Group-wide, i.e. including its Polish subsidiary mBank S.A. (A3 RUR, baa3[1]), Commerzbank serves around 16.7 million private and small business customers, as well as around 28,000 corporate client groups in almost 40 countries.

For more information, please see Commerzbank's Issuer Profile, the German Banking System Profile (published in March 2021) and the German Banking System Outlook (published in November 2022).

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 69.3%, and other European Union (EU) countries. These activities are key drivers for its Weighted Macro Profile of Strong+, in line with Germany's Macro Profile.

Detailed credit considerations

Sound asset quality mitigated by litigation risks from Swiss-franc mortgages at mBank

We assign a baa1 Asset Risk score to Commerzbank, three notches below the a1 initial score. The adjustment mainly captures the moderate risk concentrations towards more cyclical industries, such as automotive, construction and metallurgical industries, within the bank's corporate loan book, as well as the exposure to potentially more vulnerable European and non-European countries.

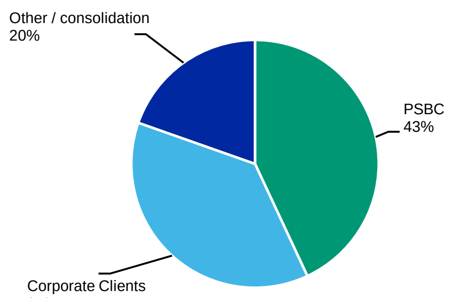
At the end of June 2022, the bank's €474 billion exposure at default (EaD) splits between two main segments, Private and Small Business Customers (PSBC, €204 billion) and Corporate Customer (CC, €177 billion), see Exhibit 3. The PSBC segment includes German retail activities (€83 billion), the Polish bank activities from mBank (€44 billion), Wealth Management (€28 billion), Private Banking (€12 billion), and comdirect bank (€2 billion). Commerzbank's credit exposures, which arise from its CC segment, mainly include the bank's German Mittelstand activities (€78 billion), as well as exposures to large international corporates (€63 billion).

Exhibit 4 shows that Commerzbank's corporate lending activities are very diversed among sectors, including moderate exposure to segments that were most affected by the pandemic, accounting for around 9% of the bank's total credit exposures at end- June 2022.[2] 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 properly covered by provisions, including so called top-level-adjustment (TLA) of €500 million, which will also shield the bank from asset risks, including its remaining €0.9bn direct exposure to Russia.[3]

Exhibit 3

Commerzbank's credit exposure is evenly split among its two core segments

Data in percent as of June 2022

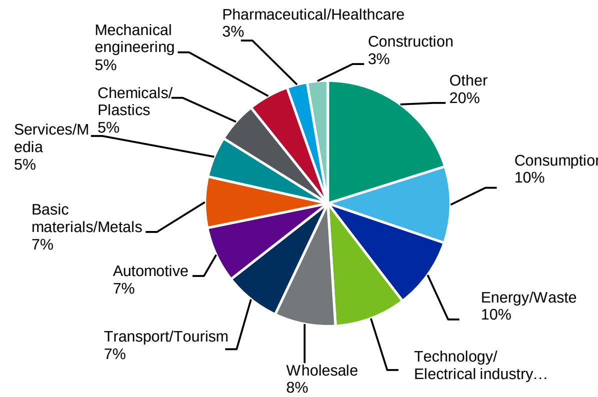


Source: Company reports, Moody's Investors Service

Exhibit 4

Commerzbank's corporate lending activities are diversed among sectors

Data in percent as of June 2022



Source: Company reports, Moody's Investors Service

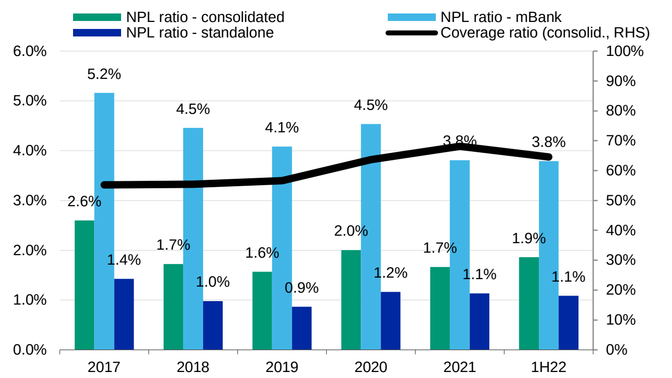
In the end of June 2022, around 74% of Commerzbank's credit exposures related to customers in Germany or Western Europe and around 10% Eastern Europe, which predominantly arises from the consolidation of mBank. The remainder is split between North America and Asia and reflects activities from international customers.

