



## Fitch Affirms Commerzbank at 'BBB+'/Stable; Preferred Ratings at 'A-'

Fitch Ratings-Frankfurt/London/Paris-29 January 2019: Fitch Ratings has affirmed Commerzbank AG's (CBK) Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook and Viability Rating (VR) at 'bbb+'. The long-term senior preferred debt rating and Deposit Rating have been affirmed at 'A-' and the Derivative Counterparty Rating (DCR) at 'A-(dcr)'.

A full list of rating actions is at the end of this rating action commentary.

### KEY RATING DRIVERS

#### IDRS, VR AND SENIOR NON-PREFERRED UNSECURED DEBT RATING

The IDRs, VR and senior non-preferred unsecured debt ratings of CBK reflect its modest earnings, adequate capitalisation and solid asset quality, funding and liquidity. In addition they reflect the significant progress of CBK's development toward a digitalised multi-channel bank, but also the execution risk resulting from this process.

CBK's profitability remains modest compared with other large western European banks' due to a challenging German competitive environment and the bank's restructuring costs, including investments in digitalisation and provisions for staff reduction. Credit impairment charges significantly decreased in 9M18, helped by the wind-down of the bank's legacy shipping exposure. We believe future improvements in CBK's earnings will depend on the bank's success in sustainably converting customer growth into additional revenue.

CBK's solid asset quality benefits from the bank's primary focus on Germany's strong economic environment and from the strong reduction of non-performing (NPL) loans to EUR3.7 billion from EUR5.6 billion during 9M18, as the bank continues to actively wind down its asset and capital recovery (ACR)) unit. The latter includes the bank's non-core assets, notably public-sector, shipping and commercial real estate exposures.

Capitalisation moderately exceeds the bank's fully phased-in SREP requirement of 10.75% (assuming an unchanged Pillar 2 requirement for 2019). Its fully loaded CET1 ratio of 13.2% at end-9M18 was already in line with management's target of 13% by 2020. Capitalisation has come under moderate pressure since end-2017, due to the implementation of IFRS 9 in 2018 and, to a lesser extent, strong loan growth, but the pressure was mitigated by the ACR's accelerated wind-down. CBK's internal capital generation will remain modest in the short term, but this is adequately mitigated by the reduced risk of unexpected capital depletion potentially arising from the ACR portfolio.

CBK's sound liquidity and diversified funding mix benefit from the bank's broad, stable and granular domestic deposit base and established access to international market funding. Its sizeable covered bond franchise further limits its modest reliance on unsecured wholesale funding.

The short-term rating of Commerzbank U.S. Finance Inc's commercial paper programme is equalised with CBK's Short-Term IDR. This reflects our view of the high likelihood that CBK would support its US commercial paper programme, in case of need, as CBK unconditionally and irrevocably guarantees the notes issued under the programme.

We have withdrawn the short-term senior unsecured rating of CBK's USD10 billion debt issuance programme. This rating is no longer relevant to Fitch's coverage because debt with original maturities of less than one year now has preferred status under the revised German resolution regime.

#### DCR, DEPOSIT AND SENIOR PREFERRED DEBT RATINGS

CBK's DCR, Long-Term Deposit Rating and long-term senior preferred debt rating reflect our view that the bank has sufficient buffers of qualifying junior and senior non-preferred debt that could be used to recapitalise it, restore its viability and prevent default on preferred creditors and counterparties upon resolution.

Consequently, the DCR, Long-Term Deposit Rating and long-term senior preferred debt rating are rated one notch above the Long-Term IDR. In addition, two rated notes (ISIN XS0590249222 and DE000CZ426G2) contain embedded derivatives that make them rank senior preferred under the revised German resolution regime.

CBK's Short-Term Deposit Rating and short-term senior preferred debt rating are the lower of two options corresponding to the 'A-' Long-Term Deposit Rating and long-term senior preferred debt rating, because these long-term ratings are notched up from the IDR.

#### SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

CBK's SR and SRF reflect our view that due to the EU's Bank Recovery and Resolution Directive (BRRD), senior creditors can no longer rely on full extraordinary support from the sovereign if the bank becomes non-viable.

#### TIER 2 SUBORDINATED AND HYBRID NOTES

The Tier 2 notes issued by CBK and Dresdner Funding Trust IV are notched down once from the bank's VR to reflect their higher loss severity relative to senior debt.

HT1 Funding GmbH's Tier 1 notes, which have a distributable profit trigger, are rated four notches below CBK's VR (twice each for loss severity and for non-performance risk). Dresdner Funding Trust I's securities, which have a regulatory capital ratio trigger, are rated three notches below CBK's VR (twice for loss severity and once for non-performance risk). Dresdner Funding Trust I has always paid its coupons whereas CBK's legacy Tier 1 notes with a distributable profit trigger have not, which is reflected in the one-notch difference.

#### RATING SENSITIVITIES

##### IDRS, VR AND SENIOR NON-PREFERRED UNSECURED DEBT

An upgrade of the VR would require strong and sustainable earnings improvements without materially compromising on the bank's risk appetite. We view an upgrade as unlikely in the short term as the burden on profitability from the remaining investment and restructuring costs is compounded by prevailing low interest rates and strong competition, while the growth of CBK's client base is only gradually feeding through the bank's income statement with a time lag.

Downward pressure on the VR could arise from insufficient progress in implementing the bank's strategic plan or a materialisation of related execution risk, especially if this translates into insufficient revenue generation, inflated restructuring costs or a permanent weakening of the bank's franchise.

The IDRs and senior non-preferred unsecured debt ratings are subject to the same sensitivities as the VR. The rating of Commerzbank U.S. Finance Inc's CP programme is subject to the same sensitivities as CBK's Short-Term IDR.

#### SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of the SR and an upward revision of the SRF would require a higher propensity of sovereign support. While not impossible, this is highly unlikely in Fitch's view.

#### DCR, DEPOSIT AND SENIOR PREFERRED RATINGS

The DCR, Deposit Ratings and senior preferred debt ratings are primarily sensitive to changes in CBK's IDRs. They are also sensitive to the development of the junior and senior non-preferred debt buffers relative to the recapitalisation amount likely to be needed to restore the bank's viability and prevent default on preferred creditors and counterparties.

Furthermore, the DCR, Deposit Ratings and senior preferred debt ratings are sensitive to Fitch's assumptions regarding the individual point of non-viability at which the regulator is likely to require a recapitalisation by way of bail-in of junior and standard senior instruments.

#### TIER 2 SUBORDINATED AND HYBRID NOTES

The ratings of the Tier 2 and hybrid notes are sensitive to changes in CBK's VR or in our assessment of the notes' loss severity or relative non-performance risk.

The rating actions are as follows:

#### Commerzbank AG

Long-Term IDR: affirmed at 'BBB+'; Outlook Stable

Short-Term IDR: affirmed at 'F2'

Viability Rating: affirmed at 'bbb+'

Support Rating: affirmed at '5'

Support Rating Floor: affirmed at 'No Floor'

Derivative Counterparty Rating: affirmed at 'A-(dcr)'

Deposit Ratings: affirmed at 'A-'/F2'

Senior non-preferred unsecured EUR40 billion and USD10 billion debt issuance programmes and notes: affirmed at 'BBB+'

Senior preferred EUR40 billion debt issuance programme and notes: affirmed at 'A-'/F2'

USD10 billion senior unsecured debt issuance programme: 'F2' withdrawn

EUR10 billion commercial paper programme: affirmed at 'F2'

Tier 2 subordinated notes: affirmed at 'BBB'

#### Commerzbank US Finance Inc

Senior unsecured US commercial paper programme: affirmed at 'F2'

#### Dresdner Funding Trust IV

Tier 2 subordinated debt (XS0126779791, 26157HAA6): affirmed at 'BBB'

#### Dresdner Funding Trust I

Dated silent participation certificates (XS0097772965, 26156FAA1): affirmed at 'BB+'

#### HT1 Funding GmbH

Tier 1 Securities (DE000A0KAAA7): affirmed at 'BB'

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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

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