Successful de-risking as well as a benign operating environment helped to improve Commerzbank's asset quality prior to the pandemic. The economic fallout of the coronavirus triggered an increase of the bank's problem loans (IFRS view) to €4.8 billion at the end of 2020, compared with €3.7 billion in 2019, resulting in a moderately higher consolidated non-performing loan (NPL) ratio of 2.0% in 2020, up from 1.6% in 2019. During 2021, Commerzbank benefited from the economic improvement, leading to a lower NPL ratio of 1.67% at the end of 2021. During the first six month of 2022 (latest available), Commerzbank's problem loans increased again to a level of 4.7 billion, but loan growth of around 2% over this period helped to contain the NPL ratio at a moderate level of 1.87% at the end of June 2022. At the same time, around 21% of its problematic loans related to mBank (2021: 24%), reflecting a problem loan ratio of 3.8% at the Polish subsidiary, while the asset quality in Germany was much better, as demonstrated by a ratio of 1.1% for its domestic activities, unchanged from 2021.

Commerzbank continues to face unresolved litigation risk from Swiss franc-denominated (CHF) mortgages at mBank, which is one of the most exposed Polish bank to Swiss-franc mortgages. Commerzbank's earnings have been repeatedly reduced by legal reserve building. Following a model adjustment and reassessment of litigation risk during the third quarter of 2022, Commerzbank set aside an additional €477 million, which bring its total provisions to €1.4 billion. This means that Commerzbank's coverage ratio was around 52% of its €2.4 billion exposure to CHF mortgages, one of the highest coverage we observe in Poland. Despite the high coverage, we believe that the tail risks for Polish banks, including mBank, could be material, in particularly in case of a highly unfavorable outcome of court rulings, which may be influenced by the guidance of the European Court of Justice (ECJ) and likely to be announced during the first quarter of 2023. As part of its third quarter earnings release on 9 November 2022, Commerzbank also announced a charge of €270 million reflecting the economic impact of the Polish government's support package for retail borrowers, also termed as credit holidays.

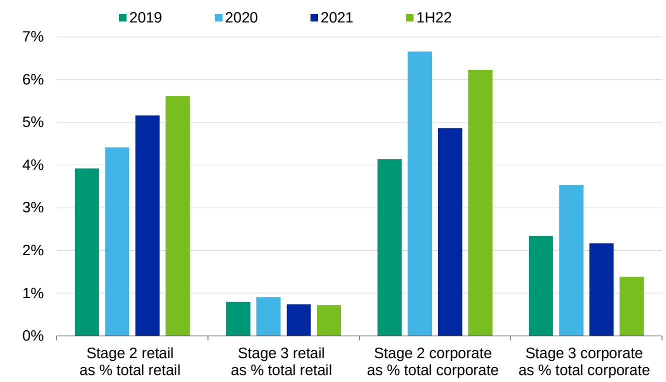
Commerzbank's overall stable asset quality is also demonstrated by only moderate movements in its retail and corporate loans in accordance with IFRS 9. The increase in Stage 2 and Stage 3 loans for corporate lending was most pronounced during 2020. During the first half of 2022 (latest available), Stage 2 exposures for retails loans and corporate exposures increased somewhat while Stage 3 corporate exposures remained stable (Exhibit 6). At the end-June 2022, Commerzbank's coverage ratio[4] decreased to around 65% and included Corona-related additional top level adjustments of €564 million.

Exhibit 5
Solid asset quality and adequate coverage for problem loans
Data in %



Source: Company reports, Moody's Investors Service

Exhibit 6
Retail and corporate exposures considered Stage 2 have increased
Data in %



Source: Company reports, Moody's Investors Service

Commerzbank has significant exposures to countries in the European periphery, reflecting mainly commercial lending but also direct sovereign bond exposures. At year-end 2021, the bank's exposure to Poland (A2 stable) was €37.3 billion (or around 7.9% of its total exposure at default), €12.1 billion to Italy (Baa3 stable, 2.6%), and €6.5 billion to Spain (Baa1 stable, 1.4%).

Solid capital buffers to cover for unforeseen risks

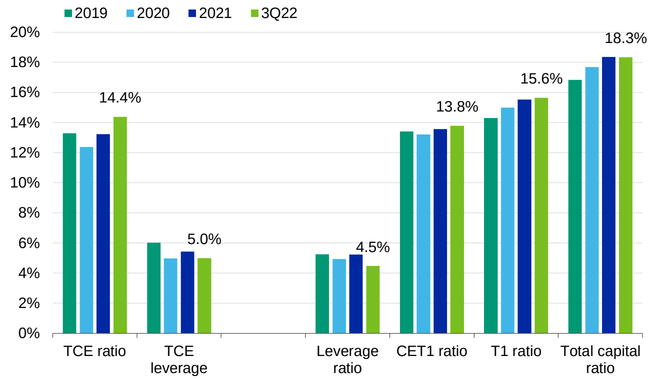
Commerzbank's assigned Capital score is a3, two notches below the initial score. The negative adjustment reflects our expectation of continued loan growth and risk-weighted assets, as well as moderate earnings retention because of the resumption of dividend payments. Our assessment also reflects the bank's moderate regulatory leverage ratio[5] of 4.5% as of end-September 2022 (2021: 5.2%) 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 entered the transformation period of Strategy 2024 with very comfortable capital levels, giving it the flexibility to address unforeseen risks. The plan guides for a Common Equity Tier (CET1) capital ratio of 14.8% by the end of 2024, up from 13.8% at the end-September 2022 (Exhibit 7), and compared with our Tangible Common Equity (TCE) ratio of 14.4%. Our capital ratio is somewhat higher because we include year-to-date earnings, offset by an upward adjustment of risk-weighted assets, reflecting sovereign bond exposures which benefit from a zero percent weight under the regulatory view.

We expect that Commerzbank will continue operating with a CET1 capital ratio of more than 13.0% and have significant capital headroom over going concern Pillar 2 requirements, which stood at 435 basis points at the end-September 2022, up from 418 basis points in 2021 (Exhibit 8). The improved buffer largely reflects the bank's higher CET1 ratio. We estimate that Germany's intention to increase capital requirements, effective 1 February 2023, will trigger a decrease of this buffer by around 55 basis points for Commerzbank.[6]

Exhibit 7

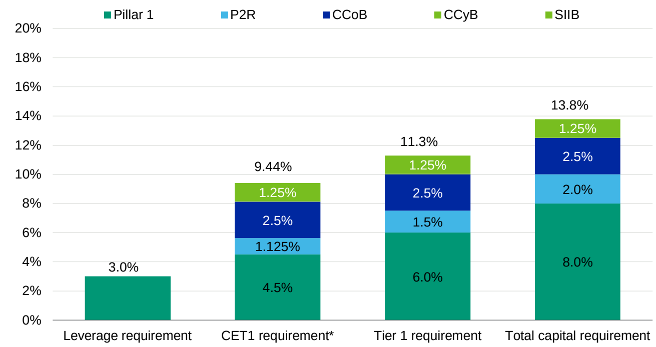
Commerzbank's capital ratios, grouped by Moody's versus regulatory view



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 September 2022, Commerzbank had a buffer of 435 bps over its Pillar 2 minimum CET1 requirement. P2R = Pillar 2 Requirement; CCoB = Capital Conservation Buffer; CCyB = Countercyclical Buffer; SIIB = Systemically Important Institution Buffer
Source: Company reports, Moody's Investors Service

However, for 2022 and beyond, Commerzbank expects to resume dividend payments of 30%-50% of its net income, subject to 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.

Transformation almost complete to restore risk-adjusted profitability and to strengthen Commerzbank's position as leading commercial bank in Germany

Commerzbank's assigned Profitability score is ba3, one notch above its initial score. Our assessment takes into account the effects from measures contemplated under its transformation, including restructuring charges and required investments. We believe that higher interest rates will strongly support Commerbank's net interest income, balancing a moderate increase in credit costs,as the economic consequences from geopolitical risk, supply shortages and rising inflation become apparent.

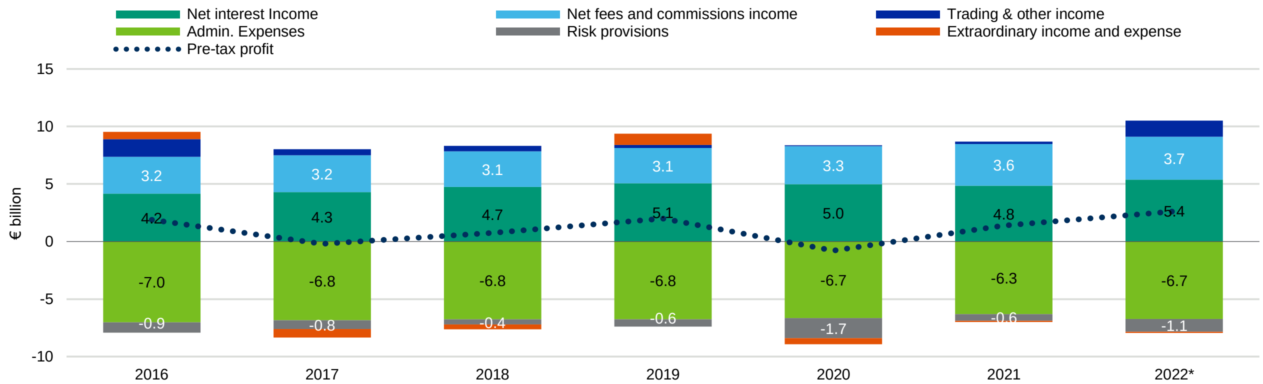
As per the third quarter 2022, Commerzbank has almost completed its transition, as communicated under Strategy 2024. The bank has almost achieved the expected 10,000 gross staff reduction and will reduce domestic branches to around 400 by end-2023, beyond its original plan of 450 by end-2022. In 2021, Commerzbank reduced the number of domestic branches to 550 from around 800 in 2020. Nearly 99.6% of the full amount of the €2.06 billion total expected restructuring charges have been now been booked. The strategic overhaul aimed to realign its business model with its customers' needs, streamline the organisation and modernise processes.

For the period January to September, Commerzbank reported net income of €963 million, compared with a net income of €9 million over the same period the year before. Over the same period, the bank booked restructuring charges of €54 millions (9M21: €1,052 million), and, in the third quarter, a charge of €477 million reflecting legal provisions for Swiss franc loans in Poland as well as €270 million for so-called payment holidays. For the same period, Commerzbank reported revenues, excluding exceptional items, of €7.1 billion from €6.4 billion for the previous year's period, driven by higher net interest income of €4.5 billion (9M21: €3.5 billion), and almost unchanged net fee income of €2.7 billion. Reported operating expenses decreased by almost 8% to €4.3 billion from €4.7 billion and compulsory contributions, including bank levy and deposit insurance fees, increased to €583 million from €402 million. At the end of the third quarter, Commerzbank had booked credit provisions of €654 million (9M21: €257 million), resulting in a reported pretax profit of €1.5 billion, compared with €10 million for the nine months of 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



Note: *annualized 1H 2022 results

Source: Company reports and Moody's Investors Service

Commerzbank benefits from its 69.3% majority ownership in mBank, its subsidiary in Poland, which helps to diversify and supports the bank's weaker domestic profitability. In 2018 and 2019, mBank contributed around 25% to Commerzbank's operating profit and added €77 million in 2020 while the consolidated operating loss was €233 million. In 2021, mBank reported an operating loss of €186 million, and €291 million for 9M22, the ladder mainly reflecting the addition to provisions for pending 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. At the end of September 2022, Commerzbank had provisioned around €1.4 billion for the pending legal issue on Swiss franc mortgages, or roughly 52% of the total. Despite the high coverage, we believe that the tail risks for Polish banks, including mBank, could be material, in particularly in case of a highly unfavorable outcome of court rulings, which may be influenced by the guidance of the European Court of Justice (ECJ) and likely to be announced during the first quarter of 2023.

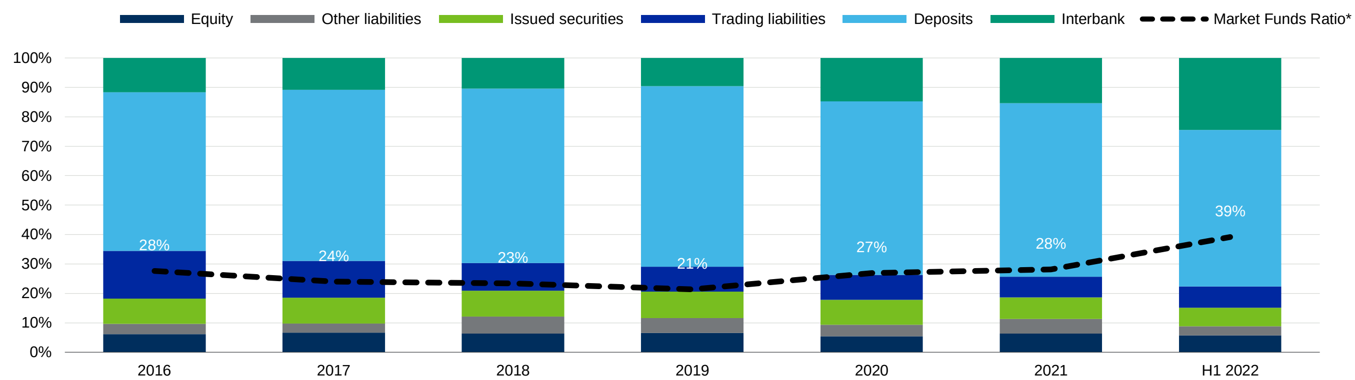
Commerzbank's strategic transformation projects a return on tangible equity (ROTE) of at least 7% by 2024. This is more ambitious than the 4% to 5% target under previous plans and would bring the bank in step with the EU average. The target is broadly consistent with return on assets (ROA) of around 40 basis points (bps), and compares with the bank's average of around nine bps between 2011 and 2019.

Moderate market funding dependence balanced by sizeable deposits

Commerzbank's assigned Funding Structure score is baa1, one notch above its initial score, capturing our expectation of an unchanged moderate market funding dependence over the next 12-18 months, as well as our view that some portion of the funding provided by the ECB's targeted long-term refinancing operations (TLTRO III) will be temporary.

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 long-term refinancing program (TLTRO) triggered an increase of the ratio to 26.9% in 2020 and 28.1% in 2021, reflecting total participation of €35.9 billion. We consider this increase temporary, reflecting the favorable program conditions which applied until November 2022. The sudden increase in interest rates and rising uncertainties during the first six month of 2022 triggered a further increase of our ratio to 39.1% at the end of June, reflecting more than €50 billion higher liabilities to banks.

Exhibit 10
Commerzbank's participation in TLTRO III triggered a higher Market Funding ratio in 2020 and 2021, and sizeable growth of liabilities to banks triggered a further increase in 1H22
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 year-end 2021, Commerzbank's main funding sources largely consisted of €150.0 billion granular retail deposits (2020: €152.1 billion), €85.3 billion of corporate deposits (2020: €95.7 billion), €22.4 billion from financial institutions (2020: 26.2 billion), and €4.3 billion from the public sector (2020: €7.2 billion), which in total accounted for around 55.4% of its total liabilities (including equity; 1H22: around 48%).

At 30 September 2022, Commerzbank exceeded its minimum requirements for own funds and eligible liabilities (MREL), based on RWA, by around 4.5 percentage points, compared with an overall requirement of 26.76%. With subordinated liabilities of 27.0% of RWA, Commerzbank comfortably exceeds its 17.29% MREL subordination requirement. Commerzbank's MREL framework considers a multiple point of entry (MPE) approach with separate resolution perimeters for its German entities and mBank.

Sound liquidity supported by the ECB's refinancing programs and mitigated by moderate asset encumbrance

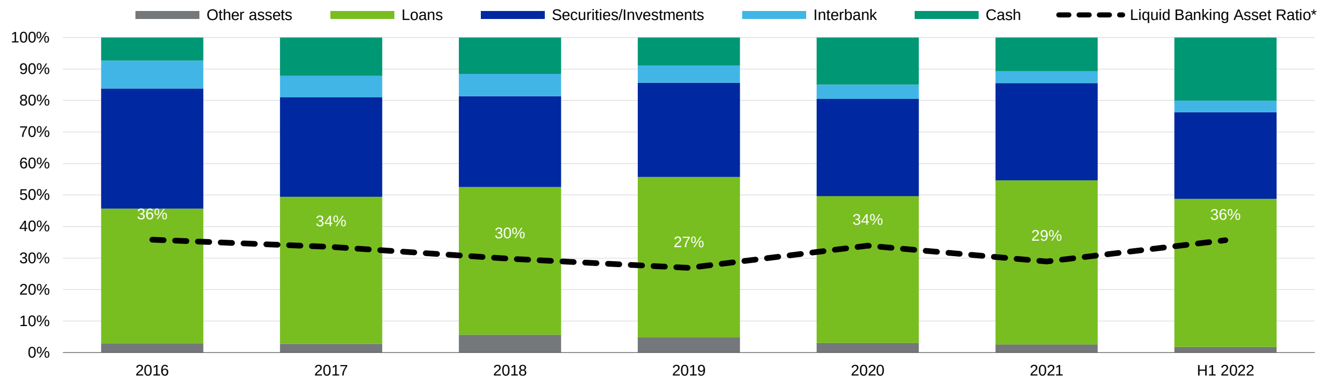
Commerzbank's assigned Liquid Resources score is baa1, one notch below the initial score. Our assessment reflects the bank's sizeable liquidity, balanced by moderate asset encumbrance and our view that its liquid assets are somewhat elevated due to participation in the ECB's refinancing operations (TLTRO III).

Commerzbank operates with sizeable liquidity, as expressed by its Liquid Banking Assets ratio of 35.6% as of end-June 2022 (2021: 28.9%), including around €107 billion cash (2021: €51 billion) and €74 billion financial securities, excluding derivatives (2021: €83 billion). This view is further supported by the bank's solid Liquidity Coverage Ratio (LCR) which Commerzbank reported at 141% in H1 2022 (9M22: 138%), compared with 145% for year-end 2021 and 136% for 2020.[7]

Exhibit 11

Commerzbank operates with sizeable but declining liquidity, supported since 2020 through extraordinary funding provided by the ECB

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

Over the last couple of years, Commerzbank successfully reduced non-core exposures, such as commercial real estate and ship loan, and, at the same time, increased its core lending activities. Since end-2015, Commerzbank increased the share of loans as percent of assets from 41% to 50% as of end-June 2022. At the same time, the bank reduced its securities and investment book, which over time returned lower yields as interest rates declined. We believe this has also triggered a moderate reduction in the bank's Liquid Banking Asset ratios, which declined to 27% in 2019 from 40% in 2015. Since 2020, Commerzbank benefits from the extraordinary liquidity provided by the ECB's favorable TLTRO program.

ESG considerations

Commerzbank AG's ESG Credit Impact Score is Moderately Negative (CIS-3)

Exhibit 12

ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Commerzbank's ESG Credit Impact Score is moderately negative (**CIS-3**). This reflects the limited credit impact of environmental or social risk factors to date with greater potential for governance risks to strain the rating over time, in particular if the bank fails to deliver on the latest strategic adjustment and its execution to increase profitability on a sustained basis.

Exhibit 13
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-3
Moderately Negative	Highly Negative	Moderately Negative

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 to be an operational resolution regime. We therefore 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.

The results of our Advanced LGF analysis are as follows:

» For 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	1.7%	a1	↔	baa1	Sector concentration	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	14.4%	a1	↔	a3	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	0.2%	b1	↔	ba3	Return on assets	Expected trend
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	28.1%	baa2	↔	baa1	Extent of market funding reliance	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.9%	a3	↔	baa1	Stock of liquid assets	Asset encumbrance
Combined Liquidity Score		baa1		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	Rating(s) Under Review
Counterparty Risk Rating	A2/P-1[1]

Bank Deposits	A3/P-2[1]
Baseline Credit Assessment	baa3[2]
Adjusted Baseline Credit Assessment	baa2[2]
Counterparty Risk Assessment	A2(cr)/P-1(cr)[1]
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

[1] Rating(s) within this class was/were placed on review on December 20 2022 [2] Placed under review for possible downgrade on December 20 2022
Source: Moody's Investors Service

Endnotes

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

2 These include €6.6 billion exposure to retail (Einzelhandel) and €4.3 billion exposure to the travel sector, of which €2.2 billion relate to airlines and €1.0 billion to ship cruise lines.

3 These exposures are equivalent to around 0.2% of the bank's consolidated assets as of 30 September 2022 and include €322 million exposure to corporates and €430 million to pre-export finance and banks.

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

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

6 These increased capital requirments include 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

7 In line with the regulatory requirement, the ratio reflects the average of last 12 month end-values. The regulatory minimum requirement is 100%.

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